Places to live. Space to grow.

West Kent Housing Association

Report and Consolidated Financial Statements

for the year ended

31 December 2017

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Chair's statement

2017 was a difficult year for the social housing world following the terrible Grenfell Tower fire and our thoughts go out to everyone affected by it. Thankfully, West Kent does not have any similar tower blocks and we were able to focus on our usual activities as a provider of more than 7000 homes.

In our 2016 financial statements I spoke about our new extra care homes for older people across Kent. We have now completed a full year of managing these homes. Performance has been excellent with very high occupancy rates, hitting 100% during the year. The relationship with the facilities management provider Galliford Try has worked well and shows what can be achieved being in true partnership. We have been watching carefully the debate on the future of supported housing, as we hope to build more extra care and supported schemes, but as ever how it is funded, not just at the start, but throughout the life of the scheme is vital in approving such an investment. Despite the uncertainty we have not stopped investing in this tenure; completing the remodel of an eight-bed shared house into eight self-contained flats

The housing shortage across the country continues to be high on the political agenda. The government has responded positively, giving us certainty over rent increases until 2024 and removing the potential for local housing allowance being a limit to housing payments through benefits, so we are in a good place to deliver more homes that are greatly needed. West Kent is a financially strong organisation and we have delivered financial results ahead of budget. Our entire surplus is re-invested in maintaining our existing homes and building new ones and we have increased our development ambitions to achieve more than 200 new homes per year over the next few years. To support this we successfully secured additional borrowing of £54m in April 2017 to fund the next phases of our building programme.

Demand for our homes through local authority housing register rules remains high, especially for one and two bedroom properties. We let 509 homes in 2017, housing 1,097 people, of which 110 were new builds. The average time taken to bring a property from becoming vacant to being re-let was 25 days against the target of 21 days.

On our website there is our residents annual report, which illustrates all the great work we have achieved in the year. There is a separate report on the impact of our wide reaching and excellent community activities, working with partners, residents and volunteers across the county.

Colin Wilby, Chair of the Board

Strategic report

Business overview

West Kent Housing Association is the parent company of the group which is branded as 'West Kent'. The association is a charitable registered provider regulated by the Regulator of Social Housing. Details of the companies which comprise West Kent can be found in note 1.

Established in 1989, we were one of the first large scale voluntary transfers of local authority housing. We have an enviable reputation for helping people and communities flourish.

We are an independent organisation with a proud history, valued brand and a great reputation as a committed, agile, and responsive partner. However, none of these attributes are more important than our reason for being – to meet housing need in Kent.

We work only in Kent and Medway, where we own and manage over 7,000 homes. We work closely with all the local authorities in the area and many other statutory and voluntary partners.

Kent is not only the Garden of England but also its oldest and most populous county, with 1.6 million residents. It is a major player in the economy of the South East and of the UK as a whole. Easily accessible from London and the continent, Kent is an attractive place to live, work and invest. However, the population is ageing and housing in Kent remains unaffordable to many, particularly in rural areas. The average home in Kent costs ten times the average Kent income. Kent offers the South East's greatest opportunity for housing growth.

For Kent's increasing elderly population, the demand for homes that meet their changing needs is growing. There is a need for high quality, smaller accommodation for older people to encourage them to downsize, freeing up larger properties for the family market.

Mission - what we do

We believe that a good home is a foundation for getting on in life; our core purpose is to help the many people for whom a good home (to rent or buy) is too expensive and to nurture their communities.

Most of our homes are rented to families on low or moderate incomes, who come to us from local council lists of people who need housing. Some of our homes are specially designed for older people and we support them to maintain their independence. We also provide shared ownership homes to people who are taking their first steps into home ownership.

We invest in our communities and believe that strong communities are built from strong and active individuals. We focus on projects that support people to improve their life chances through training and employment.

By operating efficiently we make a surplus, all of which is then invested back into providing more and better homes and services to residents.

Vision

Our vision is to be the leading community provider of affordable homes in Kent.

We will help to create in Kent a prosperous, strong and sustainable society, a place of opportunity for all, where people can plan for their futures.

Our values and culture

West Kent has developed its own positive culture of working in partnership with customers and stakeholders, to deliver exceptional services in a friendly, solution focused way.

- We focus on the long term and the needs of future, as well as current, residents.
- We ensure our residents and customers have real influence on what we do.
- We provide more than just landlord services because we care about the people and places where we work.
- We recognise the importance of a local focus and work actively with our local authorities and other local partners to improve and shape places at both a strategic and operational level.

Our values guide our staff to give customers a richer experience and staff themselves a greater sense of satisfaction. They guide us to make sound decisions for the business and be responsive to all our stakeholders.

Integrity – letting your moral compass keep you on the right track
Compassion – putting yourself in the other person's place
Self-awareness – knowing yourself and the impact you have
Learning – improving by exploring what's there beyond what you know
Flexibility – doing the right thing so you get the right result
Honesty – saying and doing the right thing, even when it's hard
Delivering on our promises – doing what we say, when we say we'll do it
Working hard and having fun – choosing to enjoy the people and the job

Strategic Plan

Where we'll be by 2026 - what we will look like
West Kent operates in a region where there is a high demand for housing and insufficient supply. Providing more affordable housing for a range of tenures is a priority.

By 2026:

- We will own and manage more than 10,000 homes, half of which will be in parts of Kent other than where we originated in the Sevenoaks district.
- We will have provided a range of housing to meet local needs in mixed communities.
- We will be organised to deliver consistent, tailored services across the county.
- 1,300 of our homes will be specifically designed for older people across a mix of tenures.
- Customers will be able to easily deal with us over a range of channels.

- Our homes will be warm, well maintained, affordable and evoke personal pride and satisfaction.
- We will be a leading agency promoting opportunity and supporting strong, cohesive and inclusive communities across Kent.
- We will be an attractive and respected employer.

Operating review

To realise our strategic plan, everything we do will be focused on six strategic objectives:

Viability: ensure West Kent stays a vibrant, sustainable organisation.
Customers: our residents will enjoy exceptional tailored services and choice.
Homes: ensure our homes are warm, well maintained and affordable.
Growth: build new homes to meet housing need in Kent and Medway.
Older people: be a leader in meeting the accommodation needs of older people in Kent.
Community: somewhere to live, something to do and someone to love.

Viability: ensure West Kent stays a vibrant, sustainable organisation.

- We will increase our efficiency, to respond to pressure on our income and to build our capacity to do more.
- We will remain an attractive employer, with an engaged workforce, who have the tools to deliver our promises to our customers.
- We will provide our staff and customers with the means to access relevant, timely information easily.

We have been working on reducing costs and improving our procurement processes in recent years. Operating costs increased in 2017 due to new services and increased bad debts. We extended our budgeting process to encompass a five-year budget horizon. This allows for greater scrutiny of projected savings. We completed several reviews with an expense consultant to establish where savings can be achieved. There have been detailed cost management reviews relating to employee costs through service reviews and staff reorganisations. Changes to the learning and development programme and the procurement of agency staff have reduced costs.

Substantial progress has been made on our ICT Strategy and new digital plan. We responded to the rent reductions by looking at how we can improve our ICT solutions through collaboration, improving processes and finding marginal cost savings. Work has started on a repairs diagnostic tool to widen our self-service options for customers when booking repairs online. Using ICT in this way means our commitment to build more homes does not result in proportionate increases in management costs.

During 2017 we secured loans of £54m under the government Affordable Housing Guarantee scheme. The £54m is made up of three loan facilities which are all fully secured. We achieved very competitive fixed rate debt on these loans. This funding will enable delivery of over 350 new homes.

	Loan secured 2017	Effective rate
Affordable Housing Finance (Tranche 1)	£12m	2.06%
Affordable Housing Finance (Tranche 2)	£6m	2.15%
European Investment Bank	£36m	1.78%
Total	£54m	1.88%

Table 1.1 New funding 2017

Changes to our accounting policies in 2015 in adopting Financial Reporting Standard 102 meant we needed to amend our loan agreements with Lloyds and the Royal Bank of Scotland. This was completed in the year and has resulted in a neutral position for both us and the funders.

Current available cash and undrawn loan facility is sufficient to meet all committed and contracted schemes, without the need to rely on expected sales of shared ownership homes.

Further review of our financial performance is included in the Financial Review below.

Sickness absence in 2017 was an average 4.6 days per employee an improvement on the last two years.

	2015	2016	2017
Average number of sick days per employee	6.7	5.1	4.6

Table 1.2 Sick days per employee

We continue our excellent performance on current tenant rent arrears with the overall figure decreasing by 0.3% to 1.7% for 2017. This is the lowest figure since 2012 and a significant achievement in the current economic climate, as we continue to see a high number of tenants affected by welfare changes and debt. We have seen an increase in former tenant debt and rent write offs when we have assessed there is little chance of this income now being collected. The challenge of collecting rent remains, with welfare reform changes imminent in Kent in 2018.

We had 24 evictions in 2017. This is an increase on previous years and are all due to rent arrears. Evictions are only carried out when all other attempts to remedy the breach of tenancy (such as clearing the debt) are exhausted. All evictions are authorised by senior management before they go ahead.

	2015	2016	2017
Current tenant rent arrears	2.0%	2.0%	1.7%
Former tenant rent arrears	1.4%	1.2%	1.5%
Rent write offs	£51,000	£96,000	£147,000
Rent collected	99.2%	98.3%	99.9%
Number of evictions (arrears cases in brackets)	16 (15)	14 (12)	24 (24)

Table 1.3 Key performance indicators - viability

Our employee engagement score is 87%. This is below the upper quartile score of 92% which we target for employee engagement: this is a deliberately stretching target, measured in relation to a challenging benchmark group. To maintain the impetus we recently overhauled our monthly Team Brief and all managers have undertaken management development programme. We continue to work with our Staff Consultative Committee to develop their capacity. Our preparations for Investors in People reassessment in September 2018 will help highlight further issues and areas for improvement.

Customers: our residents will enjoy exceptional tailored services and choice.

- We will develop greater customer insight, so we can tailor service delivery to the circumstances of our residents and we focus on delivering services that residents value and need.

- We will make greater use of technology in our services and homes to improve cost effectiveness.
- We will support tenants to maintain successful tenancies to give them stability and security as a platform for their aspirations.

In 2017, we approved new Resident Involvement and Tenancy Sustainment strategies to make sure our work in these areas is focussed on the right priorities in the changing environment for our residents and our services. We adopted a new methodology for understanding services and resident satisfaction in the year. This will be used to complete a range of service reviews in 2018 with the purpose of testing the impact of service changes, understanding how they are received by residents and identifying any underlying issues. These added to the changes identified in the customer service review and digital plan will help to increase our understanding of customer experience and perception.

The new Resident Involvement Strategy clarifies the importance of residents in shaping and scrutinising our services; the customer alert policy has been agreed and once fully implemented will support better tailoring of services for those who are vulnerable.

Following the customer services review we are changing how we prioritise tenant contact, improving our response times to digital contact as well as reducing the availability of traditional contact methods. This should help to channel shift customers to digital transactions.

Homes: ensure our homes are warm, well maintained and affordable.

- We will ensure our homes are warm, well maintained, affordable and evoke personal pride.
- We will re-procure our maintenance services.
- We will tailor our rents to keep them affordable to our residents.

We let 509 homes in the year, housing 1,097 people. We did not meet our target of 21 days to turnaround an empty property. The average time to let a home increased by 2 days to 25 days. This was disappointing as the early part of the year had shown real progress in improving the time taken, however a combination of factors, including resources and problems fully implementing changed procedures led to delays. A review group has identified the issues, including further development of ICT and different resource planning.

	2015	**2016**	**2017**
Households housed (in existing properties)	425	406	399
Households housed (in new properties)	149	230	110
Total housed	**574**	**636**	**509**
Time taken to turnaround general needs homes (days)	32	23	25

Table 1.4 Lettings data

At the end of 2017 there were 85 properties failing the decent homes standard (2016: 52). Four homes did not meet the Decent Homes Standard for more than 12 months. Two of these required internal insulation works before the heating system is renewed; and the other two require new kitchens and were due to late programming. Ten tenants refused access for works to meet the standard, they are elderly and do not want the disruption. The failed items are component replacements and not Health and Safety matters, which we would pursue more strongly. We maintain a balance of encouragement to tenants and forcing them to have the works carried out.

Our health and safety systems and procedures are working well and there have been no significant incidents. There were no outstanding landlord gas safety inspections at the end of the year. There were eight asbestos checks overdue at the end of the year, all in various stages of legal proceedings to gain access.

Following the Grenfell Tower fire we responded to enquiries about the fire safety of our stock from our residents, the Department of Communities and Local Government, Kent County Council, local authorities and Kent Fire and Rescue Services and carried out reassurance visits to tenants in our medium rise blocks of flats in Edenbridge and Maidstone.

As at 31 December 2017 there are 400 communal areas requiring us to carry out fire risk assessments, which are planned over a five-year programme. All these assessments are up to date and are available to residents. Action items are added to our monitoring spreadsheet and the completion of action items is checked monthly with any overdue items chased until completed. Since the 2013 programme of fire risk assessments, when we started monitoring individual action items rather than completed action plans, 5,289 action items have been added and 5,035 have been completed. As at 31 December 2017 there were 254 live actions.

In 2017, we developed a hybrid indicator to measure the various factors determining our performance on responsive repairs. We completed 29,097 responsive jobs, achieving 91% successful delivery of our 'maintaining your home' offer. This performance measure includes satisfaction surveys from residents, completing works first time, on time and whether there were any 'making it right' requests or complaints. The indicator allows us to assess where we have not met our standard even when the tenant believes they have received a good standard.

Although we achieved 91% 'maintaining your home' indicator, this is below target; there are four areas of concerns which we will work on in 2018:

- Reducing missed appointments and complaints relating to jobs not being carried out especially at high demand points in the year.
- Resourcing issues for contractors due to sickness and retirements.
- Continuing to work on systems improvement, management skills and culture to ensure our in-house team deliver exceptional service.
- Re-setting expectations through the maintenance procurement plan within our electrical and general works partnering contract.

We invested £2,068 per home on maintenance and component replacements in 2017. We replaced 114 doors, 25 windows, 407 boilers, 74 central heating systems, 103 kitchens, 125 bathrooms and 18 roofs.

Growth: build new homes to meet housing need in Kent and Medway.

- We will complete 2,137 new homes (by 2025) for rent and home ownership.
- We will develop and sell homes to help pay for our new affordable homes.
- We will acquire stock from others who operate in Kent.

Our Development Strategy identifies our capacity, strategic direction and opportunities to secure and deliver a significant number of new homes. Our current ambition is to deliver 200 homes per year net of homes lost through sales and demolition.

West Kent currently owns and/or manages 7,219 properties. Our new homes programme is the largest in West Kent's 28 year history. In 2017 we took handover of 104 homes. There are currently 275 new homes under construction for completion in 2018 and 2019.

	2017
Rented	5,453
Rented – older people	1,109
Low cost home ownership	480
Total social housing homes	7,042
Homes managed by others	3
Leaseholders	174
Total owned and managed accommodation	7,219
Homes under construction	275

Table 1.5 Housing by type

Current properties owned and managed by local authority area

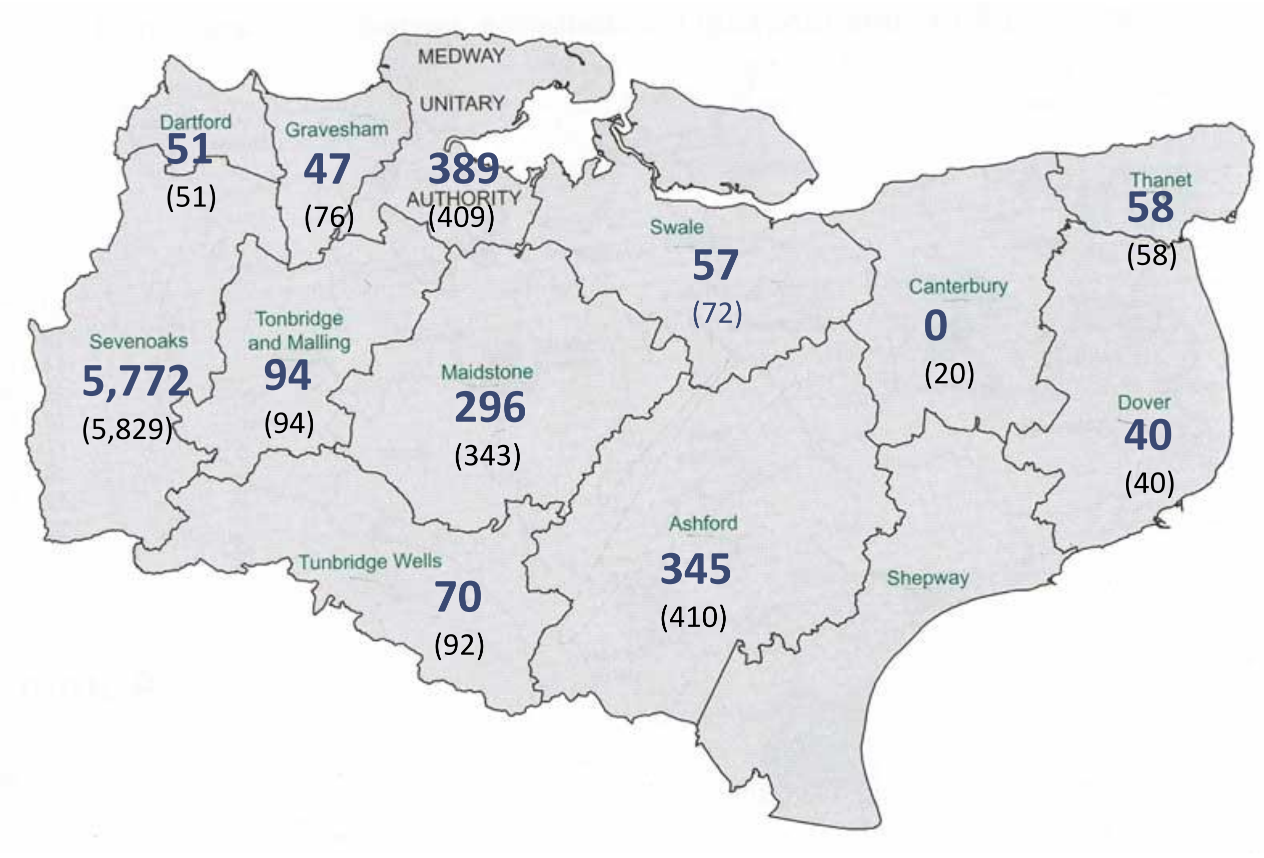

Table 1.6 Housing by local authority - Numbers in brackets () include homes currently under construction.

VFM metric	2015	2016	2017
Units Developed	140	254	104
New supply delivered %	2.1%	3.6%	1.5%
Gearing	31.7%	34.4%	41.3%
Return on Capital Employed	3.0%	3.4%	3.1%

Table 1.7 Indicators based on Regulator of Social Housing Value for Money metrics relating to growth objective

We forecast our 'New supply delivered %' increasing to just under 3% in 2018 and 2019.

Over the past five years we have invested £107m in building or acquiring 824 homes, receiving £12m of Homes England grant (previously Homes and Communities Agency). In the same period we made surpluses of £47m. For every £1 generated in surpluses we spend £2 on building new homes.

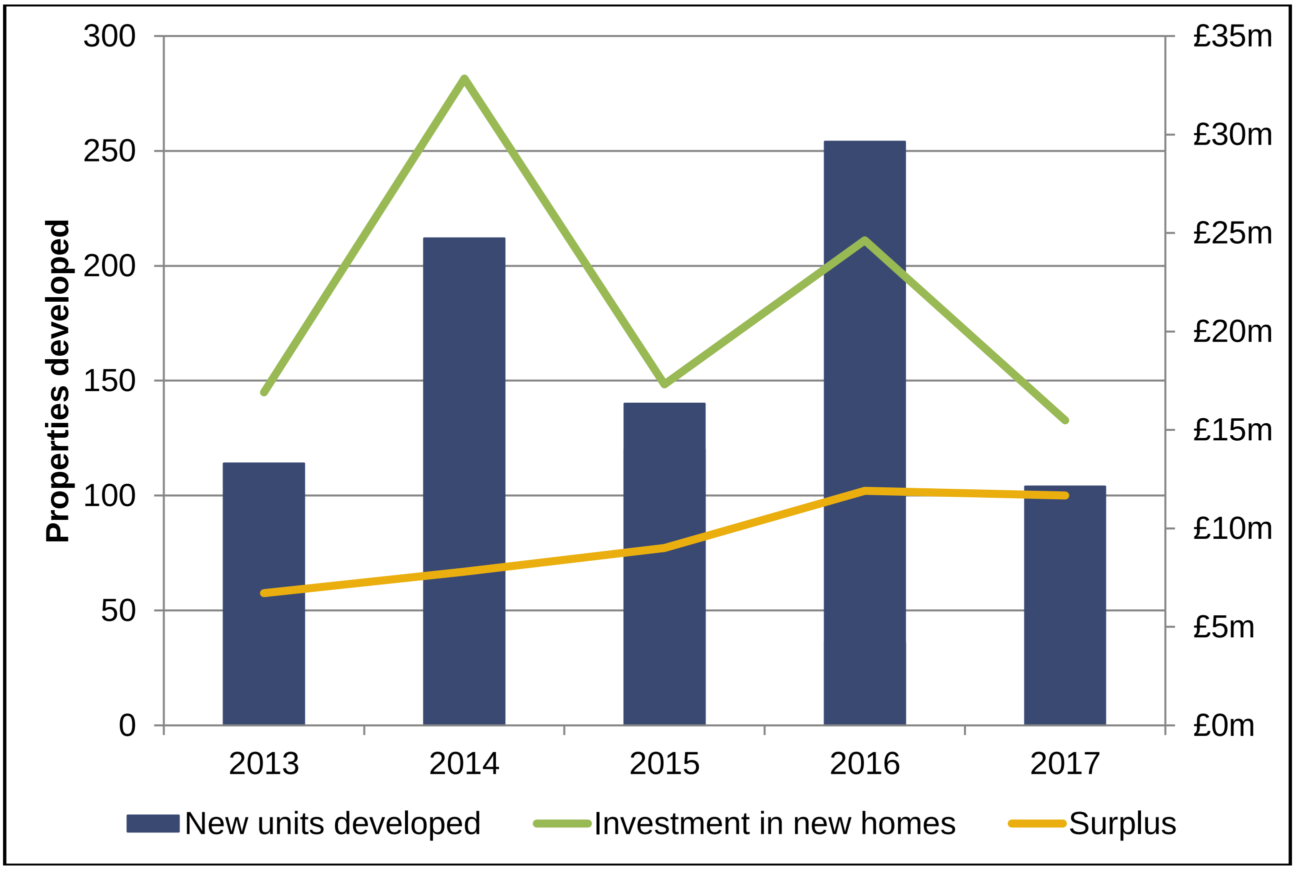

Chart 1.1 Investment in new homes

A substantial part of our development programme includes shared ownership. We reviewed our home ownership service and reorganised to respond to an increased sales programme, future-proof the service to shared owners and be ready to respond to market changes.

Our sales performed well with 36 first tranche sales in the year and 14 unsold at year end. No properties were unsold for more six months after taking handover. In addition to the initial sales there were 20 existing shared owners who chose to increase their equity in their home, 12 staircased to 100% ownership, this generated income from sales of £2.5m.

Older people: be a leader in meeting the accommodation needs of older people in Kent.

- We will be a leader in meeting the accommodation needs of older people in Kent.
- We will celebrate age by creating thriving and sustainable communities to promote and support active ageing and freedom of choice.
- We will provide quality homes, services to support independence, choice through information and advice and support active ageing through engagement.

A new 'Age – A Positive Experience' strategy was approved in 2017. This strategy set out how we would meet our aim to be the leader in Kent to meet accommodation needs, how we will celebrate age and support independence. The strategic review highlighted the successes achieved in year and showed good delivery against plans was achieved.

We engaged throughout the year with the Government consultations on the future funding of supported housing, including responding to the consultation that proposed the introduction of a 'sheltered rent' to give certainty to the housing sector and control costs. We are supportive of the government's drivers (people-focussed, funding certainty, flexible and deliverable and value for money) for supported housing and welcome the government's commitment to funding Sheltered/Extra Care supported housing and the promise to keep the funding within the welfare system.

Extra care and sheltered housing models are evolving and will need to continue to change as people's needs increase and as aspirations change, so a solution is needed that will stimulate the type and breadth of supply required for an ageing population diverse in age and need. This ability to evolve and respond to the older market is essential if we are to release family homes to assist in addressing the housing shortage.

During 2017 we delivered some key milestones in our Emerald Accommodation Strategy:

- Completion of Whiteoak Court, Swanley upgrade ready to move to full extra care by April 2018 in partnership with Kent County Council and Sevenoaks District Council. This finalises the creation of our hub in Swanley to meet the needs of older people who need homes with care.
- 40 homes had their obsolete hard-wired alarms removed and replacement door entry and fire alarm systems installed. A service to replace with a plug and play alarm unit that enables tele-health and tele-care additions is in place if requested by tenants. This is part of the de-designation of a total of 100 Emerald homes in Swanley.
- 31 new homes at Northview, Swanley are in development and on target for completion in June 2018
- Work to develop the detailed plan to create an Emerald Community in Edenbridge began towards the end of the year and will be finalised during 2018.
- Bringing 'Kent Excellent Homes for All' 238 new homes into operation and business as usual.

Communities: somewhere to live, something to do and someone to love.

- We will work to understand the unmet needs of Kent communities and provide exceptional services that meet those needs.
- We will work in partnership with organisations who share our ethos and approach to lead or support service delivery and to influence for change. We use our resources wisely and not duplicate the work of others unnecessarily.
- We will seek to empower communities and the individuals within them to support themselves in the long term. This will enable us to re-use our resources effectively to support other communities with unmet needs.
- We will seek to influence partners, stakeholders and funders to tackle unmet needs across Kent. We believe that we have a strong insight into Kent communities and will share this with partners to support strong communities.

	2015	**2016**	**2017**
Community engagement as a % of operating surplus	5.8%	4.2%	4.9%

Table 1.8 Community engagement

In the first full year of our new Communities Strategy we secured £1.42m of external funding for our community and support work and achieved our objective to have at least three projects in every district and borough of Kent. Our communities offer has involved working with over 60,000 beneficiaries in 2017.

Our work was focussed around theme and geography for 2017. Currently we are building our understanding of the three communities around the new Community Hubs in Gravesend, Sittingbourne and Gillingham. In 2018 services for older people, ex-offenders and training and employment are priorities, as is developing support services and working in collaboration with other housing providers.

We are working closely with other housing providers in Kent to share resources. We are working with Moat on community hubs, mhs homes on training and employment, Optivo on the Increase Programme funded by the European Social Fund and Golding Homes and Town and Country on developing new project ideas.

Financial review

West Kent's financial strength ensures we stay a vibrant, sustainable organisation. Any surplus that we make is reinvested in building new homes.

Group financial results

	2016 £'000	2017 £'000
Consolidated statement of comprehensive income		
Turnover	46,665	50,284
Cost of sales	(1,828)	(2,655)
Operating costs	(27,189)	(29,687)
Surplus on disposal of housing properties	762	1,288
Operating surplus	18,410	19,230
Movement in fair value of investment properties	-	(125)
Operating surplus after fair value adjustment	18,410	19,105
Surplus on disposal of other fixed assets	43	2
Other interest receivable and similar income	60	103
Interest and financing costs	(6,606)	(7,518)
Surplus for the financial year	11,907	11,692
Actuarial (loss)/gain on defined benefit pension scheme	(7,851)	3,468
Total comprehensive income for year	4,056	15,160
Consolidated balance sheets		
Tangible fixed assets – housing properties	517,320	534,392
Tangible fixed assets – other	3,220	2,864
Investment properties	6,625	6,500
Net current assets	19,747	71,411
	546,912	615,167
Creditors: amounts falling due after more than one year	(283,238)	(339,131)
Pension liability	(12,620)	(9,822)
	251,054	**266,214**
Capital and reserves		
Income and expenditure reserve	82,491	101,550
Revaluation reserve	168,496	164,608
Restricted reserve	67	56
	251,054	**266,214**

Table 1.9 Extract of Group financial results

Statement of comprehensive income

The Group financial results for 2017 show a slight reduction in surplus, before pension adjustments, over the previous years. The Group accounts consolidate the results of West Kent and 100% of West Kent Extra Limited. West Kent Extra made a surplus of £13,826 (2016: £19,304) during the year.

The operating surplus increased by £0.7m in 2017 to £19.1m (2016: £18.4m). The surplus on social housing lettings, which is analysed in Note 4 and 5, increased from £17.5m in 2016 to £18.1m. However, this represents a reduction on operating margin (social housing) 40.9% (2016: 41.9%).

For general needs rented, housing for older people and supported properties, rents were reduced by 1% in line with government policy. Shared ownership properties rents were increased in line with their leases.

Service charge income increased to reflect the costs incurred in providing the services, either internally or through external managing agents. This is the first full year of Kent Excellent Homes for All, the cost of providing all the services for these schemes is paid to a third party (shown separately in Note 5 of the accounts) the income is collected through rents and service charges.

First tranche low cost home ownership is the initial sale of a portion of shared ownership properties and are included in turnover and cost of sales. The margin earned on these sales was 28% (2016: 27%). This margin enables our development programme to build for affordable and social rent in the future. As these sales are a reflection on the housing market in Kent we are still benefitting from the increase in house prices in recent years, but are also monitoring the situation for future sales and exposure to this market. The surplus on sales of an increased portion of low cost home ownership are shown as disposal of fixed assets (housing properties) and included in operating surplus.

Group turnover has increased by £3.6m. This is primarily due to full year rental income on 'Kent Excellent Homes For All'; £2.1m higher than last year, and increased low cost home ownership sales, £1.2m higher than last year. General needs and supported housing rent receivable reduced by £0.2m. This was due to the rent decrease offset by increased income year on year from new homes completed in 2017 and a full year's rent for homes completed in 2016. Our performance on turning round our empty homes, classified as management voids, increased from 23 days to 25 days, overall the loss in properties being void reduced by £0.1m, this is due to improving the turnaround of all empty properties not just those classified as management voids, such as those properties that require major works before being re-let.

Operating costs increased by £2.5m in 2017. This was due to the full year impact of costs of providing services to 'Kent Excellent Homes For All'. The operating costs associated with delivering this contract include service, maintenance and management functions of £1.9m (2016: 0.5m). This has been separated out in Note 5 of the accounts so the cost of providing this contract can be seen and the costs to other tenures is not distorted by this service. Bad debts and provision for bad debts have almost doubled in 2017. We have seen increased evictions due to rent arrears and some high-level debt has moved from being current tenant rent arrears to former tenant rent arrears and therefore immediately provided for as a bad debt. Overall rent arrears have increased by £45k and total arrears stand at £1.7m (2016: £1.7m), 4.2% of annual rent chargeable. There was a small reduction (£0.2m) in maintenance charged to the income and expenditure account in the year, even though overall our maintenance costs remained static including capitalised expenditure. As we increased our programme of building new homes we incurred a greater level of abortive costs with £0.3m written off in the year, just over 1% of annual development expenditure in 2017. £0.2m was due to one rural project that had involved a significant amount of fees and time but unfortunately did not progress.

We invested £13.6m (2016: £13.6m) in maintaining our homes in the year, including the £2.9m replacing components and improvements that have been capitalised under the component accounting policy. This equates to £2,068 per home. We have a very good working knowledge of our stock and by applying a 'just in time' methodology we maximise the investment and extend the useful economic life of assets that are not requiring replacement.

The surplus on disposal of fixed assets has increased by £0.5m to £1.3m (2016: £0.8m). This was from 20 (2016: 21) low cost home owners increasing their equity in their home, of whom 12 (2016: 9) staircased to 100% ownership and 5 Right to Buy sales (2016: 7).

Interest payable and similar charges of £7.5m (2016: £6.6m) reflect the benefit of low interest rates, increased borrowing and full year effect of the finance lease charge on 'Kent Excellent Homes For All'. Interest capitalised in construction costs has doubled to reflect the increased programme. We updated our inflation assumptions on the finance lease to be in line with current market factors. This change has increased the finance lease interest payable for 2017 from £699k to £1,748k, this change is a one-off charge for 2017.

Interest cover was 274% (2016: 299%), based on the revised covenants for FRS102 on the toughest loan covenant, which requires interest cover to be greater than 100%. All our banking covenants were met in the year.

Balance sheet

Housing properties at cost increased by £17.1m to £534.4m. This increase is due to investment in new homes and spending on existing properties of £24.2m, offset by depreciation and disposals. 104 homes were built or acquired in 2017, with 275 in construction.

West Kent has 1,836 garages or parking plots that it treats as investment properties. There was a formal valuation conducted in 2017; due to the planned investment in these garages in the next five years and making no increase in charge for the last four years, we have recognised a reduction in fair value of £125k in the year. The prospects for this investment are good with increased occupancy, reduced void periods and with active marketing and online presence we have seen a 62% margin generated on this venture.

Cash has increased in 2017 to £32.7m (2016: 19.7m), this is due to cash generated from operating activities and £18m loan from Affordable Housing Finance PLC. There is £35m of European Investment bank loans provided by Affordable Housing Finance held in debtors. At year end the loan was fully secured and available to be transferred to West Kent, the cash was received in early January 2018. The cash is being invested on the money markets and we have a clear plan to use it through building new affordable homes.

Value for Money

Value for money is embedded into the operations of West Kent and included in our vision of 'being the leading community provider of affordable homes in Kent'. The board has adopted the Regulator's key value for money metrics as well as some specific metrics used to monitor progress towards our key strategic objectives.

Included in the Operating Review above we have articulated our key objectives and how we are delivering on these. The metrics we monitor are provided below. Due to the value for money metrics only recently being published there are no peer comparisons. We will build into our analysis in the future how we compare with our peers. The metrics below have been calculated with reference to the Regulator of Social Housing 'Value for Money metrics – Technical note feedback and response'.

Value for Money Metrics - Group	2015	2016	2017	Global accounts 2016/17[1]
Metric 1 – Reinvestment %	3.4%	8.0%	4.5%	5.7%
Metric 2 – New supply delivered % A. New supply delivered (Social housing units)	2.1%	3.6%	1.5%	1.5%
Metric 2 – New supply delivered % B. New supply delivered (Non-social housing units)	0.0%	0.0%	0.0%	0.1%
Metric 3a – Gearing %	31.7%	34.4%	41.3%	45.8%
Metric 3b – Gearing % (including funds shown in debtors awaiting a transfer of funds)	31.7%	34.4%	34.7%	N/a
Metric 4 – Earnings Before Interest, Tax, Depreciation, Amortisation, Major Repairs Included (EBITDA MRI) Interest Cover %	243%	280%	237%	170%
Metric 5 – Headline social housing cost per unit	£3,906	£3,528	£3,787	£3,698
Metric 6 – Operating Margin % A. Operating Margin (social housing lettings only)	37.3%	41.9%	40.9%	34.1%
Metric 6 – Operating Margin % B. Operating Margin (overall)	32.0%	37.8%	35.7%	29.6%
Metric 7 – Return on capital employed (ROCE)	3.0%	3.4%	3.1%	4.3%

Table 1.10 Regulator of Social Housing – Value for Money metrics

Metric 1 – Reinvestment % - This indicator looks at expenditure on housing properties in the year as a percentage of housing properties at cost. Due to the fluctuations in development commitments from one year to the next this metric can be quite volatile. Our key strategic objective is aiming to have a consistent delivery of new homes each year. When this is achieved we are predicting a reinvestment rate of 6.5%. In the last three years we have averaged 5%. This shows our appetite to build more and to utilise our capacity held in our housing property assets.

Metric 2a – New supply delivered % (Social housing units) - This metric fluctuates similarly to the reinvestment indicator. To achieve 100,000 homes per year the social housing sector needs to achieve 3.7% of new supply every year. Our ambition is to contribute proportionately to this target. We completed 104 homes in 2017, we are aiming to complete more than 200 homes for social housing per year from 2018.

Metric 2b – New supply delivered % (Non-social housing units) – Our development strategy is not predicated on delivering non-social housing homes. However, we are looking at development opportunities that may include outright sale and open market rent, this is only to assist in delivering our social housing homes.

Metric 3a and b – Gearing % - In 2016 our gearing ratio took a step up as we completed 238 homes as part of the Kent Excellent Homes For All private finance initiative. This has been recorded as a finance lease in our accounts and a similar value has been used to record the housing asset. The impact has been to increase our gearing. As we continue to fund future development, through surplus made on existing activities and additional borrowing, we see this gearing ratio rising slightly each

[1] Regulator of Social Housing - Global Accounts 2017 (Recalculated to include new Value for Money metrics – Technical note and feedback and response – March 2018)

year. Due to a timing of funds being transferred as part of the Affordable Housing Finance loan there is £36m in debtors, that was transferred to West Kent in early 2018. This affects the gearing ratio as it is not treated as cash, we have shown gearing with and without these funds.

Metric 4 – Earnings Before Interest, Tax, Depreciation, Amortisation, Major Repairs Included (EBITDA MRI) Interest Cover % - Earnings have increased by £0.4m however, the main reason for the reduced interest cover is the higher interest due to new debt secured in the year and the adjustment on the assumptions for future payments on the finance lease.

Metric 5 – Headline social housing cost per unit – Cost has increased by 7% whilst homes have only increased by 1%. Overall maintenance has stayed on a par with 2016, whilst service charges have increased dramatically by 32%. This represents the full year of Kent Excellent Homes For All, where there is corresponding income.

Breakdown of social housing cost per unit	2015 (£)	2016 (£)	2017 (£)	% change	Global accounts 2016/17[2]
Management costs	634	544	562	3%	943
Service charge costs	540	633	838	32%	551
Maintenance	2,194	1,944	1,927	-1%	1,737
Other (social housing letting) costs	7	6	6	-1%	143
Development services	26	27	67	147%	27
Community / neighbourhood services	282	211	232	10%	20
Other social housing activities: Other (operating expenditure)	12	9	10	11%	122
Other social housing activities: charges for support services (operating expenditure)]	211	153	145	-5%	154
Total social housing costs	3,906	3,528	3,787	7%	3,698
Total social housing units owned and/ or managed at period end	6,736	6,974	7,045	1%	2,761,387

Table 1.11 Breakdown of social housing cost per unit

It is difficult to compare West Kent or any single association with the global accounts mean average as we all work in different regions, with different challenges and opportunities. As the sector develops these key indicators in the future the comparison with similar organisations will be more relevant. For now, the important comparison is with ourselves and with our story and what we are trying to achieve. An example of this is Community / neighbourhood services, we look to be high on cost, but this does not take account of the investment from external partners of £0.7m to provide these services.

Metric 6 – Operating Margin % A. Operating Margin (social housing lettings only) - Social housing lettings margin reduced by 1% from 41.9% in 2016 to 40.9% in 2017. The main area was in supported housing, which saw costs rise and income stagnate. The margin is ahead of our long-term target of 35%, it allows West Kent to balance our social housing services with those services that do not generate such a large margin. Our business is modelled around four key areas: landlord function; tenancy sustainment, new homes and communities.

Metric 6 – Operating Margin % B. Operating Margin (overall) - When we look at our business as a whole the operating margin reduces to 35.7%. The dilution on the margin is a conscious one. We have built a strong community brand that identifies unmet needs of Kent communities and works with partners and residents who share our ethos to directly tackle those needs, or seek to influence

[2] Regulator of Social Housing - Global Accounts 2017 (Consolidated Group Level median)

others to do so. These types of service cannot generate large margins. West Kent has chosen as part of our Communities Strategy to commit resources in this area with a clear business model with four key elements: provision; partnerships; empowerment, and influencing. The past two years have seen limited opportunities for significant funding increases as we have seen a reduction in commissioning and a fall in major grant and trust funding. We have continued to grow and develop through partnerships with other housing providers; we see a number of new opportunities in the five years ahead through this route and also through a resurgence in commissioning at county level in Kent. This indicator excludes surplus on the disposal of fixed assets, therefore closely resembles West Kent's performance indicator where we have a target of achieving greater than 35%.

Metric 7 – Return on capital employed – Reduction in return on capital employed is mainly due to increased cash being held after borrowing money in 2017 for future development programme. This resource has not yet been put to work increasing housing properties and generating a return. There is a plan for these funds as part of our growth strategy.

Principal risks and uncertainties

The board is responsible for setting the overall direction of the organisation. In doing this it ensures that West Kent has an appropriate, robust and prudent business planning, risk and control framework. The strategic plan reconciles our intentions for the future, with the risks we think we will face in trying to achieve these and our appetite for facing those risks.

The risk management framework links our vision, with the key risks and our risk appetite, in the context of our operating environment and opportunities.

Following the Government decisions to change the rent formula, we reviewed our 30-year financial plan and embarked on a comprehensive cost management programme. The programme includes a range of projects across the organisation to drive down costs and improve efficiencies.

The board has identified the three highest risk areas on delivering our business objectives.

- Welfare reform - Restrictions on benefit entitlement leads to loss of rent, tenant debt and eviction.
- Sales income - Income from the sales of properties (open market, low cost home ownership and existing asset sales) is lower and later than we have budgeted.
- Macro-economic environment – The economy responds negatively to BREXIT leading to increased cost of capital, increased operating costs and difficulty in finding skilled workforce. Economic situation leads to increased inflation during a period of rent reductions.

Welfare reform: Welfare Reform continues as a volatile risk, despite close management of tenants impacted. The live Universal Credit service was closed nationally at the end of 2017 to allow the implementation of the changes to the Full Service which were announced in the Autumn Budget. These changes are welcomed and should help claimants and us:

- From February 2018, the seven-day `waiting period` will be removed. Claimants will be entitled to money from the moment they make their claim
- From January 2018, claimants can request an advance of their full first payment rather than just 50%. Repayments can then be spread over the next 12 payments rather than six

- Claimants who were previously claiming Housing Benefit will continue to receive these payments for two weeks when they move onto Universal Credit.

The roll-out of the Full Service has been delayed by three months meaning that the majority of West Kent tenants, in the Sevenoaks District, will only start to be able to claim Universal Credit from July 2018 (Medway – May 2018, Ashford – June 2018 and Maidstone – November 2018).

We are aware of 45 West Kent tenants claiming universal credit. Of these, 31 (69%) are in arrears and 14 (31%) are in credit. We currently have direct payment of the housing element for 15 cases and the other 30 receive the payment themselves.

The number of tenants affected by the benefit cap continues to reduce with currently 59 in the Sevenoaks District and 74 in total across all areas.

We continue to work closely with the local authorities to monitor these cases and offer support with Discretionary Housing Payment claims. In 2017 we supported our residents with 144 successful claims which brought in £61,610 in direct income.

Sales: This is a significant liquidity risk and it is managed closely. A balance is continually monitored between risk and opportunity; between ambition and prudence; between treasury headroom and 'sweating' our assets.

House prices remain steady and interest remains good. There are eight lenders to this market and our Independent Financial Advisors report that more are expecting to lend and there is a greater offer of mortgage products available.

We have a detailed mitigation plan which identifies triggers that will be used to indicate when a potential exposure level could be exceeded.

Trigger monitoring
Development cash flow shortfall – The management accounts for the 31 December 2017 show that we have uncommitted cash of £34m. This meets our risk appetite.

- Housing Market – see section on market above
- Mark to market values – all committed schemes have a current valuation of less than six months old. To date there have been no reduction in valuation at a scheme level.
- Unsold sales – there are no properties unsold for more than six months
- Marketing team expertise – the marketing team has not raised any concerns
- Location based assessments – One scheme has a high cost to value ratio, and values on this have remained unchanged during the year.
- Recent performance - Sales values achieved overall in 2017 were 12% higher than the values approved to commit to the schemes; this compares with 20% for the year before.
- Pipeline analysis – 4 houses for outright sale, 188 houses and 51 flats for shared ownership with a sales exposure of £27m. Not all the pipeline is in contract, but has received approval by the board.
- Scheme options for alternative use – none of the above triggers have occurred which would invoke this review.

There is no trigger for the mitigation plan to be actioned.

We are not dependent on this cash for our liquidity, but will pay close attention to the forward commitment to ensure it stays within this parameter. Current unsold properties are reported monthly to the board.

Macro-economic environment: This risk is affected by external pressures. High inflation would put increased pressure on costs as our main source of income continues to be reduced in line with government policy. Access to borrowing could jeopardise our new homes growth ambition. If borrowing is accessible the cost of capital could be greater than we have experienced during this historically low interest rate era. Unemployment is running at 4% and our ability to meet our key strategic objectives may be affected by a reducing ability to recruit a skilled workforce, especially in the service and construction sectors.

The Bank of England has suggested a rise in interest rates in 2018. We have secured fixed rate borrowing on low interest rates which will finance our development programme throughout 2018. We have incorporated increased cost of borrowing for future loan finance in our financial forecast.

The board has also identified key business as usual risks which are monitored regularly by the board.

***Health and safety:* -** We fail to fulfil our legal obligations under health and safety legislation.
Developing new homes: New homes are not economically and operationally fit for purpose.
Data security and data protection: We fail to comply with General Data Protection Regulations. A breach of data security impacts on our day to day operations.
Business operations and continuity: Inability to deliver our services.
Business partner failure: A key partner who we rely on to deliver our services, unexpectedly withdraws their services.
Local Government Pension Scheme: A termination payment which is either unexpected or poor value for money, is triggered on the Kent County Council administered local government pension scheme.
Regulation: We fail to comply with the regulatory regime. Specifically, in the short-term, we fail to properly implement and comply with the new consents regime.
Kent Extra Excellent Homes for All: We fail to fulfil our obligations on the 'Kent Excellent Homes For All' contract, or fulfilling our obligations costs more than we planned.

Approval

This Strategic Report was approved by order of the board on 2 May 2018

Craig Reynolds
Company Secretary

Directors' report

Principal activities

West Kent Housing Association (West Kent) is a registered provider of social housing which is regulated by the Regulator of Social Housing. The activities of West Kent Housing Association and its subsidiaries (see note 35) have been detailed in the Strategic Report.

Post balance sheet events

There are no post balance sheet events.

Effects of material estimates and judgements upon performance

Critical judgements

Preparation of the financial statements requires management to make significant judgments and estimates. The items in the financial statements where judgments and estimates have been made are shown in note 3 of the accounts. Further information on the most significant judgements is as follows:

Impairment

A review of the carrying value of housing properties is carried out annually to determine whether there are any indicators of impairment. Indicators considered included those in paragraph 27.9 of FRS102 and paragraph 14.6 of Housing SORP 2014. In the review, schemes (groups of properties in the same location where the same services are provided) were taken to be cash-generating units. If a different level of cash generating units had been used (e.g. individual properties within a particular scheme) the conclusion on impairment may have been different.

- Rented properties
  All properties empty at year end were reviewed to ensure they were still expected to be a cash generating unit. All let properties are reviewed by way of reviewing rent arrears and maintenance projections for each home to ensure it can continue to be a cash generating unit. There were no indicators of impairment on rented properties.

- Low cost home ownership properties
  The need for an impairment review of the fixed asset portion of shared ownership properties is indicated if there have been losses on staircasings during the year or if there were losses made on the original first tranche sales on the scheme. There were no losses on staircasings during the year to indicate the need for impairment.

- Schemes in development
  All development schemes are assessed using an investment appraisal model, which is reviewed annually by the Audit and Finance Committee, to ensure the appropriateness of assumptions. During development, schemes are reviewed against the investment appraisal and up-to-date valuations, for any fluctuations in costs or anticipated sales values which adversely affect the net present value of the scheme, highlighting any schemes which need to be assessed for impairment. There were no schemes that indicated an impairment.

- Fire precaution and other health and safety works
  Any works being required to be carried out to meet our health and safety requirements are not material, therefore no impairment.

Capitalisation of property development costs

Every live development scheme is assessed to distinguish the point at which a project is more likely than not to continue, allowing capitalisation of associated development costs requires judgement. After capitalisation management monitors the asset and considers whether changes indicate that impairment is required. The total amount capitalised in the year was £21.3m (2016: £38.5m).

Kent Excellent Homes for All – Private Finance Initiative - Finance Lease

Section 34 'Service concessions' of FRS 102 indicates that a service concession arrangement is an arrangement whereby a public sector body, or a public benefit entity (the grantor) contracts with a private sector entity (the operator) to construct (or upgrade), operate and maintain infrastructure assets for a specified period of time (concession period). The operator is paid for its services over the period of the arrangement. A common feature of a service concession arrangement is the public service nature of the obligation undertaken by the operator, whereby the arrangement contractually obliges the operator to provide services to, or on behalf of, the grantor for the benefit of the public. A significant judgement has been made that due to the arrangements in place and the risks West Kent takes on in this arrangement West Kent is the grantor in this relationship. To calculate the finance lease we have used a qualified valuer to arrive at an existing use value of these assets. The valuation was estimated at £21.55m in 2016.

Significant estimates

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

Kent Excellent Homes for All – Private Finance Initiative - Finance Lease

In 2017, we updated our inflation assumptions to be in line with current market factors and they are now in line with our long term financial forecast. We increased our estimate of future payments under the finance lease from 2.5% to 3.0% increase per year. This change has been reflected in the accounts and has increased the finance lease interest payable for 2017 from £699k to £1,748k. The cumulative effect on changing this assumption for the remaining 23 years is £1,049k and has been recognised immediately in the Statement of Comprehensive Income.

Useful lives of depreciable assets

Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technological obsolescence that may change the utility of certain software and ICT equipment, changes to decent homes standards that may require more frequent replacement of key components and changes to the ability to let the property may reduce the economic life of the property. Total depreciation charged in year was £6.0m (2016: £5.7m).

Defined benefit obligations

Management's estimate of the defined benefit obligation is based on several critical underlying assumptions such as standard rates of inflation, mortality, discount rate and anticipation of future salary increases. Variation in these assumptions may significantly impact the defined benefit obligation amount and the annual defined benefit expenses. Some of these sensitivities have been illustrated below. The l;iability at 31 December 2017 was £9.8m (2016: £12.6m).

Sensitivity analysis	£000s	£000s	£000s
Adjustment to discount rate	+0.1%	0.0%	-0.1%
Present value of total obligation	53,360	54,445	55,553
Projected service cost	1,603	1,644	1,686
Adjustment to long term salary increase	+0.1%	0.0%	-0.1%
Present value of total obligation	54,568	54,445	54,323
Projected service cost	1,644	1,644	1,644
Adjustment to life expectancy assumptions	+1 Year	None	-1 Year
Present value of total obligation	56,412	54,445	52,549
Projected service cost	1,696	1,644	1,593

Table 2.1 Pension sensitivity analysis

Qualifying third party indemnity provisions

The company has no qualifying third party indemnity provisions in place for the directors of West Kent Housing Association.

Governance

In April 2016, the board agreed to adopt the National Housing Federation voluntary code on ‘Mergers, Group Structures and Partnerships - A voluntary code for housing associations’. Members agreed criteria that would be applied in assessing a merger or partnership approach. No merger proposals have been reviewed or submitted in the year.

In December 2015, the board agreed to adopt the latest (2015) version of the National Housing Federation governance code. The association complies in full with the code.

The Regulator of Social Housing’s Governance and Financial Viability Standard (the Standard) was updated in April 2015. This was accompanied by a new Code of Practice, which provides guidance to registered providers to ensure compliance with the Standard. The overall required outcomes of the Standard are:

- to ensure that there are effective governance arrangements that deliver the aims, objectives and intended outcomes for tenants and potential tenants in an effective, transparent and accountable manner
- to manage resources effectively to ensure their viability is maintained, ensuring that social housing assets are not put at risk. The Standard requires registered providers to assess their compliance with the Standard at least annually and boards are now required to report their compliance with the Standard within their annual accounts.

The definition of assurance means that this is not just an internal and external audit issue. Boards need to determine where they are obtaining their assurance to demonstrate to the Regulator of Social Housing:

- a clear understanding of asset values, related security, potential losses and potential chains of recourse. Note that boards need to know exactly what information will be required in the event of distress and social housing asset exposure in order to value the assets without delay
- evidence of application of the principles

- the assurance they receive on quality of records

Compliance with the Regulator's revised Governance and Financial Viability Standard was reviewed by the board in May 2018. The standard states that governance arrangements shall ensure registered providers adhere to all relevant law. Two instances of non-compliance were identified during the year and these are summarised below. In both instances the Regulator has been informed and is being updated regularly on progress.

In December 2017, following a query from the Regulator, West Kent identified a problem with the data included in the March 2016 Statistical Data Return. This is a breach of our responsibility to ensure that we submit required data returns in a timely manner and the information provided is of a good quality. This identified a small number of instances where rent changes were not processed in line with the Rent Standard. Full refunds have been made to all tenants affected.

We have also identified a small number of tenancies where the rent charged and the tenancy agreement were not consistent, which may be considered a technical breach of the tenancy contract. We are reviewing all of the affected contracts.

In all other respects we have complied with the Governance and Financial Viability Standard.

The board is committed to high standards of corporate governance based on the following principles:

- The board is effective in leading and controlling the organisation and acting wholly in its best interest. Board members must ensure that the interests of the organisation are placed before any personal interests;
- The board is clear about its duties and responsibilities;
- Board members will receive induction on joining the board and will regularly refresh and update their skills;
- Recruitment to board vacancies is open and transparent, based on merit, objective selection and assessment techniques. The board undertakes a formal and rigorous annual appraisal of its members and of the board as a whole;
- The board is headed by a properly appointed and skilled chair who is aware of their duties as head of the board and the clear division of responsibilities between the board and executive
- The board acts effectively, making clear decisions based on timely and accurate information
- There are clear working arrangements between the board and the chief executive and clear delegation of duties;
- Committees of the board will provide expertise and enable the board to scrutinise and deliver effective corporate governance and manage risk;
- The board provides leadership in operating in an open and transparent manner, having satisfactory dialogue with key stakeholders including tenants. The board will demonstrate accountability to shareholders and other key stakeholders;
- The board demonstrates leadership and commitment to equality, diversity and inclusion as outlined in the Equality Act 2010, across the organisation's activities;
- The board establishes a formal and transparent arrangement for considering how the organisation ensures financial viability, maintains a sound system of internal controls, manages risk and maintains an appropriate relationship with external auditors;
- The organisation maintains the highest standards of probity and conduct.

The board comprises of eleven non-executive members (one post is currently vacant), three of whom are tenants (one post is currently vacant), plus one executive member. It normally meets with the executive directors seven times a year. The whole board is remunerated. The board members of West Kent are listed in the section of the report titled 'Executives and advisors' on page 27.

General Data Protection Regulations

On 25 May 2018, the General Data Protection Regulation (GDPR) will become directly applicable law in the UK. Around the same time, the current Data Protection Bill will become effective as the Data Protection Act 2018, taking all the principles from the GDPR and adding detail around some specific UK derogations.

The main aims of the regulation are to harmonise data protection rules throughout the EU to make it easier for businesses to comply, and give individuals more control over their data being used by organisations.

This means that there are some changes to the way that we can use personal data. The Information Commissioners Office (ICO) is the regulator that monitors data protection in the UK, and this is who we will be answerable to in the event of a data breach.

West Kent is fully aware of the steps required to be compliant. We have an action plan, a detailed project plan and have in place internal communication and learning platforms. To ensure compliance we have:

- internal documentation - detailing all processing activities and recording the personal data processed to carry out these activities (the Data Protection Record);
- identified the lawful bases for processing;
- data sharing agreements - we have a list of organisations we share data with, based on an organisation wide data mapping exercises, this identified potentially 200 organisations; these organisations have been informed of the reasons why we share data with them;
- data protection by design and default - we have begun work on Data Protection Impact Assessments, starting with some new processes around fixed-term tenancies and tenancy audits. Once we are satisfied that the Data Protection Impact Assessment forms work for us we will include them in our standard templates and have them available for all staff;
- Data Protection Policy and Privacy Notice – we have published a new Privacy Notice on our website. This explains our internal procedures with regards to data protection for transparency. It contains what data we process, our data processing activities, the lawful basis we are relying on, data retention records, who we share data with and an explanation of the individual’s rights;
- Training and wider knowledge – there is an e-learning package for all staff to have a clear understanding of the requirements under General Data Protection Regulation.

Assessment of the effectiveness of internal control

The board is the ultimate governing body and is responsible for ensuring that an adequate system of internal control is in place and for reviewing its effectiveness. The system of internal control is designed to manage risk and to provide reasonable assurance that key business objectives will be met. It also exists to give reasonable assurance about the preparation and reliability of financial and operational information and the safeguarding of the association’s assets and interests. The board recognises that no system of internal control can provide absolute assurance or eliminate all risk.

Risks are defined as those factors that could adversely affect the achievement of the West Kent business plan. The internal control framework manages and mitigates the risks by identifying those risks and ensuring that controls are in place.

To assess the effectiveness of the control systems the board considers the major risks facing West Kent and the appropriate procedures to manage them. These include health and safety, legal compliance, quality assurance, insurance, security and social, ethical and environmental risks.

The key elements of internal control include:

- Corporate Governance arrangements including the adoption of the National Housing Federation's Code of Governance
- An annual planning process within which the board approves strategy and business plan objectives supported by long-term financial projections
- The preparation and review of annual budgets which are approved by the board; monthly review of actual results against the approved budget, and revised forecasts prepared at three monthly intervals
- Performance indicators to identify trends in current financial and non-financial data to monitor progress towards objectives and to identify changes that require intervention
- Written financial regulations and delegated authorities
- Board approved policies to control exposures in connection with treasury management activities
- Financial control procedures to ensure accurate accounting for financial transactions including authorisation procedures, physical controls, segregation of duties and procedures to ensure compliance with laws and regulations
- A fraud policy, fraud response plan and whistle blowing policy that have been communicated to all staff
- All major investments in existing properties, new properties, plant, equipment and software are subject to appraisal and individual approval by the executive team or the board
- An internal audit function structured to deliver the Audit and Finance Committee's risk based audit plan. West Kent uses the services of Mazars to provide internal audit services.

The effectiveness of the controls is assured by:

- Independent assurance by internal auditors as to the existence and effectiveness of the risk management activities described by management
- Board / Audit and Finance Committee overview
- External audit
- Assurances from management
- External regulatory and other reports.

The internal control framework, the risk management process and the fraud register are subject to regular review by internal audit, which has responsibility for providing independent assurance to the board via its Audit and Finance Committee. The Audit and Finance Committee considers internal controls and risk at each of its meetings during the year.

The board has received the chief executive's annual report, conducted its annual review of the effectiveness of the risk and control framework and has taken account of any changes needed to maintain the effectiveness of the risk management and control process.

The board confirms that there is an on-going process for identifying, evaluating and managing the significant risks faced by West Kent. This process has been in place throughout the year under review and up to the date of the Annual Report and Financial Statements and is reviewed by the board. The board has responsibility for the group as a whole.

Board member responsibilities

The board members are responsible for preparing the report of the board and the financial statements in accordance with applicable law and regulations.

Co-operative and Community Benefit Society law and social housing legislation requires the board members to prepare financial statements for each financial year. In accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The board members must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the association and of the surplus or deficit of the group and association for that period.

In preparing these financial statements, the board members 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: Accounting by registered social housing providers 2014 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the association will continue in business.

The board members are responsible for keeping adequate accounting records that are sufficient to show and explain the group and association's transactions and disclose with reasonable accuracy at any time the financial position of the group and association and enable them to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulation 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. They are 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.

The board is responsible for ensuring that the report of the board is prepared in accordance with the Statement of Recommended Practice: Accounting by registered social housing providers 2014.

Financial statements are published on the group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the group's website is the responsibility of the board members. The board members' responsibility also extends to the on-going integrity of the financial statements contained therein.

Going concern

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

After making enquiries and reviewing the financial plan, the board has a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason, it continues to adopt the going concern basis in the financial statements.

Disclosure of information to auditors

All current board members have taken all the steps that they ought to have taken to make themselves aware of any information needed by the association's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

Auditors

BDO LLP has expressed their willingness to continue. A resolution for the re-appointment of BDO LLP as auditors of the association is to be proposed at the forthcoming Annual General Meeting on 20 June 2018.

By order of the board

Colin Wilby, Chair

Date: 2 May 2018

Executives and advisors

West Kent Housing Association Board members
Colin Wilby, Chair
Judith Collings
Frank Czarnowski, Chief Executive
Joanne Frawley, Vice Chair
Angela George
Dave Hill
Brian Horton
Peter Kasch
James MacQuarrie (resigned 15 June 2017)
Caroline Phillips
Rosie Serpis
Dr Joanne Simpson (appointed 1 February 2017)

Executive team
Frank Czarnowski, Chief Executive
Will Campbell-Wroe, Communities Director
Hilary Knight, Business Services Director
Mark Leader, Property Director
Craig Reynolds, Finance Director
Deborah White, Housing Director

Registered office and advisors:
- Registered office
  101 London Road, Sevenoaks TN13 1AX

- Statutory auditor
  BDO LLP, 2 City Place, Beehive Ring Road, Gatwick, West Sussex RH6 0PA

- Principal solicitor
  Trowers & Hamlins LLP, 55 Princess Street, Manchester M2 4EW

- Banker
  The Royal Bank of Scotland plc, 67 High Street, Sevenoaks, Kent TN13 1LA

- Funders
  Lloyds Bank plc, 25 Gresham Street, London EC2V 7HN
  The Royal Bank of Scotland plc, 280 Bishopsgate, London EC2M 4AA
  The Housing Finance Corporation Ltd, 4th Floor, 107 Cannon Street, London EC4N 5AF
  Affordable Housing Finance plc., 4th Floor, 107 Cannon Street, London EC4N 5AF

Legal Status
Registered under the Co-operative and Community Benefit Societies Act 2014 number 26278R.

Registered by the Regulator of Social Housing, number LH3827.

VAT Registration number 927 5219 12 West Kent Housing Association and West Kent Extra Limited

Independent auditor's report to the members of West Kent Housing Association

Opinion

We have audited the financial statements of West Kent Housing Association ("the Association") and its subsidiaries ("the Group") for the year ended 31 December 2017 which comprise the consolidated and Association statement of comprehensive income, the consolidated and Association statement of financial position, the consolidated and Association statement of changes in equity, the consolidated cash flow statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and of the Association's affairs as at 31 December 2017 and of the Group's and the Association's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the requirements of the Charities Act 2011, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Other information

The board are responsible for the other information. Other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information including the Strategic Report, Statement of Corporate Governance and Internal Controls and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where we are required by the Co-operative or Community Benefit Societies Act 2014 or the Housing and Regeneration Act 2008 to report to you if, in our opinion:

- the information given in the Report of the Board for the financial year for which the financial statements are prepared is not consistent with the financial statements;
- adequate accounting records have not been kept by the parent Association, or returns adequate for our audit have not been received from branches not visited by us; or
- a satisfactory system of control has not been maintained over transactions; or
- the parent Association financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of board member and or directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of the board

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

In preparing the financial statements, the board are responsible for assessing the Group and the Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the board either intend to liquidate the Group or the Association or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

BDO LLP
Statutory Auditor
Gatwick
Date:

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated and Association statement of comprehensive income for the year ended 31 December 2017

	Note	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Turnover	4	50,284	46,665	49,564	45,967
Cost of sales	4	(2,655)	(1,828)	(2,655)	(1,828)
Operating costs	4	(29,687)	(27,189)	(28,981)	(26,510)
Surplus on disposal of housing properties	4, 11	1,288	762	1,288	762
Operating surplus	4,7	19,230	18,410	19,216	18,391
Movement in fair value of investment properties	18	(125)	-	(125)	-
Operating surplus after fair value adjustment		19,105	18,410	19,091	18,391
Surplus on disposal of other fixed assets	11	2	43	2	43
Other interest receivable and similar income	12	103	60	103	60
Interest and financing costs	13	(7,518)	(6,606)	(7,518)	(6,606)
Surplus before taxation		11,692	11,907	11,678	11,888
Taxation on surplus	14	-	-	-	-
Surplus for the financial year		11,692	11,907	11,678	11,888
Actuarial gain/(loss) on defined benefit pension scheme	28	3,468	(7,851)	3,468	(7,851)
Total comprehensive income for year		15,160	4,056	15,146	4,037

The notes on pages 36 to 84 form part of these financial statements.

All activities relate to continuing operations.

Consolidated and Association balance sheets at 31 December 2017

	Note	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Fixed assets					
Tangible fixed assets – housing properties	15	534,392	517,320	534,392	517,320
Tangible fixed assets - other	16	2,864	3,220	2,837	3,172
Investment properties	18	6,500	6,625	6,500	6,625
		543,756	527,165	543,729	527,117
Current assets					
Properties for sale	19	6,951	3,822	6,951	3,822
Stock		93	153	78	137
Debtors – receivable within one year	20	36,828	2,015	36,728	1,901
Debtors – receivable after one year	20	3,288	251	3,288	251
Cash and cash equivalents	21	32,710	19,925	32,491	19,756
		79,870	26,166	79,536	25,867
Creditors: amounts falling due within one year	22	(8,459)	(6,419)	(8,395)	(6,355)
Net current assets		71,411	19,747	71,141	19,512
Total assets less current liabilities		615,167	546,912	614,870	546,629
Creditors: amounts falling due after more than one year	23	(339,131)	(283,238)	(339,131)	(283,238)
Net assets excluding pension liability		276,036	263,674	275,739	263,391
Pension liability	28	(9,822)	(12,620)	(9,822)	(12,620)
Net assets		266,214	251,054	265,917	250,771
Capital and reserves					
Called up share capital	29	-	-	-	-
Income and expenditure reserve		101,550	82,491	101,309	82,275
Revaluation reserve		164,608	168,496	164,608	168,496
Restricted reserve		56	67	-	-
		266,214	251,054	265,917	250,771

The financial statements were approved by the board of directors and authorised for issue on 2 May 2018 and signed on their behalf by:

C Wilby, Chair of Board

The notes on pages 36 to 84 form part of these financial statements.

West Kent Housing Association
Consolidated statement of changes in reserves

	Income and expenditure reserve	Restricted reserve	Revaluation reserve	Total
	£'000	£'000	£'000	£'000
Balance at 1 January 2017	82,491	67	168,496	251,054
Surplus for the year	11,696	(4)	-	11,692
Actuarial losses on defined benefit pension scheme	3,468	-	-	3,468
Reserves transfers:				
Transfer from revaluation reserve to income and expenditure reserve	3,888	-	(3,888)	-
Transfer of restricted expenditure from income and expenditure reserve	7	(7)	-	-
Balance at 31 December 2017	101,550	56	164,608	266,214
Balance at 1 January 2016	78,165	55	168,778	246,998
Surplus for the year	11,895	12	-	11,907
Actuarial gain on defined benefit pension scheme	(7,851)	-	-	(7,851)
Reserves transfers:				
Transfer from revaluation reserve to income and expenditure reserve	282	-	(282)	-
Transfer of restricted expenditure from income and expenditure reserve	-	-	-	-
Balance at 31 December 2016	82,491	67	168,496	251,054

West Kent Housing Association
Association statement of changes in reserves

	Income and expenditure reserve £'000	Revaluation reserve £'000	Total £'000
Balance at 1 January 2017	82,275	168,496	250,771
Surplus for the year	11,678	-	11,678
Actuarial losses on defined benefit pension scheme	3,468	-	3,468
Reserves transfers:			
Transfer from revaluation reserve to income and expenditure reserve	3,888	(3,888)	-
Balance at 31 December 2017	101,309	164,608	265,917
Balance at 1 January 2016	77,956	168,778	246,734
Surplus for the year	11,888	-	11,888
Actuarial gain on defined benefit pension scheme	(7,851)	-	(7,851)
Reserves transfers:			
Transfer from revaluation reserve to income and expenditure reserve	282	(282)	-
Balance at 31 December 2016	82,275	168,496	250,771

Consolidated statement of cash flows for the year ended 31 December 2017

	Note	2017	2016
		£'000	£'000
Cash flows from operating activities			
Surplus for the financial year		11,692	11,907
Adjustments for:			
Depreciation of fixed assets - housing properties	15	5,282	5,044
Depreciation of other fixed assets	16	673	695
Amortised grant	5	(956)	(958)
Difference in fair value of investment properties	18	125	-
Interest payable and finance costs	13	7,518	6,606
Interest received	12	(103)	(60)
Difference between net pension expense and cash contribution	28	670	27
Disposal cost of sales - housing properties	11	1,984	2,058
Surplus on the sale of other fixed assets	11	(2)	(43)
Increase in trade and other debtors		(1,857)	(289)
Decrease in stocks		(3,069)	(2,831)
Increase in trade and other creditors		620	1,013
Decrease in provisions		-	(278)
Cash from operations		22,577	22,891
Taxation paid		-	-
Net cash generated from operating activities		22,577	22,891
Cash flows from investing activities			
Proceeds from sale of other fixed assets	11	9	52
Purchase of fixed assets – housing properties	15	(22,480)	(21,213)
Purchases of other fixed assets	16	(324)	(594)
Receipt of grant	24	1,402	659
Interest received	12	103	60
Loans redeemed	20	1	5
Net cash from investing activities		(21,289)	(21,031)
Cash flows from financing activities			
Interest paid	13	(8,224)	(6,570)
Capital element of lease revalued/(repaid)		943	-
New loans - bank	27	20,914	-
Debt issue costs incurred	26	(886)	(43)
Repayment of bank loans	26	(1,250)	(1,000)
Net cash used in financing activities		11,497	(7,613)
Net increase in cash and cash equivalents		12,785	(5,753)
Cash and cash equivalents at beginning of year		19,925	25,678
Cash and cash equivalents at end of year		32,710	19,925

The notes on page 36 to 84 form part of these financial statements.

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General notes

Statement of comprehensive income related notes

Balance sheet related notes

1 Legal status

West Kent Housing Association (the group) consists of West Kent Housing Association (the association), West Kent Extra Limited (WKE) and West Kent Ventures Limited (WKV).

The association is registered with the Financial Conduct Authority under the Co-operative and Community Benefit Societies Act 2014 and is registered with the Regulator of Social Housing as a social housing provider. The association is a public benefit entity.

West Kent Extra Limited is a registered charity that runs community development and social enterprise projects to help to create more inclusive neighbourhoods. West Kent Housing Association financially supports West Kent Extra Limited to ensure that people living in the areas where we work have a voice that is heard and to which we respond. Since West Kent Housing Association controls the board of West Kent Extra Limited it is classified as a subsidiary undertaking.

West Kent Ventures Limited is a wholly owned commercial subsidiary that is currently dormant.

All group entities are incorporated in the United Kingdom.

2 Accounting policies

2.1 Basis of accounting

The financial statements of the group and association have been prepared in accordance with applicable law and UK accounting standards (United Kingdom Generally Accepted Accounting Practice), which for West Kent Housing Association includes the Co-operative and Community Benefit Societies Act 2014 (and related group accounts regulations), the Housing and Regeneration Act 2008, FRS 102 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland', the Statement of Recommended Practice (SORP) for Registered Social Housing Providers 2014 'Accounting by registered social housing providers' 2014 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires group management to exercise judgement in applying the group's accounting policies.

The accounts are prepared under the historic cost basis except for the modification to a fair value basis for investment properties.

The group's board determined that the functional and presentational currency of all its entities is pound sterling.

In preparing the separate financial statements of the parent entity, advantage has been taken of the following disclosure exemptions available in FRS 102:

- Only one reconciliation of the number of shares outstanding at the beginning and end of the period has been presented as the reconciliations for the group and the parent would be identical;
- No cash flow statement has been presented for the parent;
- Disclosures in respect of the parent's financial instruments have not been presented as equivalent disclosures have been provided in respect of the group as a whole;
- No disclosure has been given for the aggregate remuneration of the key management personnel of the parent as their remuneration is included in the totals for the group as a whole.

The following principal accounting policies have been applied:

2.2 Basis of consolidation

The consolidated financial statements present the results of West Kent Housing Association and its subsidiaries ("the group") as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full. The group has the right to remove the board of West Kent Extra Limited and West Kent Ventures Limited and therefore exercises control.

2.3 Going concern

After making enquiries and reviewing the financial plan, the board has a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason it continues to adopt the going concern basis in the financial statements.

2.4 Joint ventures

West Kent participates in a joint arrangement, Ink Development Company Limited (Ink), which is a building contractor completing design and build services in South East England solely for the members of the joint arrangement. West Kent holds one of three £1 shares in Ink and appoints two of seven board members.

The equity method of accounting has been adopted and therefore the initial investment of £1 has been adjusted by West Kent's share of the profits or loss and other comprehensive income and equity of Ink. West Kent's share of profits to the comprehensive income to date is £16k, which is not material and therefore has not been presented in the accounts.

2.5 Investment in subsidiaries

Investment in subsidiaries is accounted for at cost less impairment in the association's financial statements.

2.6 Income

Income is measured at the fair value of the consideration received or receivable. The group generates the following material income streams:

- Rental income receivable (after deducting lost rent from void properties available for letting)
- First tranche sales of Low Cost Home Ownership housing properties developed for sale
- Service charges receivable
- Proceeds from the sale of land and property

Rental income and service charges are recognised from the point when properties under development reach practical completion and are formally let. Income from first tranche sales and sales of properties are recognised at the point of legal completion of the sale.

In addition to the association directly managing our properties, the association owns properties in respect of some supported housing which are run by outside agencies. A management fee is received from the managing agents and any charges incurred by the association were recharged to the managing agent.

2.7 Support grant income

The group receives support grants from Kent County Council and Medway Unitary Authority. The grants received in the period, as well as costs incurred by the group in the provision of support services, have been included in the Statement of comprehensive income. Any excess of cost over the grant received is borne by the group where it is not recoverable from tenants.

2.8 Service charges

The group adopts the variable method for calculating and charging service charges to its tenants and leaseholders. Expenditure is recorded when a service is provided and charged to the relevant service charge account or to a sinking fund. Income is recorded based on the estimated amounts chargeable.

2.9 Management of units owned by others

Management fees receivable and reimbursed expenses are shown as income and included in management fees receivable. Costs of carrying out the management contracts and rechargeable expenses are included in operating costs.

2.10 Schemes managed by agents

Income is shown as rent receivable and management fees payable to agents are included in operating costs.

2.11 Current and deferred taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in income and expenditure, except that a change attributable to an item of income or expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company's subsidiaries operate and generate taxable income.

Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

The association and West Kent Extra Limited have charitable status and therefore are not subject to Capital Gains Tax or Corporation Tax on surpluses derived from charitable activities.

West Kent Ventures Limited's (currently dormant) profit is subject to Corporation Tax.

2.12 Value Added Tax

The group charges Value Added Tax (VAT) on some of its income and is able to recover part of the VAT it incurs on expenditure. The financial statements include VAT to the extent that it is suffered by the group and not recoverable from HM Revenue and Customs. Recoverable VAT arises from partially exempt activities and is credited to the Statement of Comprehensive Income. The balance of VAT payable or recoverable at the year-end is included as a current liability or asset.

West Kent Ventures Limited is a commercial company and is separately registered for VAT. Its activities are fully VAT recoverable.

2.13 Finance costs

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

2.14 Pension costs

A defined contribution plan is a post-employment benefit plan under which the group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are shown as an operating expense in the surplus for the year during which the services are rendered by employees.

The group participates in a multi-employer defined benefit scheme as an admitted body in the Kent County Council Local Government Pension Scheme.

The difference between the fair value of the assets held in the group's defined benefit pension scheme and the scheme's liabilities measured on an actuarial basis using the projected unit method are recognised in the group's balance sheet as a pension asset or liability as appropriate. The carrying value of any resulting pension scheme asset is restricted to the extent that the group is able to recover the surplus either through reduced contributions in the future or through refunds from the scheme.

The current service cost and costs from settlements and curtailments are charged to income and expenditure. Past service costs are recognised in the current reporting period. Interest is calculated on the net defined benefit liability. Remeasurements are reported in other comprehensive income.

2.15 Holiday pay accrual

A liability is recognised to the extent of any unused holiday pay entitlement which has accrued at the balance sheet date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the balance sheet date.

2.16 Termination benefits

Termination benefits are recognised as an expense when the group is demonstrably committed, without realistic possibility of withdrawal to a formal detailed plan to terminate employment.

2.17 Tangible fixed assets - housing properties

Housing properties constructed or acquired (including land) on the open market since the date of transition to FRS 102 are stated at cost less depreciation and impairment (where applicable).

The cost of housing land and property includes the cost of acquiring land and buildings, development costs, interest capitalised during the development period, directly attributable administration costs and expenditure incurred in respect of improvements that comprise the modernisation and extension of existing properties.

Directly attributable administration costs include capitalised interest calculated, on a proportional basis, using finance costs on borrowing that has been drawn in order to finance the relevant construction or acquisition. Where housing properties are in the course of construction, finance costs are only capitalised where construction is on-going and has not been interrupted or terminated.

Expenditure on major refurbishment to properties is capitalised where the works increase the net rental stream over the life of the property. An increase in the net rental stream may arise through an increase in the net rental income, a reduction in future maintenance costs, or a subsequent extension in the life of the property. All other repair and replacement expenditure is charged to the Statement of Comprehensive Income.

Mixed developments housing properties are held within fixed assets and accounted for at cost less depreciation; commercial elements of mixed developments are held as investment properties.

Housing properties in the course of construction, excluding the estimated cost of the element of shared ownership properties expected to be sold in first tranche, are included in fixed assets – housing properties and held at cost less any impairment, and are transferred to completed properties when ready for letting.

Surplus and deficit on disposals of housing properties are determined by comparing the proceeds with the carrying amount and incidental costs of sales and recognised within surplus/deficit on disposal of fixed assets in the statement of comprehensive income. Shared ownership and right to buy disposals of fixed assets are included in operating surplus/deficit as they are part of West Kent's normal operating activities. Other disposals of fixed assets are included after operating surplus.

Expenditure on schemes that are subsequently aborted is written off in the period in which it is recognised that the scheme will not be developed to completion.

2.18 Deemed cost on transition to FRS 102

West Kent changed its accounting policy in 2014 from recording housing properties at valuation to being at historic cost. West Kent took the transition option under FRS102 to elect to measure some items of property plant and equipment at fair value and use that fair value as the deemed cost of those assets at that date.

A revaluation reserve was recognised, with the difference between historic cost depreciation and depreciation calculated on deemed cost transferred between the revaluation reserve and income and expenditure reserve.

Properties initially purchased by West Kent as part of the large scale voluntary transfer from Sevenoaks District Council are recognised in tangible fixed assets – housing properties at fair value using existing use value – social housing (EUV-SH) valuation. All other housing properties will be recognised in tangible fixed assets – housing properties at historic cost.

Housing properties are split between the land, structure and those major components that require periodic replacement. Replacement or restoration of such major components is capitalised and depreciated over the average estimated useful life, which has been set taking into account professional advice, the group’s asset management strategy and the requirements of the Decent Homes Standard.

2.19 Depreciation of housing properties

Housing land and property is split between the land, structure and other major components that are expected to require replacement over time with substantially different economic lives.

Land is not depreciated on account of its indefinite useful economic life.

Housing properties are split between the structure and the major components that require periodic replacement. The costs of replacement or restoration of these components are capitalised and depreciated over the determined average useful economic life on a straight line basis as follows:

Description	**Economic useful life (years)**
Structure	100
Roof	50
Windows	30
Doors	25
Boilers	15
Central Heating System	15
Kitchens	20
Bathrooms	30
Systems / Electrics	30

Other Heating	15
Lifts	20
Other scheme fixed assets	5-30

The portion of shared ownership property retained or expected to be retained is not depreciated on account of the high residual value. Neither the depreciable amount nor the expected annual depreciation charge for such assets is considered material, individually or in aggregate.

Assets in the course of construction are not depreciated until they are completed and ready for use to ensure that they are depreciated only in periods in which economic benefits are expected to be consumed.

Leasehold properties are depreciated over the term of the lease.

Any difference between the historic annual depreciation charge and the annual depreciation charge on assets carried at deemed cost is transferred to the revaluation reserve for the asset concerned until that reserve is depleted.

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since the last reporting date in the pattern by which the group expects to consume an asset's future economic benefit.

2.20 Shared ownership properties and staircasing

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

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

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

2.21 Tangible fixed assets - other

Other tangible fixed assets, other than investment properties, are stated at historic cost less accumulated depreciation and any accumulated impairment losses. Historic cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The group adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the group. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

2.22 Depreciation of other tangible fixed assets

Land is not depreciated. Depreciation on other assets is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method. The estimated useful lives range as follows:

Description	Economic useful life (years)
Freehold buildings	50
Furniture and equipment	5
Fixtures and fittings	5-25
Computer equipment	5
Motor vehicles	3-5

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'surplus on disposal of fixed assets' in the statement of comprehensive income.

2.23 Government grants

Capital grants received in advance of scheme completion are held in grant in advance until completed, then transferred to deferred capital grant.

Grants received in relation to assets that are presented at deemed cost at the date of transition have been accounted for using the performance model as required by Housing SORP 2014. In applying this model, such grant has been presented as if it were originally recognised as income within the Statement of Comprehensive Income in the year it was receivable and is therefore included within brought forward reserves.

Grants received in relation to assets that are presented at historic cost at the date of transition and grant received since the transition date in relation to newly acquired or existing housing properties is accounted for using the accrual model set out in FRS 102 and the Housing SORP 2014. Grant is carried as deferred income in the balance sheet and released to the income and expenditure account on a systematic basis over the useful economic lives of the asset for which it was received. In accordance with Housing SORP 2014 the useful economic life of the housing property structure has been selected (see table of economic useful lives above).

Where social housing grant (SHG) funded property is sold, the grant becomes recyclable and is transferred to a recycled capital grant fund until it is reinvested in a replacement property. If there is no requirement to recycle or repay the grant on disposal of the assets, any unamortised grant remaining within creditors is released and recognised as income within the income and expenditure account.

Grants relating to revenue are recognised in income and expenditure over the same period as the expenditure to which they relate once performance related conditions have been met.

Grants due from government organisations or received in advance are included as current assets or liabilities.

2.24 Recycled capital grant fund

On the occurrence of certain relevant events, primarily the sale of dwellings, Homes England can direct the association to recycle capital grants or to make repayments of the recoverable amount. The group adopts a policy of recycling, for which a separate fund is maintained. If unused within a three-year period, it will be repayable to Homes England with interest. Any unused recycled capital grant held within the recycled capital grant fund, which it is anticipated will not be used within one year is disclosed in the balance sheet under 'creditors due after more than one year'. The remainder is disclosed under 'creditors due within one year'.

2.25 Disposal proceeds fund

Receipts from Right to Acquire (RTA) sales are required to be retained in a ring-fenced fund that can only be used for providing replacement housing. The sales receipts less eligible expenses are credited to the disposal proceeds fund. Any sales receipts less eligible expenses held within the disposal proceeds fund, which it is anticipated will not be used within one year is disclosed in the balance sheet under 'creditors due after more than one year'. The remainder is disclosed under 'creditors due within one year'.

2.26 Investment properties

Investment properties consist of commercial properties and other properties not held for social benefit or for use in the business. They are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are measured at cost on initial recognition and subsequently carried at fair value determined annually by external valuers and derived from the current market rents and investment property yields for comparable real estate, adjusted if necessary for any difference in the nature, location or condition of the specific asset. No depreciation is provided. Changes in fair value are recognised in Statement of comprehensive income. Rental income from these properties is taken to revenue.

2.27 Impairment of fixed assets

The housing property portfolio for the group is assessed for indicators of impairment at each balance sheet date. Where indicators are identified then a detailed assessment is undertaken to compare the carrying amount of assets or cash generating units for which impairment is indicated to their recoverable amounts. An option appraisal is carried out to determine the option that produces the highest net realisable value. Valuations on rental return or potential sale proceeds are obtained and used to inform the options. The group looks at the net realisable value, under the options available, when considering the recoverable amount for the purposes of impairment assessment. The recoverable amount is taken to be the higher of the fair value less costs to sell or value in use of an asset or cash generating unit. The assessment of value in use may involve considerations of the service potential of the assets or cash generating units concerned or the present value of future cash flows to be derived from them appropriately adjusted to account for any restrictions on their use.

The group defines cash generating units as schemes except where its schemes are not sufficiently large enough in size or where it is geographically sensible to group schemes into larger cash generating units. Where the recoverable amount of an asset or cash generating unit is lower than its carrying value impairment is recorded through a charge to income and expenditure.

2.28 Properties for sale

Properties for sale represents the first tranche proportion of shared ownership properties under construction or completed and held for sale. Stock is stated at the lower of cost and net realisable value, cost comprises of a proportion of the development construction cost.

2.29 Stock

Stock is cost of materials stated at the lower of cost and net realisable value.

2.30 Debtors and creditors

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded initially at transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest rate method, less any impairment losses. Any losses arising from impairment are recognised in the income statement in other operating expenses.

2.31 Recoverable amount of rental and other trade receivables

The group estimates the recoverable value of rental and other receivables and impairs the debtor by appropriate amounts.

2.32 Rent and service charge agreements

The group has made arrangements with individuals and households for arrears payments of rent and service charges. These arrangements are effectively loans granted at nil interest rate.

2.33 Loans, Investments and short term deposits

All loans, investments and short term deposits held by the group have been assessed as meeting the definition of basic financial instruments as set out in FRS 102. FRS 102 requires that basic financial instruments are subsequently measured at amortised cost using the effective interest rate method, less any impairment losses, however as the difference between this and historic cost method is not materially different, these instruments are initially recorded at the transaction price less any transaction costs (historic cost). Loans and investments that are payable or receivable within one year are not discounted.

2.34 Financial liabilities and equity

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form.

2.35 Cash and cash equivalents

Cash and cash equivalents in the group’s Consolidated Statement of Financial Position consists of cash at bank, in hand, deposits and short term investments with an original maturity of three months or less.

2.36 Leased assets: Lessee

Where assets are financed by leasing agreements that give rights approximately to ownership (finance leases), the assets are treated as if they have been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to profit or loss over the shorter of estimated useful economic life and the term of the lease.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to profit or loss over the term of the lease and is calculated so that it represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

All other leases are treated as operating leases. Their annual rentals are charged to profit or loss on a straight-line basis over the term of the lease.

2.37 Leasehold sinking funds

Unexpended amounts collected from leaseholders for major repairs and cyclical decorations on leasehold schemes and any interest received are included in creditors.

2.38 Provision for liabilities

Provisions are measured at the best estimate of the expenditure required to settle the obligation at the balance sheet date.

Where the effect of the time value of money is material the amount expected to be required to settle the obligation is recognised at the present value using a discount rate. The unwinding of the discount is recognised as a finance cost in income and expenditure in the period it arises.

2.39 Contingent liabilities

A contingent liability is recognised for a possible obligation, for which it is not yet confirmed that a present obligation exists that could lead to an outflow of resources; or for a present obligation that does not meet the definitions of a provision or a liability as it is not probable that an outflow of resources will be required to settle the obligation or when a sufficiently reliable estimate of the amount cannot be made.

A contingent liability exists on grant repayment which is dependent on the disposal of related property.

2.40 Reserves

Income received, and expenditure incurred, for restricted purposes is separately accounted for within restricted funds. Realised and unrealised gains and losses on assets held by these funds are also allocated to the fund. All restricted funds are derived from West Kent Extra Limited.

The revaluation reserve is created from surpluses on asset revaluation.

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

3.1 Key judgements

In preparing these financial statements, key judgements have been made in respect of the following:

- The extent to which there have been indicators of impairment triggering the performance of an impairment review of the group's tangible and intangible assets. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and, where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit. The members have considered the measurement basis to determine the recoverable amount of assets where there are indicators of impairment based on EUV-SH or depreciated replacement cost. The members have also considered impairment on the basis of their assumptions of cash or asset generating units. Had management assessed cash generating units at different levels (e.g. as individual properties within a particular scheme) the conclusion on impairment may have been different. Management considered possible alternatives and determined the possible impacts to be immaterial to the financial statements.

- The anticipated costs to complete on a development scheme based on anticipated construction cost, effective rate of interest on loans during the construction period, legal costs and other costs. Based on the costs to complete, management then determine the recoverability of the cost of properties developed for outright sale and/or land held for sale. This judgement is also based on the member's best estimate of sales value based on economic conditions within the area of development.

- The critical underlying assumptions in relation to the estimate of the pension defined benefit scheme obligation such as standard rates of inflation, mortality, discount rate and anticipated future salary increases. Variations in these assumptions have the ability to significantly influence the value of the liability recorded and annual defined benefit expense.

- Whether leases entered into by the group either as a lessor or a lessee are operating lease or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.

- Whether the Kent Excellent Homes for All – Private Finance Initiative should be treated as a finance lease. In considering this project an assessment of Section 34 'Service concessions' of FRS 102 was conducted. A service concession arrangement is an arrangement whereby a public sector body, or a public benefit entity (the grantor) contracts with a private sector entity (the operator) to construct (or upgrade), operate and maintain infrastructure assets for a specified period of time (concession period). The operator is paid for its services over the period of the arrangement. Kent County Council and West Kent could be deemed to be the public sector body and public benefit entity respectively. The agreement sees West Kent making regular payments to the Special Purpose Vehicle to operate and maintain the assets for the period to 31 December 2040. A significant judgement has been made that due to the arrangements in place and the risks West Kent takes on in this arrangement West Kent is the grantor in this relationship.

- The extent to which garages owned by West Kent are treated as investment properties. These assets are let on a commercial basis, both in terms of price and customer base. They are valued in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Manual, using a widely recognised specialist valuer and property advisor in the social housing sector. A key judgement has been made on the valuation.

- The appropriate allocation of costs for mixed tenure developments, and furthermore the allocation of costs relating to shared ownership between current and fixed assets.

- The categorisation of housing properties as investment properties or property, plant and equipment based on the use of the asset.

3.2 Other key sources of estimation uncertainty

- Tangible fixed assets (see note 15 and 16)
  Tangible fixed assets, other than investment properties, are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as major repairs profile, ability to let the property and alternative options for the site are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

  For housing property assets, the assets are broken down into components based on management's assessment of the properties. Individual useful economic lives are assigned to these components.

  In assessing impairment of assets an estimate of current new build property build costs is applied, depreciation is calculated based on the age of the existing property to arrive at a depreciated replacement cost.

- Allocation of costs for mixed tenure and shared ownership developments (see note 15)
  Costs are allocated to the appropriate tenure where it is possible to specify which tenure the expense relates to. Where it is not possible to relate costs to a specific tenure costs are allocated on a floor area or unit basis depending on the appropriateness for each scheme.

- Rental and other trade receivables (debtors) (see note 20)
  The estimate for receivables relates to the recoverability of the balances outstanding at year end. A review is performed on an individual debtor basis to consider whether each debt is recoverable.

- Future payments under the Kent Excellent Homes for All –finance lease
  The finance lease sees West Kent making regular payments to the Special Purpose Vehicle to operate and maintain the assets for the period to 31 December 2040. Management's estimate of the future payments is based on a

critical underlying assumptions on inflation. Variation in these assumptions may significantly impact the obligations in the finance lease payments.

- Revenue recognition around particular contracts – ie Supporting People
  Charges for services provided and Supporting People income are recognised as income when the group has provided the service concerned. Grants made as contributions to revenue expenditure are credited to income in the period in which the related expenditure is incurred.

- Defined benefit pension obligations
  Defined benefit obligation is based on several critical underlying assumptions such as standard rates of inflation, mortality, discount rate and anticipation of future salary increases. Variation in these assumptions may significantly impact the defined benefit obligation amount and the annual defined benefit expenses.

4 Particulars of turnover, cost of sales, operating costs, surplus on disposal of fixed assets and operating surplus - Group

	Turnover	Cost of sales	Operating costs	Surplus on disposal of fixed assets	Operating surplus/ (deficit)	Turnover	Cost of sales	Operating costs	Surplus on disposal of fixed assets	Operating surplus/ (deficit)
	2017	2017	2017	2017	2017	2016	2016	2016	2016	2016
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Social housing lettings (Note 5)	44,383	-	(26,242)	-	**18,141**	41,794	-	(24,272)	-	**17,522**
Other social housing activities										
First tranche low cost home ownership sales	3,710	(2,655)	-	-	**1,055**	2,511	(1,828)	-	-	**683**
Staircasing activity on low cost home ownership (Note 11)	-	-	-	875	**875**	-	-	-	413	**413**
Sales of other housing properties (Note 11)	-	-	-	413	**413**	-	-	-	349	**349**
Charges for support services	253	-	(301)	-	**(48)**	244	-	(386)	-	**(142)**
Supporting people	471	-	(721)	-	**(250)**	656	-	(682)	-	**(26)**
Community engagement	720	-	(1,636)	-	**(916)**	698	-	(1,475)	-	**(777)**
Development costs not capitalised	-	-	(471)	-	**(471)**	-	-	(189)	-	**(189)**
Other	39	-	(73)	-	**(34)**	98	-	(65)	-	**33**
	49,576	(2,655)	(29,444)	1,288	**18,765**	46,001	(1,828)	(27,069)	762	**17,866**
Activities other than social housing activities										
Lettings - Garages	635	-	(243)	-	**392**	585	-	(120)	-	**465**
Other	73	-	-	-	**73**	79	-	-	-	**79**
	708	-	(243)	-	**465**	664	-	(120)	-	**544**
	50,284	(2,655)	(29,687)	1,288	**19,230**	46,665	(1,828)	(27,189)	762	**18,410**

4 Particulars of turnover, cost of sales, operating costs, surplus on disposal of fixed assets and operating surplus - Association

	Turnover	Cost of sales	Operating costs	Surplus on disposal of fixed assets	Operating surplus/ (deficit)	Turnover	Cost of sales	Operating costs	Surplus on disposal of fixed assets	Operating surplus/ (deficit)
	2017	**2017**	**2017**	**2017**	**2017**	**2016**	**2016**	**2016**	**2016**	**2016**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Social housing lettings (Note 5)	44,383	-	(26,242)	-	**18,141**	41,794	-	(24,272)	-	**17,522**
Other social housing activities										
First tranche low cost home ownership sales	3,710	(2,655)	-	-	**1,055**	2,511	(1,828)	-	-	**683**
Staircasing activity on low cost home ownership (Note 11)	-	-	-	875	**875**	-	-	-	413	**413**
Sales of other housing properties (Note 11)	-	-	-	413	**413**	-	-	-	349	**349**
Charges for support services	253	-	(301)	-	**(48)**	244	-	(386)	-	**(142)**
Supporting people	471	-	(721)	-	**(250)**	656	-	(682)	-	**(26)**
Community engagement	-	-	(930)	-	**(930)**	-	-	(796)	-	**(796)**
Development costs not capitalised	-	-	(471)	-	**(471)**	-	-	(189)	-	**(189)**
Other	39	-	(73)	-	**(34)**	98	-	(65)	-	**33**
	48,856	(2,655)	(28,738)	1,288	**18,751**	45,303	(1,828)	(26,390)	762	**17,847**
Activities other than social housing activities										
Lettings - Garages	635	-	(243)	-	**392**	585	-	(120)	-	**465**
Other	73	-	-	-	**73**	79	-	-	-	**79**
	708	-	(243)	-	**465**	664	-	(120)	-	**544**
	49,564	(2,655)	(28,981)	1,288	**19,216**	45,967	(1,828)	(26,510)	762	**18,391**

5 Income and expenditure from social housing lettings - Group and Association

	General needs	Supported housing	Kent Excellent Homes for All	Low cost home ownership	Leasehold	Total	Total
	2017	2017	2017	2017	2017	2017	2016
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Turnover from social housing lettings							
Rents net of identifiable service charges	30,125	4,871	2,866	1,762	1	39,625	37,609
Service charge income	1,052	1,543	714	238	60	3,607	2,942
Net rental income	31,177	6,414	3,580	2,000	61	43,232	40,551
Amortised government grants	764	111	-	81	-	956	958
Other grants	148	47	-	-	-	195	285
Turnover from social housing lettings	32,089	6,572	3,580	2,081	61	44,383	41,794
Operating costs on social housing lettings							
Management	(2,935)	(541)	(131)	(262)	(92)	(3,961)	(3,797)
Service charge costs	(1,803)	(1,576)	(222)	(294)	(72)	(3,967)	(3,895)
Routine maintenance	(3,104)	(594)	(1)	-	-	(3,699)	(5,214)
Planned maintenance	(5,395)	(1,024)	(3)	-	-	(6,422)	(5,597)
Major repairs	(384)	(178)	-	-	-	(562)	(23)
Kent Excellent Homes for All operating service agreement	-	-	(1,934)	-	-	(1,934)	(517)
Bad debts	(342)	(18)	(9)	(2)	-	(371)	(141)
Depreciation of housing properties:							
- annual charge	(4,254)	(726)	(126)	-	-	(5,106)	(4,885)
- accelerated on disposal of components	(91)	(85)	-	-	-	(176)	(159)
Other costs	(13)	(31)	-	-	-	(44)	(44)
Operating costs on social housing lettings	(18,321)	(4,773)	(2,426)	(558)	(164)	(26,242)	(24,272)
Operating surplus/(deficit) on social housing lettings	13,768	1,799	1,154	1,523	(103)	18,141	17,522
Void losses	(202)	(66)	(80)	(9)	-	(357)	(477)

6 Units of housing stock

	Group 2017 Number	Group 2016 Number	Association 2017 Number	Association 2016 Number
General needs housing:				
- social	4,861	4,865	4,861	4,865
- affordable	492	443	492	443
Housing for older people:				
- social	852	868	852	868
- affordable	39	41	39	41
- Kent Excellent Homes for All	218	218	218	218
Supported housing:				
- social	46	38	46	38
- Kent Excellent Homes for All	20	20	20	20
Intermediate rent	34	35	34	35
Low cost home ownership	480	442	480	442
Total owned and managed accommodation	7,042	6,970	7,042	6,970
Units managed by others	3	4	3	4
Total owned and/or managed social housing units	7,045	6,974	7,045	6,974
Leaseholders	174	170	174	170
Units under construction	275	299	275	299

7 Operating surplus

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
This is arrived at after charging/(crediting):				
Depreciation of housing properties:				
- annual charge	5,106	4,885	5,106	4,885
- accelerated depreciation on replaced components	176	159	176	159
Depreciation of other tangible fixed assets	673	678	659	678
Operating lease charges – land & building	58	58	38	58
Leasing income	(1,624)	(1,504)	(1,624)	(1,504)
Auditors' remuneration (excluding VAT):				
- fees payable to the group's auditor for the audit of the group's annual accounts	38	44	38	44
- fees for audit of accounts of subsidiary entities	7	6	-	-
- fees for other non-audit services	-	-	-	-
Defined benefit pension cost (Note 28)	1,456	1,117	1,456	1,117
Defined contribution pension cost (Note 8)	165	113	165	113

8 Employees

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Staff costs (including executive management team) consist of:				
Wages and salaries	7,488	7,452	7,488	7,452
Social security costs	715	675	715	675
Cost of defined benefit pension scheme (Note 28)	1,456	1,117	1,456	1,117
Cost of defined contribution scheme	165	113	165	113
Less amounts recharged to group entities	-	-	(721)	(685)
	9,824	9,357	9,103	8,672

The average number of employees (including executive management team) expressed as full time equivalents (FTE), calculated based on a standard working week of 37 hours, during the year was as follows:

	Group 2017 FTE	Group 2016 FTE	Association 2017 FTE	Association 2016 FTE
Administration	40	37	40	37
Development	6	7	6	7
Housing, Support and Care	193	187	193	187
	239	231	239	231

A defined contribution pension scheme is operated by the group on behalf of the employees. The assets of the scheme are held separately from those of the group in an independently administered fund. The pension charge represents contributions payable by the group to the fund and amounted to £165,145 (2016 - £113,374). No contributions (2016 - £nil) were outstanding for the fund at the year end.

9 Directors' and senior executive remuneration

The key management personnel are defined as the members of the board of management, the chief executive and the executive management team disclosed on page 27.

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Executive directors' emoluments	608	601	608	601
Amounts paid to non-executive directors	69	67	69	67
	677	668	677	668

The total amount payable to the chief executive, who was also the highest paid director in respect of emoluments was £122,834 (2016 - £121,335). As a member of the Kent County Council local government pension scheme (KCC LGPS), the pension entitlement of the chief executive is identical to those of other members. No enhanced or special terms apply.

There were five directors in the KCC LGPS scheme (2016 - five) and no directors in the group's defined contribution pension scheme (2016 - Nil).

The remuneration paid to staff (including executive management team) earning over £60,000 upwards:

	Group 2017 Number	Group 2016 Number	Association 2017 Number	Association 2016 Number
£60,000 - £69,999	1	3	1	3
£70,000 - £79,999	2	1	2	1
£80,000 - £89,999	1	1	1	1
£90,000 - £99,999	2	2	2	2
£100,000 - £109,999	-	-	-	-
£110,000 - £119,999	-	-	-	-
£120,000 - £129,999	1	1	1	1
	7	8	7	8

10 Board members

Board members	Remuneration £	Member of: Group Board	Audit and Finance	Communities and housing	Remuneration
Judith Collings	6,068	X	X		
Frank Czarnowski (Chief executive)	122,834	X		X	
Joanne Frawley (Vice chair)	6,068	X		X	X
Angela George	6,068	X		X	
Dave Hill	6,068	X	X		
Brian Horton	6,068	X		X	
Peter Kasch	6,068	X	X		
James MacQuarrie (resigned 15 June 2017)	3,023				
Caroline Phillips	6,068	X	X		
Rosie Serpis	6,068	X		X	X
Dr Joanne Simpson (appointed 1 February 2017)	5,568	X		X	
Colin Wilby (Chair)	11,632	X	X	X	X

11 Surplus on disposal of fixed assets

Group and Association	Shared ownership 2017 £'000	Other housing properties 2017 £'000	Other 2017 £'000	Total 2017 £'000
Housing properties:				
Disposal proceeds	2,421	863	2	3,286
Cost of disposals	(1,222)	(279)	-	(1,501)
Grant recycled on disposal	(315)	(168)	-	(483)
Selling costs	(9)	(3)	-	(12)
Surplus on disposal of fixed assets	875	413	2	1,290

Group and Association	Shared ownership 2016 £'000	Other housing properties 2016 £'000	Other 2016 £'000	Total 2016 £'000
Housing properties:				
Disposal proceeds	1,453	1,380	43	2,876
Cost of disposals	(863)	(1,005)	-	(1,868)
Grant recycled on disposal	(168)	(23)	-	(191)
Selling costs	(9)	(3)	-	(12)
Surplus on disposal of fixed assets	413	349	43	805

The surplus on sale of shared ownership and other housing properties are included in operating surplus as they are considered to be part of West Kent's normal operating activities. Disposals of other fixed assets are included after operating surplus.

12 Interest receivable and income from investments

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Interest receivable and similar income	103	60	103	60
	103	60	103	60

13 Interest payable and similar charges

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Bank loans and overdrafts	6,413	6,710	6,413	6,710
Finance leases	1,748	194	1,748	194
Net interest on net defined benefit liability	338	165	338	165
	8,499	7,069	8,499	7,069
Interest capitalised in construction costs of housing properties	(982)	(463)	(982)	(463)
	7,518	6,606	7,518	6,606

14 Taxation on surplus on ordinary activities

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
UK corporation tax				
Current tax on surplus/(defict) for the year	-	-	-	-
Adjustment in respect of previous periods	-	-	-	-
Tax on disposals of discontinued operations	-	-	-	-
Total current tax	-	-	-	-
Deferred tax				
Origination and reversal of timing differences	-	-	-	-
Changes to tax rates	-	-	-	-
	-	-	-	-
Taxation on surplus/(deficit) on ordinary activities	-	-	-	-

14 Taxation on surplus on ordinary activities (continued)

The tax assessed for the year differs to the standard rate of corporation tax in the UK applied to surplus before tax. The differences are explained below:

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Surplus on ordinary activities before tax	11,692	11,907	11,678	11,888
Surplus on ordinary activities at the standard rate of corporation tax in the UK of 20% (2016 - 20%)	2,338	2,381	2,336	2,378
Effects of:				
Charitable income	(2,338)	(2,381)	(2,336)	(2,378)
Total tax charge for period	-	-	-	-

The aggregate current and deferred tax relating to items recognised in other comprehensive income is a charge of £Nil (2016: £Nil).

Factors that may affect future tax charges

No provision has been made for deferred tax on gains recognised on revaluing property to its market value or on the sale of properties where potentially taxable gains have been rolled over into replacement assets. Such tax would become payable only if the property were sold without it being possible to claim rollover relief. The total un-provided amount is £Nil (2016 - £Nil). At present, it is not envisaged that any tax will become payable in the foreseeable future.

15 Tangible fixed assets - housing properties

Group and Association	General needs completed £'000	General needs under construction £'000	Shared ownership completed £'000	Shared ownership under construction £'000	Total £'000
Cost:					
At 1 January 2017	502,225	10,227	47,401	6,971	566,824
Additions:					
construction costs	-	12,620	-	8,685	21,305
replaced components	2,888	-	-	-	2,888
Completed schemes	9,324	(9,324)	6,162	(6,162)	-
Disposals:					
staircasing sales to 100%	-	-	(1,215)	-	(1,215)
staircasing sales partial	-	-	(289)	-	(289)
other sales	(374)	-	-	-	(374)
replaced components	(1,039)	-	-	-	(1,039)
At 31 December 2017	513,024	13,523	52,059	9,494	588,100
Depreciation:					
At 1 January 2017	(49,504)	-	-	-	(49,504)
Charge for the year	(5,282)	-	-	-	(5,282)
Eliminated on disposals:					
other sales	39	-	-	-	39
replaced components	1,039	-	-	-	1,039
At 31 December 2017	(53,708)	-	-	-	(53,708)
Net book value at 31 December 2017	459,316	13,523	52,059	9,494	534,392
Net book value at 31 December 2016	452,721	10,227	47,401	6,971	517,320

15 Tangible fixed assets - housing properties (continued)

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
The net book value of housing properties may be further analysed as:				
Freehold	495,615	478,153	495,615	478,153
Long leasehold	38,777	39,167	38,777	39,167
	534,392	517,320	534,392	517,320
Interest capitalisation				
Interest capitalised in the year	952	463	952	463
Rate used for capitalisation	4.2%	5.0%	4.2%	5.0%
Works to properties				
Improvements to existing properties capitalised	2	74	2	74
Major components replacement capitalised	2,888	2,648	2,888	2,648
Major repairs expenditure to income and expenditure account	562	23	562	23
	3,452	2,745	3,452	2,745
Total Social Housing Grant received or receivable to date is as follows:				
Deferred capital grant – Housing properties - general needs	78,500	78,206	78,500	78,206
Deferred capital grant – Housing properties - shared ownerships	7,298	7,489	7,298	7,489
Recycled capital grant fund	1,004	521	1,004	521
Disposals proceeds fund	-	-	-	-
Revenue grant – income and expenditure	956	958	956	958
Revenue grant – reserves	33,445	32,487	33,445	32,487
	121,203	119,661	121,203	119,661

15 Tangible fixed assets - housing properties (continued)

Finance leases

The net book value of housing properties for the group includes an amount of £21,424k (2016 - £21,550k) in respect of assets held under finance leases and hire purchase contracts.

Such assets are generally classified as finance leases as the rental period amounts to the estimated useful economic life of the assets concerned and often the group has the right to purchase the assets outright at the end of the minimum lease term by paying a nominal amount. The finance lease is from a Private Finance Initiative called Kent Excellent Homes for All. This is a contract between Kent County Council and Kent EHFA ProjectCo Limited. West Kent has concluded that it is the grantor due to the conditions it fulfills within the contracts. West Kent collects rents and service charges from its tenants. It pays the Kent EHFA ProjectCo an operating and construction services payments over the life of the contract. At the end of the contract West Kent is likely to purchase the assets outright.

Properties held for security

West Kent Housing Association had property with a net book value of £333m pledged as security at 31 December 2017 (2016 - £268m).

16 Other tangible fixed assets

Group	Office buildings £'000	Plant, machinery and vehicles £'000	Fixtures, fittings, tools and equipment £'000	Total £'000
Cost				
At 1 January 2017	2,423	4,669	1,342	8,434
Additions	-	324	-	324
Disposals	-	(82)	(7)	(89)
At 31 December 2017	2,423	4,911	1,335	8,669
Depreciation				
At 1 January 2017	(727)	(3,439)	(1,048)	(5,214)
Charge for year	(38)	(574)	(61)	(673)
Disposals	-	82	-	82
At 31 December 2017	(765)	(3,931)	(1,109)	(5,805)
Net book value				
At 31 December 2017	1,658	980	226	2,864
At 31 December 2016	1,696	1,230	294	3,220

Association	Office buildings £'000	Plant, machinery and vehicles £'000	Fixtures, fittings, tools and equipment £'000	Total £'000
Cost				
At 1 January 2017	2,423	4,613	1,282	8,318
Additions		324		324
Disposals		(82)		(82)
At 31 December 2017	2,423	4,855	1,282	8,560
Depreciation				
At 1 January 2017	(727)	(3,397)	(1,022)	(5,146)
Charge for year	(38)	(567)	(54)	(659)
Disposals		82		82
At 31 December 2017	(765)	(3,882)	(1,076)	(5,723)
Net book value				
At 31 December 2017	1,658	973	206	2,837
At 31 December 2016	1,696	1,216	260	3,172

16 Other tangible fixed assets (continued)

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
The net book value of office buildings may be further analysed as:				
Freehold	1,637	1,673	1,637	1,673
Short leasehold	21	23	21	23
	1,658	1,696	1,658	1,696

Finance leases

The company had no 'Other tangible fixed assets' held under such leases at either year end.

17 Fixed asset investments

Details of subsidiary undertakings, associated undertakings and other investments

The principal undertakings in which the association has an interest in are as follows:

Name	Accounting treatment	Country of incorporation or registration	Proportion of voting rights / ordinary share capital held	Nature of business	Nature of entity
Subsidiary undertakings					
West Kent Extra Limited (WKE)	Consolidated	England	100%	Provision of community support services	Registered charity
West Kent Ventures Limited (WKV)	Dormant	England	100%	Dormant commerical company	Incorporated company
Joint Ventures					
Ink Development Company Limited	Jointly controlled entity - Equity method	England	50%	Development company	Incorporated company

Ink Development Company Limited is a jointly controlled entity between Optivo (previously known as AmicusHorizon) and West Kent. The equity method of accounting has been adopted. West Kent’s equity investment was £1. The profits of Ink Development Company as at 31 December 2017 is calculated to be £32,755 (2016: £22,640). West Kent's share of the profits to date would be £16,378 (2016: £11,319). This has not been presented in the accounts as it is not deemed to be material.

18 Investment properties

Group and Association	Garage land £'000	Total £'000
Cost		
At 1 January 2017	6,625	6,625
Movements in fair value of investment	(125)	(125)
At 31 December 2017	6,500	6,500
Net book value at 31 December 2017	6,500	6,500
Net book value at 31 December 2016	6,625	6,625

The association owns garages which are clasified as investment properties and a valuation was performed in December 2017. The valuations were undertaken in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Manual. This valuation has been undertaken by Savill's Affordable Housing Division, a widely recognised specialist valuer and property advisor in the social housing sector. They act for many registered providers, all existing lenders, lawyers and rating agencies in the sector (without exception), and have driven a high proportion of Statutory Accounts valuations, Bond Issuances (and their revaluations) and a cross section of land/consultancy projects.

For the reporting period the valuation arrived at in December 2017 has been used.

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

Discount rate	9.0%
Catch up repairs	£250k per annum (Years 1-5)
Future maintenance	£25 per unit per annum (Year 6 onwards)
Management cost	£10 per unit per annum (All years)
Rent loss through voids	25%

Based on the valuation assumptions outlined above, the valuers are of the opinion that the Market Value of the 1,836 properties is £6,500k.

If investment property had been accounted for under the historic cost accounting rules, there would be no attributable costs or depreciation.

19 Properties for sale

Group and Association	2017 £'000	2016 £'000
First tranche shared ownership properties:		
Work in progress (Properties under construction)	5,891	3,753
Completed properties (Properties completed and unsold)	1,060	69
	6,951	3,822

Properties developed for sale include capitalised interest of £215,697 (2016 - £65,391).

20 Debtors

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Due within one year				
Rent and service charge arrears	999	1,051	999	1,051
Less: Provision for doubtful debts	(596)	(523)	(596)	(523)
	403	528	403	528
Amounts owed by group undertakings	-	-	-	18
Amounts held in trust	35,367	-	35,367	-
Staff loans	2	3	2	3
Other debtors	391	886	326	788
Prepayments and accrued income	665	592	630	558
Social housing grant receivable	-	6	-	6
	36,828	2,015	36,728	1,901
Due after one year				
Staff loans	-	-	-	-
Prepayments and accrued income	3,288	251	3,288	251
	3,288	251	3,288	251
	40,116	2,266	40,016	2,152

The amounts held in trust relate to interest servicing reserve held on loans of £3,035k and £35,367k held by Affordable Housing Finance Plc for the loan principle where security is to be provided. Security was provided in January 2018 and the funds drawn down in full.

21 Cash and cash equivalents

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Cash at bank and in hand	32,050	19,369	31,831	19,200
Leaseholder accounts	660	556	660	556
	32,710	19,925	32,491	19,756

22 Creditors: amounts falling due within one year

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Loans and borrowings (Note 26)	1,519	1,293	1,519	1,293
Trade creditors	957	2,186	957	2,185
Rent and service charges received in advance	1,097	909	1,097	909
Amounts owed to group undertakings	-	-	16	-
Obligations under finance leases (Note 26)	102	108	102	108
Other creditors	858	742	858	742
Recycled capital grant fund (Note 25)	275	28	275	28
Accruals and deferred income	2,548	134	2,468	71
Accrued interest	1,103	1,019	1,103	1,019
	8,459	6,419	8,395	6,355

23 Creditors: amounts falling due after more than one year

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Loans and borrowings (Note 26)	229,562	175,010	229,562	175,010
Obligations under finance leases (Note 26)	22,365	21,416	22,365	21,416
Deferred capital grant (Note 24)	85,798	85,696	85,798	85,696
Recycled capital grant fund (Note 25)	729	493	729	493
Sinking fund balances	677	623	677	623
	339,131	283,238	339,131	283,238

24 Deferred capital grant

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
At 1 January	85,696	85,909	85,696	85,909
Grants received during the year	1,397	660	1,397	660
Grants recycled from the recycled capital grant fund and disposal proceeds fund	-	239	-	239
Released to income during the year	(956)	(958)	(956)	(958)
Grants on disposed properties	(339)	(154)	(339)	(154)
At 31 December	85,798	85,696	85,798	85,696

25 Recycled capital grant fund

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
At 1 January	521	381	521	381
Inputs to fund:				
- grants recycled from deferred capital grants	339	154	339	154
- grants recycled from statement of comprehensive income	144	37	144	37
Recycling of grant:				
- new build	-	(51)	-	(51)
At 31 December	1,004	521	1,004	521

Amounts three years or older where repayment may be required	28	-	28	-

Withdrawals from the recycled capital grant fund were used for the purchase and development of new housing schemes for letting and for approved works to existing housing properties. All grant is from Homes England.

26 Loans and borrowings

Group and Assocation	Loans 2017 £'000	Finance Lease 2017 £'000	Total 2017 £'000	Loans 2016 £'000	Finance Lease 2016 £'000	Total 2016 £'000
No later than one year	1,519	102	1,621	1,293	108	1,401
Later than one year and not later than two years	1,519	132	1,651	1,543	132	1,675
Later than two years and not later than five years	8,558	584	9,142	6,628	551	7,179
Later than five years	219,485	21,649	241,134	166,839	20,733	187,572
	231,081	22,467	253,548	176,303	21,524	197,827

All borrowings are in the form of bank loans. During the year, the group borrowed £54m as part of the Affordable Housing Government Guarantee Scheme, £18m as an aggregated bond and £36m from European Investment Bank, both obtained through the Affordable Housing Finance Plc. All historic loans accrue interest at a variable or fixed rate equivalent to LIBOR plus margin. Issue costs incurred, have been deducted from the initial carrying value and will be charged to profit or loss as part of the interest charge calculated using the amortised cost method.

Loans are secured by specific charges on the housing properties of the group. The loans bear interest at fixed rates ranging from 1.78% to 5.40% or at variable rates calculated at a margin above the London Inter Bank Offer Rate.

At 31 December 2017 the group had undrawn loan facilities of £12m (2016 - £12m).

Loans principle excluding fees	Facility 2017 £'000	Drawn 2017 £'000	Available 2017 £'000	Facility 2016 £'000	Drawn 2016 £'000	Available 2016 £'000
The Royal Bank of Scotland	50,000	45,000	5,000	50,000	45,000	5,000
Lloyds Bank	100,750	93,750	7,000	102,000	95,000	7,000
The Housing Finance Corporation	35,000	35,000	-	35,000	35,000	-
Affordable Housing Finance	54,000	54,000	-	-	-	-
	239,750	227,750	12,000	187,000	175,000	12,000

27 Financial instruments

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Financial assets measured at historic cost				
Trade receivables	403	528	403	528
Other receivables	4,346	1,738	4,246	1,624
Cash and cash equivalents	32,710	19,925	32,491	19,756
Total financial assets	37,459	22,191	37,140	21,908
Financial liabilities measured at historic cost				
Loans payable	231,081	176,303	231,081	176,303
Trade creditors	959	2,186	957	2,185
Other creditors	93,083	89,644	93,021	89,581
Finance leases	22,467	21,524	22,467	21,524
Total financial liabilities	347,590	289,657	347,526	289,593

The group's financial assets comprise of trade receivables, other receivables and cash and cash equivalents measured at historic cost. There are a limited number of agreements in place with customers to pay debts owed to West Kent, the value of the payment plans are small and have been included and continue to be held at transaction price.

The group's financial liabilities comprise of loans payable measured at historic cost as an approximate for amortised cost as the difference between them is not deemed material, and trade creditors, other creditors and finance leases are measured at historic cost.

28 Pensions

Two pension schemes are operated by the group.

Defined benefit pension scheme

The group is an admitted body to the Kent County Council local government superannuation scheme, a defined benefit pension scheme. The group closed its membership to new entrants. The fund is subject to the regulations of the Local Government Superannuation Scheme. Contributions to the scheme are determined by a qualified actuary on the basis of valuations, using the projected unit method.

There is a stated policy for charging the net defined benefit scheme between those group companies that are a party to the scheme and hence a proportion of the defined benefit scheme assets, liabilities, income and costs are recognised by individual group companies in accordance with that policy.

Pension benefits depend upon age, length of service and salary level.

A full actuarial valuation of the defined benefit scheme was carried out at 31 March 2016 and updated to 31 December 2017 by a qualified independent actuary. Contributions to the scheme are made by the group based on the advice of the actuary and with the aim of making good the deficit over the remaining working life of the employees.

There were no changes to the scheme during the year and no amounts owing to the scheme at the year end.

Reconciliation of present value of plan liabilities	**2017 £'000**	**2016 £'000**
At the beginning of the year	51,401	37,000
Current service cost	1,430	1,060
Interest cost	1,430	1,466
Actuarial (gains) / losses:		
- Change in financial assumptions	64	12,588
- Change in demographic assumptions	(601)	-
- Experience gains on curtailments	1,392	(36)
Estimated benefits paid	(932)	(1,012)
Past service costs, including curtailments	-	30
Contributions by scheme participants	285	329
Unfunded pension payments	(24)	(24)
At the end of the year	54,445	51,401

Composition of plan liabilities		
Schemes wholly or partly funded	Partly	Partly

28 Pensions (continued)

Reconciliation of fair value of plan assets	**2017 £'000**	**2016 £'000**
At the beginning of the year	38,781	32,258
Interest income on plan assets	1,092	1,301
Return on assets less interest	4,644	4,701
Other actuarial gains/(losses)	(321)	-
Administration expenses	(22)	(23)
Contributions by employer including unfunded	1,120	1,251
Contributions by fund participants	285	329
Estimated benefits paid	(956)	(1,036)
At the end of the year	44,623	38,781
Fair value of plan assets	44,623	38,781
Present value of the defined benefit obligation	(54,165)	(51,097)
Present value of unfunded obligation	(280)	(304)
Net pension scheme liability	(9,822)	(12,620)
Amounts recognised in other comprehensive income are as follows:		
Current service cost	1,430	1,090
Administrative expenses	22	23
Interest cost	1,430	1,466
Interest on assets	(1,092)	(1,301)
	1,790	1,278
Analysis of actuarial loss recognised in Other Comprehensive Income:		
Actual return less interest income included in net interest income	4,644	4,701
Other actuarial gains/(losses) on assets	(321)	-
Experience gains and losses arising on the scheme liabilities	(1,392)	36
Changes in assumptions underlying the present value of the scheme liabilities	537	(12,588)
	3,468	(7,851)

28 Pensions (continued)

Composition of plan assets	2017 £'000	2016 £'000
Equities	30,302	26,945
Gilts	347	337
Other bonds	4,195	3,983
Property	5,483	4,971
Cash	1,106	931
Target return portfolio	3,190	1,614
Total plan assets	44,623	38,781
Actual return on plan assets	5,736	6,002

Principal actuarial assumptions used at the balance sheet date		
Discount rates	2.6%	2.8%
Future salary increases	4.2%	4.6%
Future pension increases	2.7%	2.8%
Mortality rates		
for a male aged 65 now	23.0	22.9
at 65 for a male member aged 45 now	25.2	25.2
for a female aged 65 now	25.1	25.3
at 65 for a female member aged 45 now	27.4	27.7

Defined contribution scheme

A defined contribution pension scheme is operated by the group on behalf of the employees. The assets of the scheme are held separately from those of the association in an independently administered fund. The pension charge represents contributions payable by the group to the fund and amounted to £165k (2016 - £113k). Contributions totalling £Nil (2016 - £Nil) were payable to the fund at the year end and are included in creditors.

29 Share capital

	Group 2017 £	Group 2016 £	Association 2017 £	Association 2016 £
At 1 January	29	33	29	33
Shares issued in the year	1	-	1	-
Shares cancelled in the year	(1)	(4)	(1)	(4)
At 31 December	29	29	29	29

The share capital of the association consists of shares with a nominal value of £1 each, which carry no rights to dividends or other income. Shares in issue are not capable of being repaid or transferred. When a shareholder ceases to be a member, that share is cancelled and the amount paid thereon becomes the property of the association. Therefore, all shareholdings relate to non-equity interests.

30 Contingent liabilities

The association has entered into a residual value deed with Kent EHFA ProjectCo Limited as part of the Kent Excellent Homes For All Private Finance Initiative. The amount outstanding under the Residual Value Facility, and at any relevant time shall not exceed, £9m save with the prior written consent of West Kent Housing Association. An overage payment is potentially there if the Existing Use Valuation - Social Housing at the end of the contract exceed £9m. No existing security has currently been provided by West Kent Housing Association in connection with this liability. The homes built under the contract are held as security. If this is not sufficient further security will be used from West Kent Housing Association’s unencumbered stock.

31 Operating leases

The group and the association had minimum lease payments under non-cancellable operating leases as set out below:

Amounts payable as lessee	**Group 2017 £'000**	**Group 2016 £'000**	**Association 2017 £'000**	**Association 2016 £'000**
No later than one year	86	106	86	106
Later than one year and not later than five years	324	401	324	401
Later than five years	2,357	2,408	2,357	2,408
	2,767	2,915	2,767	2,915

Amounts payable as lessee relate to rented housing properties and office property in acccordance with the term of the lease where West Kent Kent Housing is the leaseholder.

Amounts receivable as lessor	**Group 2017 £'000**	**Group 2016 £'000**	**Association 2017 £'000**	**Association 2016 £'000**
No later than one year	1,713	1,470	1,713	1,470
Later than one year and not later than five years	6,852	5,880	6,852	5,880
Later than five years	189,626	168,723	189,626	168,723
	198,192	176,073	198,192	176,073

Amounts receivable as lessor relate to Leasehold and Shared ownership properties for the term of the lease where West Kent Housing is the freeholder. There has been no reduction for Shared ownership lease term for staircasing, due to limited evidence of the impact of sales.

32 Capital commitments

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Commitments contracted but not provided for:				
Construction	21,887	30,772	21,887	30,772
Construction - Ink Development Company Ltd.	15,988	12,444	15,988	12,444
Commitments approved by the Board but not contracted for:				
Construction	47,803	5,014	47,803	5,014
Construction - Ink Development Company Ltd.	-	344	-	344
	85,678	48,574	85,678	48,574

Capital commitments for the group and association will be funded as follows:

	Group 2017 £'000	Group 2016 £'000	Association 2017 £'000	Association 2016 £'000
Social Housing Grant	4,709	2,093	4,709	2,093
New loans	-	-	-	-
Sales of properties	30,471	17,028	30,471	17,028
Existing reserves	50,498	29,453	50,498	29,453
	85,678	48,574	85,678	48,574

Included in capital expenditure that has been contracted for is £Nil in respect of commitments relating to joint ventures.

33 Related party disclosures

The ultimate controlling party of the group is West Kent Housing Association. There is no ultimate controlling party of West Kent Housing Association.

West Kent considers the key management personnel to be the board and executive team, the only transactions between West Kent and the key management personnel are remuneration which is set out in note 10.

West Kent participates in two pension schemes, being the Kent County Council defined benefit pension scheme (Closed for new entrants) and The Royal London defined contribution scheme. The transaction with these pension schemes are set out in note 28.

The board includes two tenant members (2016 - three) who hold tenancy agreements on normal terms and cannot use their position to their advantage. There were ten shareholders (2016 - ten), excluding the board members, that are also tenants, or have close family that are tenants, of the association, who hold tenancy agreements on normal terms and cannot use their position to their advantage. The transactions recorded during the year are aggregated below:

	2017	**2016**
	£'000	**£'000**
Payment due from previous year	(2)	(1)
Charges in year	73	82
Payments in year	(72)	(83)
Payments due at end of year	(1)	(2)

Joint venture

The following transactions took place between the group and its joint venture and associated companies during the year:

	2017	**2016**
	£'000	**£'000**
Net sales and purchases of goods and services	4,062	90
Debtors due to Ink	421	103
Creditor due from Ink	73	14
Administration fees received by West Kent	8	11

Transactions with the joint venture are payable on demand. There are no other terms and conditions.

33 Related party disclosures (continued)

Transactions with non regulated entities

The association provides management services, staff and other services to its subsidiaries. The association also donates management and other charge to its subsidiaries. The quantum and basis of those charges is set out below.

	Management charges		Staff recharged		Other charges	
	2017	2016	2017	2016	2017	2016
Payable to association by subsidiaries:	£'000	£'000	£'000	£'000	£'000	£'000
West Kent Extra Limited	443	419	278	266	131	175
	443	419	278	266	131	175

	Management charges		Staff recharged		Other charges	
	2017	2016	2017	2016	2017	2016
Donation by association to subsidiaries:	£'000	£'000	£'000	£'000	£'000	£'000
West Kent Extra Limited	443	419	-	-	131	175
	443	419	-	-	131	175

Intra-group charges

Intra-group charges are receivable by the association from subsidiaries to cover the running costs the association incurs on behalf of managing its subsidiaries. The management charge is for management staff costs incurred in managing the delivery of West Kent Extra activities. Other charges are finance and administration costs that have been apportioned on staff costs.

34 Post balance sheet events

There were no material post balance sheet events.