# West Kent Housing Association

# Report and Consolidated Financial Statements

# for the year ended

# 31 December 2018

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## Chair's statement

In 2018, we successfully maintained our Governance and Viability rating at G1/V1, the top rating available, following an In-Depth Assessment by the Regulator of Social Housing. We involved our residents in responding to the consultation on the Government's Social Housing Green Paper and we are continuing to adapt to the changing shape of consumer and fire safety regulation which are emerging in the aftermath of the tragic events at Grenfell Tower in 2017.

In last year's financial statements I spoke about how West Kent's financial strength means we are well placed to deliver more homes that are greatly needed. Our plan is to build over 280 homes a year and we currently have 425 new builds under contract to complete over the next three years. We are committed to building a mix of homes, including Social Rent, Affordable Rent and Shared Ownership. To meet this ambition, we will continue to re-invest our entire surplus in maintaining our existing homes and building new ones. Further funding has recently been secured but we will be seeking further borrowing over the coming year.

In common with most organisations, the uncertainty around Brexit was high on the board agenda in 2018 and continues into 2019. We have clear plans to maintain our services and protect liquidity in the event of the potential disruptions of a 'no deal' Brexit.

Demand for our homes through local authority housing registers remains high, especially for one and two bedroom properties. We let 539 homes in 2018, housing 1,077 people, of these 103 were new builds. The redevelopment of Woodlands Court, Swanley was completed, bringing to fruition the Swanley Emerald community in line with our long term accommodation strategy for older people. This has been a major long-term project for us, extremely well-managed by the many West Kent staff who played their part in achieving this excellent outcome.

We have responded to the major changes in the benefits system by increasing resources to enable us to have a proactive relationship with tenants moving onto Universal Credit. All local authority areas in Kent migrated to Universal Credit for new claimants in 2018. The rent arrears for this group are higher than comparable groups. This is to do with residents learning, how to navigate the systems and adopting new habits of paying their rent themselves, in contrast to the old direct payment of housing benefit. We introduced any-day direct debits in 2018 to enable residents to select the rent payment day that best suits their individual circumstances.

As always I thank the staff at West Kent for their hard work and commitment. This was recognised in 2018 by retaining our Investor in People Gold accreditation.

We have published two important and detailed reports on the website. Our annual Report to Residents illustrates our work as a landlord. Our Social Impact Report highlights the wide reaching and exceptional community activities undertaken by our Communities team, 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 is more important than our reason for being – to meet housing need in Kent.

We work only in Kent and Medway, where we own or manage over 7,300 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 aging 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 housing registers 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***

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 switch seamlessly between contact 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 this future, everything we do will be focused on **six strategic objectives:**

**Customers:** our residents will enjoy exceptional tailored services and choice.
**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.
**Homes:** ensure our homes are warm, safe, well maintained and affordable.
**Growth:** build new homes to meet housing need in Kent and Medway.
**Viability:** ensure West Kent stays a vibrant, sustainable organisation.

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

- We will use customer insight to tailor service delivery to the circumstances of our residents and evolve services to meet changing requirements of customers. This will include developing and monitoring with residents more relevant metrics to measure and understand what we do and how to better identify what we could do differently to influence the shape of services going forward.
- We will make greater use of technology in our services and homes to improve cost effectiveness, so residents can access services at times that are convenient to them and staff can provide a full service even when away from the office.
- We will have refined and embedded the changes to service delivery and expectations as set out in Your Home Your Responsibility, Home Standard and Maintaining Your Home in the way we work and to make sure staff and tenants understand responsibilities and expectations.
- We will support tenants to maintain successful tenancies to give them stability and security as a platform for their aspirations.

We aim to get our new residents off to a great start, to do this we use one-year starter tenancies to enable new tenants to fully understand their responsibilities and for us to assist them in building a sustainable tenancy. In 2018 we offered a record number of starter tenancies 353 (2017: 252), 24 tenants (2017: 23) had their tenancy extended for non-payment of rent as the primary reason. We saw a 40% increase in use of starter tenancies whilst maintaining the same level of extensions. Only two starter tenancies failed resulting in their tenancies ending in 2018 (2017: 1), this is 0.57% of starter tenancies in 2018.

Living in an increasingly online world, with more and more people connected to the internet through a variety of devices, we are working on our digital plan to develop West Kent into being a ‘digital first’ organisation, with digital technology at the heart of how we work and how we engage with our customers. We acknowledge that not all our residents currently wish to be contacted or contact us digitally, and some of our systems are still being developed to make this easier. Customer contact demand on our Customer Service Team rose by 2.4% year on year to 104,535 contacts in 2018. Most of this increase was telephone demand (1.9% up on 2017 to 80,335 calls) with the remainder in new digital services. However due to resourcing issues, our handling of this demand fell by 8% compared to the same period. Improvements to contact handling are a key focus for 2019. Although the telephone remains the most popular method for customers to contact us (risen 1.9% over the year) we have seen positive movement in our digital contact. We now offer web-chat, launched in December, and saw 62 conversations in the first month.

In 2018 digital customer contact rose from 9% in 2017 to 13% as a percentage of all contacts. We added dedicated resource to managing digital contact; improving (by the end of the year) service standards and speed across all channels, including phonelines. Online repairs reporting remains problematic, with 59% of those logged currently being abandoned or re-booked.

In line with our values, we aim to provide the best service possible for our customers, but we recognise that we will not always get things right first time. We received 636 complaints in total in 2018, down 22% on the previous year and the lowest amount in the last three years. Most complaints are resolved at the first stage of our process, 'Making It Right'; they continue to be in relation to the standards and timescales of repairs to properties. Whilst this decline is positive, within that total, we have seen an increase in those being escalated to later stages. 46 cases were reviewed by management, an increase of nine on the previous year. Only 17 reviews found errors with the original handling, with managers reaffirming the original findings in the rest.

Three cases were closed by the Ombudsman in 2018, with no mal-administration found on our part. All were due to damage to goods in homes where the customers did not have their own contents insurance. We continue to inform residents of their responsibilities to insure contents in their home. This happens when tenants sign up to their new home, at tenancy catch up visits, through social media campaigns, on our website and through our resident newsletter, 'Neighbourhood News'. This is also reinforced during catch up visits; in 2018 we completed 715 visits (11% of our homes).

We received 468 compliments in 2018 – 18% less than the previous year. These have been across the business, with some great feedback received on the service we have given. As with complaints most compliments are for the repairs side of the business.

Central to the new model of resident involvement is an open and ongoing conversation with residents and future residents on the issues that are of concern, and interest, to them. Workshops began in the last quarter of 2018 and will continue to inform our work going forward. We consulted with residents on the social housing green paper and used their views to feed back directly to Government. We also engaged with our residents regarding our emerald schemes and barriers to interacting digitally, our pets policy, aspirations for future housing need in Edenbridge and our housing plus service.

***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 and staying connected.

Our 'Age – A Positive Experience' strategy sets out how we would meet our aim to be the leader in Kent, how we will celebrate age and support independence. We completed some big projects in 2018 that were set out in the strategy.

White Oak Court, Swanley became a full extra care scheme on 1 April 2018, the first in the county where an existing scheme has been changed to an extra care. This was the culmination of three years of relationship building, improvements and investment into the fabric of the scheme, planning changes, staff training and restructuring. It is a vital and well needed addition to service provision in the Sevenoaks district. White Oak now forms the hub of our Swanley Emerald Community and is an achievement West Kent can be proud of.

Woodlands Court at Northview in Swanley was handed over in August 2018 and completes the Swanley Emerald Community. We demolished 16 flats in four blocks that no longer met our customers' needs. These were replaced with 31 larger, well-designed apartments. The apartments are designed to support independent living and are available for rent to over-55s. Our integrated 'hub and spoke' design means tenants can use the facilities at nearby White Oak Court as well as enjoying their own communal lounge and large garden. This scheme has been shortlisted for the RICS award for 'Outstanding Residential Development'. This marks the end of the Swanley phase of our emerald community development. We are now moving on to Edenbridge, we have surveyed older Edenbridge tenants about their future housing plans and this will be used to formulate a plan for the Edenbridge emerald community development.

At the Kent Housing Group awards this year, West Kent's Rachael Salvesen received the 'Excellent Housing Professional' award to recognise her work at Copperfields, Ramsgate. Working in partnership with many local groups Rachael has built a thriving and inclusive community that is not just home to 62 households over the age of 55, but provides the venue for several cross generational community groups and individuals, who come to take advantage of Copperfields' superb facilities and join in with the regular residents' activities. https://youtu.be/sFcZd2I1_28

As part of our asset management strategy we continue to replace hard-wired warden call systems with plug and play units that enable tele-health and tele-care additions to be added if requested by tenants. This included changing the status of some of the homes no longer considered suitable for older people.

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

- We will work to understand the unmet needs of Kent communities and 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 will 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.

The key priorities for 2018 were services for older people, developing support services and working in collaboration with other housing providers. Our work with older people included joint work with the Emerald team to identify the needs of older people, around social isolation and wellbeing. This will continue to be developed in 2019.

Our youth services were recognised in 2018. Our House Leader in Charge Cheryl Banks won UK Youth's Youth Worker of the Year award for her dedication to the young people we work with in Edenbridge, and our youth forum and some individual youth forum members won local awards. We were very pleased to receive two As and a B grade in our Quality Assessment Framework audit by Medway Council in November 2018. We were also pleased to be Highly Commended at the Kent Housing Group Awards in the 'Excellence in Delivering Services for Vulnerable People' category for the work we have done to develop the Kent Support and Assistance Service in 2018. Kent Support & Assistance Service receives approved applications from Kent County Council for people at a point of crisis for many reasons, anything from being flooded or having had a fire, coming out of an abusive relationship or leaving prison.

We worked with Medway Council to develop a new approach to the delivery of our housing related support service, which has resulted in a more effective model of support and the contract being extended until 2021.

Training and Employment priorities were targeted at tenants, people with a support need and young people. The initial delivery of the Training and Employment Aspirations pilot is helping us identify needs and aspirations of residents and shape our future training and employment offer. We also developed work with a local women's refuge, having identified the particular challenges they faced.

We have actively engaged in discussions with a range of potential partners, small and large, over new commissioning opportunities from Kent County Council around homelessness and mental health services over the course of 2018 that led to partnership bids for these services. We were unsuccessful in our bid as prime provider but were accepted onto the dynamic purchasing system as secondary providers.

We have produced the second social impact report following the success of our first in 2018. This identifies the key outcomes that are achieved through the services we run and can be found on our website. An example was the Edenbridge Youth Forum. In 2017, members of the youth forum raised questions about the Centenary of World War One. They wanted to understand more about what Remembrance Sunday represented. The group decided they would like to carry out a research project, so they could better understand the reasons behind the war taking place, and its impact on both Edenbridge and internationally. During the course of the research, the young people felt that they were able to find a wealth of research at the library, online and by talking to experts in the area. They identified a soldier from Edenbridge who died during the fighting in France and were able to find out where he was buried. The group was able to gather quantitative research such as numbers of casualties, which contributed to their understanding of the devastating impact of the war. The project culminated in a trip to Calais to visit the areas where fighting took place, visit museums, memorial sites and view artefacts. A result of the project is the group has described themselves as feeling incredibly grateful and appreciative for all the privileges they have and are considering other ways they might 'give back'.

We secured a third consecutive multi-year grant from Children in Need for our 8-12s Projects in the Sevenoaks District, which is a big endorsement of the relationship built with this funder. We achieved our objective to have at least three projects in every district and borough of Kent. Some examples of our work can be seen in our Community Impact Report on our website.

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

- We will ensure our homes are warm, safe, well maintained, affordable, and evoke personal pride.
- We will review the rents we charge to keep them affordable to our residents.
- We will manage 9,547 homes by 2026.
- We will not reduce the number of social rented homes.

We let 539 homes in the year, housing 1,077 people, this is an occupancy rate of 66% compared to the occupancy of all our homes of 71%. We did not meet our target of 20 days to turnaround an empty property. The average time to let a home increased by 6 days to 31 days. This was disappointing, we continue to explore ways to reduce this time. We have seen an increase in homes requiring adaptations, local lettings plans and additional checks required for applicants. We remain fully focussed on improving performance on re-let times and believe improved work flow systems and additional staffing will assist this. We are aiming to reintroduce multiple viewings in early 2019 to shorten the letting process when properties are refused.

| | 2016 | 2017 | 2018 |
|---|---|---|---|
| Households housed (in existing properties) | 406 | 399 | 428 |
| Households housed (in new properties) | 230 | 110 | 111 |
| **Total housed** | **636** | **509** | **539** |
| People housed | N/a | 1,097 | 1,077 |
| Time taken to turnaround general needs homes (days) | 23 | 25 | 31 |

Table 1.1 Lettings data

At the end of 2018 there were 126 properties failing the decent homes standard (2017: 85). Replacing our external front and rear doors is the single biggest cause of decent home failure (70) but we had expected this because of the delay in re-procuring this contract in 2018. Three homes did not meet the Decent Homes Standard for more than 12 months (2017: four). One of these was due to the tenant needing to reverse a tenant improvement they had completed without approval, this has now been completed and works will start in 2019. The other two were due to rear doors as mentioned above. 17 tenants refused access for works to meet the standard, most of the tenants are elderly and do not want the upheaval of works in their homes or they have solid fuel heating and do not want to switch to gas or air source heating. We maintain a balance of encouragement to tenants and forcing them to have the works carried out.

We are constantly analysing our data within our asset management system to make sure there are no surprises of component failures. Where we identify components that have a long-life span such as roofs we will be starting small replacement programmes over a longer period in the next couple of years.

Our health and safety systems and procedures are working well and there have been no significant incidents. At the end of 2018 there were no fire risk assessments and no gas safety checks overdue.

As at 31 December 2018 there are 403 communal areas where we need to carry out fire risk assessments, and a further ten blocks where a management company is responsible for the fire risk assessment. None of our fire risk assessments are overdue for review. There were 146 fire risk assessments completed in 2018, one of these by a management company. Action items are added to our monitoring spreadsheet, and the completion of action items is checked monthly and any overdue items chased until completed. As at 31 December 2018 there were 204 live actions, of which 39 action items were beyond their priority date.

Following the fire at Grenfell Tower in June 2017 the Kent Fire and Rescue Service has instigated a planned programme of fire safety audits. They initially targeted high-rise properties and having completed these, now have an on-going programme of auditing all supported housing in the county. They have completed 27 fire safety audits of West Kent properties by December 2018. Of these, 26 have been classified as ‘1 - Broadly Compliant Inform & Educate’ (this is the highest grading). They have classified one as ‘2 – Notification of Minor Deficiencies’. The notification of minor deficiencies has been superseded by the follow-up audit where the block was found to be broadly compliant.

We invested £2,257 per home on maintenance and component replacements in 2018. We replaced 54 doors, 21 windows, 293 boilers, 26 air source heating systems, 12 other heating systems, 67 kitchens, 64 bathrooms and eight roofs.

In 2019 we will be re-procuring our building and electrical services contract. This is a significant contract as it is a long-term relationship to provide a key service that our customers value. Two tenants, are working with us to help us choose which contractor will provide this service in the future.

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

- We will complete 2,495 new homes (2019-2026) for rent and home ownership, managed homes will be 9,547 by 2026 excluding stock rationalisation and leaseholders.
- We will develop and sell homes to help pay for our new homes on Social and Affordable rents.
- 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 an increase of 3.5% of our social housing homes, equivalent to roughly 260 homes in 2019.

West Kent currently owns and/or manages 7,308 properties. Our new homes programme is the largest in West Kent's 29-year history. In 2018 we took handover of 103 homes, 67 for rent and 36 for shared ownership. There are currently 425 new homes under construction for completion in 2019 and beyond. We have homes in all but two local authority areas in Kent and Medway and in 2019 this will become one local authority as we complete on a development in Canterbury.

We were expecting to take handover of more homes in 2018. These have been delayed until 2019. The primary reason was that the contractor failed to finish the properties to an acceptable standard or had difficulty obtaining materials such as fire doors. We monitor those homes that have been completed and ensure the contractor completes any defects. We have seen the number of outstanding snagging items at handover double compared with 2017, despite the number of new homes being the same.

***Current properties owned and managed by local authority area***

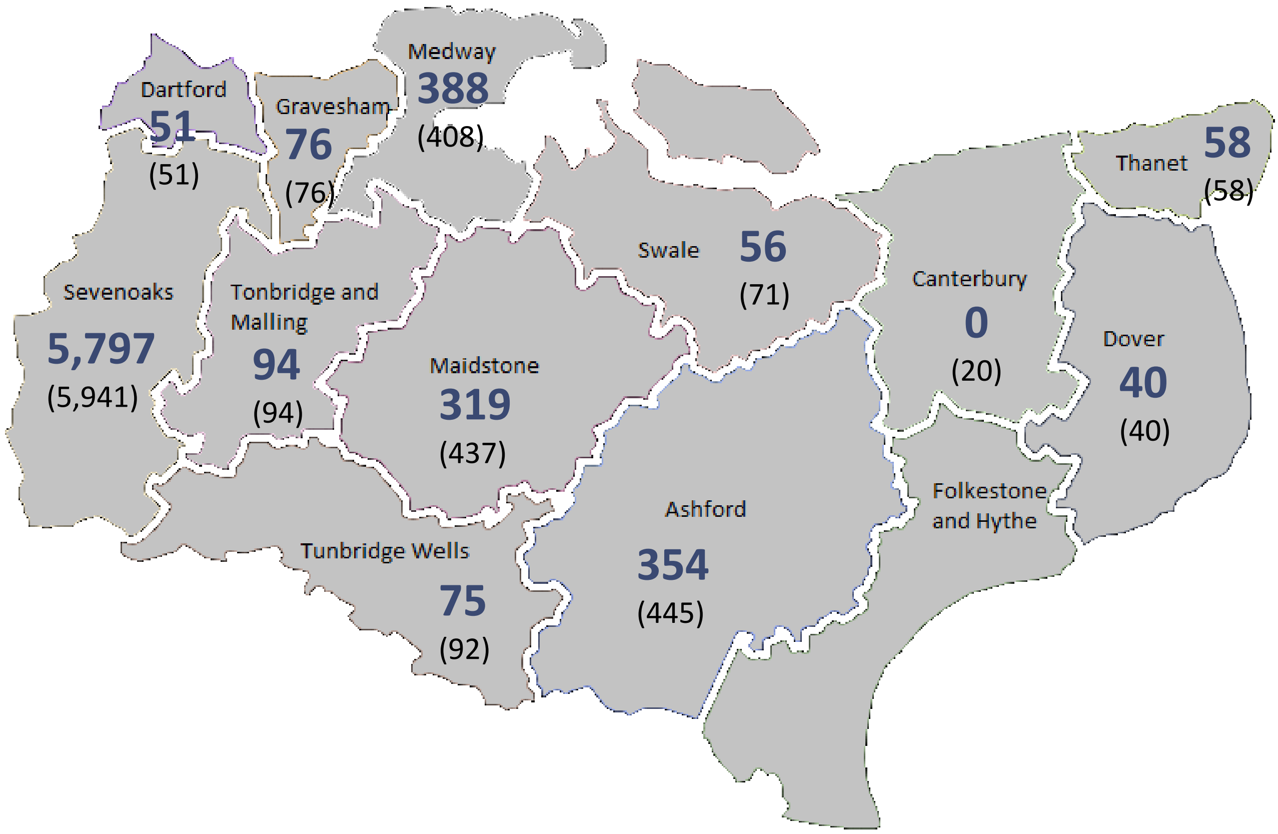


Table 1.2 Housing by local authority - Numbers in brackets () include homes currently under construction.

| | 2017 | 2018 |
|---|---|---|
| Rented | 5,453 | 5,504 |
| Rented – older people | 1,109 | 1,119 |
| Low cost home ownership | 480 | 507 |
| Total social housing homes | 7,042 | 7,130 |
| | | |
| Homes managed by others | 3 | 3 |
| Leaseholders | 174 | 175 |
| Total owned and managed accommodation | 7,219 | 7,308 |
| | | |
| Homes under construction | 275 | 425 |

Table 1.3 Housing by type

| Value for Money metric | 2016 | 2017 | 2018 |
|---|---|---|---|
| Social housing homes developed | 254 | 104 | 103 |
| New supply delivered (Social housing units)% | 3.6% | 1.5% | 1.4% |
| Gearing | 34.4% | 41.3% | 36.4% |
| Return on Capital Employed | 3.4% | 3.1% | 3.1% |

Table 1.4 Indicators based on Regulator of Social Housing Value for Money metrics relating to growth objective

Over the past five years we have spent £117m in building or acquiring new homes, we have completed 813 homes in this time and have 425 homes being built. We received £10m of Homes England grant. In the same period, we made surpluses of £53m. For every £1 generated in surpluses we spent £2.22 on building new homes.

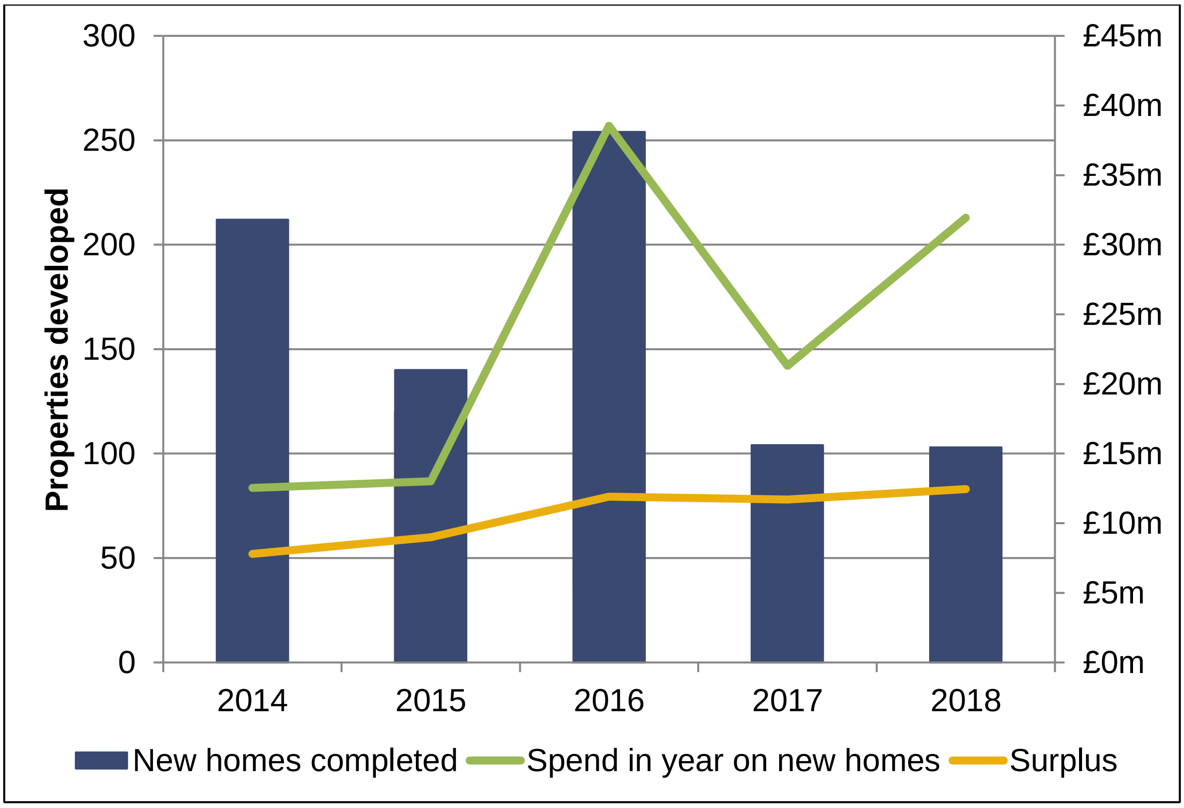


Chart 1.5 Investment in new homes

A substantial part of our development programme includes shared ownership. We acknowledged this is a risk and established a home ownership team to respond to an increased sales programme. This has worked well and we are equipped to deal with an increased sales programme in 2019.

Our sales performed well with 43 first tranche sales (2017: 36) in the year and seven unsold at year end (2017: 14). No properties were unsold for more six months after taking handover (2017: none). In addition to the initial sales there were 18 existing shared owners who chose to increase equity in their home (2017: 20), 11 staircased to 100% ownership, this generated income from sales of £1.8m. We have 206 shared ownership homes being constructed with expected income from these homes of £23m.

To enable us to build more homes we secured an additional £10m loan from The Housing Finance Corporation as agreed by Board in December and drawn in January 2019.

***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.

The Regulator of Social Housing carried out an in-depth assessment of West Kent in 2018. We achieved the highest grading (G1/V1). We achieved this by having good evidence of our governance structure, board oversight, strategic direction, debate and challenge, recognition of charitable objectives and the trade-offs in use of funds. There was strong evidence and oversight of financial covenants, headroom on gearing and interest cover, sales risk, early warning system for liquidity & borrowing needs, with reasonable stress-testing. As reported in our last set of financial statements we did have an issue with setting rents on empty properties for an isolated number of cases but our reporting of this was seen to be transparent and timely actions taken and reported to board.

One of our key volatile risks for 2018 was welfare reform, specifically universal credit. We were aware of 269 West Kent tenants claiming universal credit at the end of 2018. Of these, 186 (69%) are in arrears (25 have more than 8 weeks) and 83 (30%) are in credit. We have a direct payment of the housing element for 30 cases and the other 239 receive the payment themselves. The full Universal Credit Service has now rolled out to all new claimants across Kent and Medway.

One of the mitigations we saw in ensuring our rents can be collected in a timely way was to offer more payment options. We now offer any day direct debits tenants can choose any date between 1-26 of each month. We collect 3,109 direct debits by weekly, fortnightly and monthly frequencies, receiving income of £800k per month. Previously only one monthly collection date was offered now there are 26 on offer, this is still early days in the roll out with 21 dates being used for 102 customers. This gives greater choice to customers. In 2019 a second weekly collection on a Friday will start.

There remain issues with direct payments due to:

- Delays in posting payments to accounts caused by a gap between receipt of money from Department for Work and Pensions and the schedule confirming the accounts to which it relates.
- These payments are made on a four-weekly cycle for rent support, in contrast to Universal credit which is paid monthly to the claimant. This means that when we have a direct payment there is one period within the year, which could be at any time without notice, where this payment is missed.

We continue our excellent performance on current tenant rent arrears with the overall figure decreasing by 0.1% to 1.6% for 2018. We have maintained the level of former tenant debt and rent write-offs. The challenge of collecting rent remains, Universal Credit is being monitored and we are engaging those residents affected. We are not currently seeing a significant difference in new tenants on Universal Credit and their arrears compared to new tenants on housing benefit. We will continue to monitor this throughout 2019 to see if there are other interventions or support required.

We had 17 evictions in 2018 (2017: 24). Evictions are only carried out when all other attempts to remedy the breach of tenancy are exhausted.

West Kent has achieved the Cyber Essentials Accreditation. Cyber Essentials is a simple but effective Government backed scheme that confirms we have protection in place against a wide variety of the most common cyber-attacks. Cyber Essentials is the first step for us and we are aiming to achieve the Cyber Essentials Plus in 2019.

Since 25 May 2018 (when the new data protection legislation was introduced) we have received 20 rights requests and nine data breaches. The rights requests include subject access requests as well as requests for data to be erased. The data breaches were all contained and one needed clarification from the Information Commissioner's Office, to confirm that we had implemented their suggestions.

| | **2016** | **2017** | **2018** |
|---|---|---|---|
| Current tenant rent arrears | 2.0% | 1.7% | 1.6% |
| Former tenant rent arrears | 1.2% | 1.5% | 1.5% |
| Rent write offs | £96,000 | £147,000 | £132,000 |
| Rent collected | 98.3% | 99.9% | 99.2% |
| Number of evictions (arrears cases in brackets) | 14 (12) | 24 (24) | 17 (16) |

Table 1.6 Key performance indicators - viability

We are very proud to have retained our gold accreditation for Investors in People in 2018. During the process we conducted a staff survey, the online assessment found 80% of staff expressed a positive view that West Kent was a great place to work. This positive response was supported during interviews when most people responded that the organisation was a great place and that they were committed to its success.

## 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

| | 2017<br>£'000 | 2018<br>£'000 |
|---|---|---|
| **Consolidated statement of comprehensive income** | | |
| Turnover | 50,284 | 52,677 |
| Cost of sales | (2,655) | (3,398) |
| Operating costs | (29,687) | (30,900) |
| Surplus on disposal of housing properties | 1,288 | 1,319 |
| **Operating surplus** | 19,230 | 19,698 |
| Movement in fair value of investment properties | (125) | - |
| **Operating surplus after fair value adjustment** | 19,105 | 19,698 |
| Surplus on disposal of other fixed assets | 2 | 3 |
| Other interest receivable and similar income | 103 | 211 |
| Interest and financing costs | (7,518) | (7,461) |
| **Surplus for the financial year** | 11,692 | 12,451 |
| Actuarial gain on defined benefit pension scheme | 3,468 | 3,279 |
| **Total comprehensive income for year** | 15,160 | 15,730 |
| | | |
| **Consolidated balance sheets** | | |
| Tangible fixed assets – housing properties | 534,392 | 563,083 |
| Tangible fixed assets – other | 2,864 | 2,595 |
| Investment properties | 6,500 | 6,500 |
| Net current assets | 71,411 | 54,664 |
| | 615,167 | 626,842 |
| Creditors: amounts falling due after more than one year | (339,131) | (337,582) |
| Pension liability | (9,822) | (7,316) |
| | **266,214** | **281,944** |
| | | |
| **Capital and reserves** | | |
| Income and expenditure reserve | 101,550 | 118,109 |
| Revaluation reserve | 164,608 | 163,794 |
| Restricted reserve | 56 | 41 |
| | **266,214** | **281,944** |

Table 1.7 Extract of Group financial results

***Statement of comprehensive income***
The Group financial results for 2018 show an increase 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 deficit of £92,955 (2017: surplus £13,826) during the year.

The operating surplus increased by £0.6m in 2018 to £19.7m (2017: £19.1m). The surplus on social housing lettings, which is analysed in Note 4 and 5, decreased from £18.1m in 2017 to £17.7m. This represents a reduction on operating margin (social housing) 38.8% (2017: 40.9%).

Group turnover has increased by £2.4m. This is primarily due to full year rental income on completed homes in 2017 and increased service charges, £1.2m higher than last year, and increased low cost home ownership sales, £1.0m higher than last year. Our performance on turning around our empty homes, classified as management voids, increased from 25 days to 31 days. Overall result in the loss in properties being void reduced by £33k, this was due to improving the turnaround of all empty properties not just those classified as management voids, for example those properties that require major works before being re-let.

For general needs rented, housing for older people and supported properties, rents were reduced by 1% in line with government policy. Kent Excellent Homes for All homes were increased as these sit outside of the rent regime due to the properties being built as part of a private finance initiative. Shared ownership properties rents were increased in line with their leases.

Operating costs increased by £1.2m in 2018. This included additional fire precaution works and electrical testing. We invested more in our homes to ensure they were warm, safe, well maintained and affordable. This included specific work on improving our older persons accommodation and de-designating some homes that were no longer appropriate for the client group. We spent more in 2018 than in previous year on fencing, disabled adaptations and external decorations. Bad debts and provision for bad debts have remained steady in 2018 compared with 2017, where we saw a significant increase in this figure due to rent arrears. Overall rent arrears have increased by £271k and total arrears stand at £1.3m (2017: £1.0m).

We invested £15.0m (2017: £13.6m) in maintaining our homes in the year, including the £3.3m (2017: £2.9m) replacing components and improvements that have been capitalised under the component accounting policy. This equates to £2,257 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.

First tranche low cost home ownership is the initial sale of a portion of shared ownership properties and is included in turnover and cost of sales. The margin earned on these sales was 28% (2017: 28%). This margin enables us 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. We sold 43 (2017: 36) homes generating income of £4.7m, seven homes were unsold at year end, all have subsequently been sold.

The surplus on disposal of fixed assets was £1.3m (2017: £1.3m). This was from 18 (2017: 20) low cost home owners increasing their equity in their home, 11 (2017: 12) staircased to 100% ownership. There was only one Right to Buy sale (2017: five) the lowest in West Kent’s history. There were two right to acquires, the highest in West Kent’s history.

Interest payable and similar charges of £7.5m (2017: £7.5m) includes £1.1m additional interest paid, compared to 2017, reflecting a full year of interest for European Investment Bank and Affordable Housing Finance loans taken out in 2017, and with variable rate interest affecting increases to base rates. This is offset by a reduction in finance lease costs (£1.0m), due to an adjustment made in 2017 in finance lease assumptions relating to ‘Kent Excellent Homes For All’.

Interest cover was 280% (2017: 274%), 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 £28.7m to £563.1m. This increase is due to investment in new homes and spending on existing properties of £35.2m, offset by depreciation and disposals.

103 homes were built or acquired in 2018, with 425 in construction. The increased development programme has increased properties for sale to £10.3m (2017: £7.0m).

Cash has increased in 2018 to £47.1m (2017: £32.7m), this is due to cash generated from operating activities, £35m of European Investment bank loans received in 2018 and payments made to build new homes. The cash is being invested on the money markets and we have a clear plan to use it through building new affordable homes, we have contracted capital commitments of £54.3m.

### *Value for Money*

West Kent has embedded its risk and value for money assessments in all our objectives. 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. We have conducted peer comparisons against median as a whole from the Global accounts published by The Regulator of Social Housing in addition to peers of similar size (5,000 to 9,999 homes), geography (CASE[1]) and ethos (Placeshapers[2]).

| | West Kent Group | | | Global accounts (consolidated) 2017/18 | | | |
|---|---|---|---|---|---|---|---|
| **Value for Money Metrics** | **2016** | **2017** | **2018** | **Median** | **5,000-9,999 homes (median)** | **CASE (mean)** | **Place-shapers (mean)** |
| Reinvestment % | 8.0% | 4.5% | 6.3% | 6.0% | 6.3% | 5.5% | 6.6% |
| 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 to build more and we have specific yearly targets to achieve this which would see this metric be around 8%. In 2018 we spent £35m on capital works, this is £11m more than in 2017. We are likely to exceed this in 2019. This shows our appetite to build more and to utilise our capacity held in our housing property assets. | | | | | | | |
| New supply delivered (Social housing units) | 3.6% | 1.5% | 1.4% | 1.2% | 1.2% | 1.6% | 1.6% |
| Similar to the reinvestment indicator new supply is a snapshot of a development programme that can straddle many years. In 2018 we built 103 homes, our aim is to achieved closer to 300 new homes per year. Some schemes did not deliver on time in 2018. We have found that these delays are due to several reasons including fire safety, supply of materials and quality of build including an expectation of builders to deliver homes with a number of defects. We have increased our development team to ensure we can robustly challenge quality and reduce the impact on our customers of having large snagging lists. Our objective is to build 3.5% new supply every year. We are likely to achieve this in 2019. To achieve the government's plans of delivery 300,000 homes per year the whole sector needs to respond and improve on current performance. | | | | | | | |

[1] CASE – Consortium of Associations in the South East – including L&Q, Guinness Partnership, Hyde, Sovereign, Optivo, Moat, Thames Valley and West Kent
[2] Placeshapers - Network of more than 100 community-focused housing associations united around shared values as a voice for change

| | West Kent Group | | | Global accounts (consolidated) 2017/18 | | | |
|---|---|---|---|---|---|---|---|
| **Value for Money Metrics** | **2016** | **2017** | **2018** | **Median** | **5,000-9,999 homes (median)** | **CASE (mean)** | **Place-shapers (mean)** |
| New supply delivered (Non-social housing units) | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.3% | 0.1% |
| 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. We will see our first outright sales completing in 2019. | | | | | | | |
| Gearing % (VFM metric) | 34% | 41% | 36% | 43% | 44% | 44% | 47% |
| Gearing % (West Kent set: tightest loan covenant) | 36% | 45% | 43% | N/a | N/a | N/a | N/a |
| In 2017 due to a timing of loans secured and drawn there was a £36m debtors, if this had been included in the calculation 2017 gearing would have been 34.7%. Based on this we have seen a slight increase in gearing in 2018. This is to be expected as we continue to fund future development, through surplus made on existing activities and additional borrowing, we see this gearing ratio rising slightly each year. Our tightest gearing covenant is very similar to the value for money metric apart from the exclusion of cash and work in progress of housing properties. | | | | | | | |
| Earnings Before Interest, Tax, Depreciation, Amortisation, Major Repairs Included (EBITDA MRI) Interest Cover % | 280% | 237% | 238% | 206% | 224% | 175% | 191% |
| Interest Cover % (tightest loan covenant) | 293% | 274% | 280% | N/a | N/a | N/a | N/a |
| Earnings have increased by £0.1m with interest costs remaining static causing a slight improvement on interest cover by either the value for money metric or our tightest loan covenant. We outperform our peer average on this measure, however as we deliver our strategic objectives this measure will reduce. In the last decade we have secured new debt at low rates, whilst increasing operating surpluses. | | | | | | | |
| Headline social housing cost per unit | £3,528 | £3,787 | £3,941 | £3,397 | £3,310 | £3,676 | £3,523 |
| Costs have increased by 4% (see breakdown below) whilst homes have only increased by 1%. Our costs are higher than the peer groups. The three largest costs are management, service charges and maintenance. Service charge costs include £280 per unit relating to operating payments on Kent Excellent Homes for All, a Private Finance Initiative which generates a low margin for the period of the contract, excluding this headline social housing cost per unit would be £3,661 in 2018 below average for CASE members. | | | | | | | |

| | West Kent Group | | | Global accounts (consolidated) 2017/18 | | |
|---|---|---|---|---|---|---|
| **Breakdown of social housing cost per unit** | **2017** | **2018** | **% change** | **Mean** | **CASE (mean)** | **Place-shapers (mean)** |
| Management costs | £562 | £579 | 3% | £1,017 | £1,049 | £919 |
| Service charge costs | £838 | £887 | 6% | £599 | £507 | £447 |
| Maintenance | £1,927 | £2,096 | 9% | £1,829 | £1,706 | £1,757 |
| Other (social housing letting) costs | £6 | £6 | 0% | £127 | £14 | £112 |
| Development services | £67 | £15 | -78% | £39 | £86 | £22 |
| Community / neighbourhood services | £232 | £219 | -6% | £25 | £48 | £21 |
| Other social housing activities: Other (operating expenditure) | £10 | £8 | -20% | £131 | £227 | £113 |
| Other social housing activities: charges for support services (operating expenditure)] | £145 | £131 | -10% | £156 | £39 | £132 |
| Total social housing costs | £3,787 | £3,941 | 4% | £3,919 | £3,676 | £3,523 |
| | | | | | | |
| Total social housing units owned and/ or managed at period end | 7,045 | 7,133 | 1% | 2,712,335 | 311,237 | 866,401 |

Management costs have gone up in line with inflation. The peer comparison continues to look very different to how West Kent apportions costs, we have investigated this in the last year but cannot identify a key difference.

Service charges represent a 6% increase on the previous year. We have seen costs for utilities and new homes have higher service charges than existing homes. This section also includes £2m of payments as part of a Private Finance Initiative, Kent Excellent Homes for All, equivalent to £280 per unit. Excluding this cost and the homes associated with the contract we would have service charge costs per unit of £628 (2017: £583).

Maintenance – Costs have increased above inflation. We have spent more in 2018 on fire precaution works, fencing, disabled adaptations, external decorations and electrical repair works. In 2018 we have also been improving our older persons accommodation and de-designating some homes that were no longer appropriate for the client group. In 2019 we will be re-procuring our building and electrical services contract. This is a significant contract as it is a long-term relationship to provide a key service that our customers value.

Community/ neighbourhood services – We have consciously chosen to allocate some of our resources to the communities in which we operate. This work is highlighted in the Community section above and the Community Impact Report on our website. This comes at a cost but it also brings inward investment shown in turnover.

| | West Kent Group | | | Global accounts (consolidated) 2017/18 | | | |
|---|---|---|---|---|---|---|---|
| **Value for Money Metrics** | **2016** | **2017** | **2018** | **Median** | **5,000-9,999 homes** | **CASE** | **Place-shapers** |
| Operating Margin (social housing lettings only) | 41.9% | 40.9% | 38.8% | 32.1% | 33.1% | 39.3% | 32.3% |

Social housing lettings margin reduced by 2%. Turnover from social housing lettings went up by 2.7%, costs went up by 6.4%. 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:

| | West Kent Group | | | Global accounts (consolidated) 2017/18 | | | |
|---|---|---|---|---|---|---|---|
| **Value for Money Metrics** | **2016** | **2017** | **2018** | **Median** | **5,000-9,999 homes** | **CASE** | **Place-shapers** |
| landlord function; tenancy sustainment, new homes and communities. Compared to our peers we have a healthy margin comparable to those of the CASE members. | | | | | | | |
| Operating Margin (overall) | 37.8% | 35.7% | 34.9% | 28.9% | 30.8% | 30.8% | 28.2% |
| When we look at our business as a whole the operating margin reduces to 34.9%. 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 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. West Kent has an internal target to achieve 35% overall margin in the long term. This indicator excludes surplus on the disposal of fixed assets, if this was included our margin would be 38% for 2018. Compared to our peers we have a greater overall margin. | | | | | | | |
| Return on capital employed (ROCE) | 3.4% | 3.1% | 3.1% | 4.1% | 4.8% | 3.8% | 4.2% |
| Fixed assets: Housing properties per unit | £74k | £76k | £79k | £53k | £46k | £76k | £45k |
| Operating surplus per unit | £2,646 | £2,730 | £2,761 | £2,433 | £2,313 | £3,375 | £2,090 |
| West Kent is actively pursuing an increased ROCE by converting cash held into new homes, thereby increasing operating surplus. We have increased operating surplus per unit each of the last three years as we increase our new homes programme. In the future new homes growth will be funded by borrowing and we will reduce cash balances. As seen above we have a high overall operating margin across our peer groups. However our asset value is high which reduces our ROCE performance, our assets since transfer in 1989 are recorded at cost, which may mean this is not a like for like comparison. | | | | | | | |

Table 1.8 Regulator of Social Housing – Value for Money metrics

## 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.

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

- Universal credit - 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.
- Brexit 'no deal' – there is a specific risk of a no deal Brexit. A no deal Brexit resulting in an inability to raise funds quickly, provide services or unable to obtain our technology.
- Maintenance re-procurement – we are unable to procure the provision of building and electrical services to replace the current provider at the end of the current contract in April 2020.

***Universal credit:*** this volatile risk has changed from being welfare reform in general to the specific risks around universal credit. All the Job Centre areas we work in have now gone live with the full Universal Credit services and we are seeing an average of forty new claimants per month.

Since April 2018, we have had 128 successful Discretionary Housing Payment claims which are worth over £53,000 in direct rent payments.

The Government appears to be delaying the roll out of Universal Credit. This proposal does not affect the current roll out of full Service Universal Credit across the UK - which will continue as planned, but the start of the managed-migration of legacy benefit claimants on to Universal Credit will now be restricted to just 10,000 claimants in 2019 as a pilot scheme. Further migration will continue in 2020 with the full roll out due to be completed by the end of 2023.

At the end of December 2018, we are aware of 269 West Kent tenants claiming Universal Credit. Of these, 186 cases (69%) are in arrears. We currently have a direct payment of the housing element for 30 cases. We continue to work with these residents to ensure they have sufficient information about their benefits and how to pay their rent.

***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.

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

- Housing Market – the shared ownership sales market remains steady and interest remains good.
- Mark to market values – all committed schemes have a current valuation of less than six months old (this has recently been reduced to three months).
- Unsold sales – seven homes were unsold at the end of the year, no properties were unsold for more than six months. All unsold homes at year end have now been sold.
- Marketing team expertise – the marketing team has not raised any concerns.
- Location based assessments – two schemes have high cost to value ratio, and values on this have remained unchanged during the year.
- Recent performance - sales values achieved overall in 2018 were 7% higher (2017: 12%) than the values approved to commit to the schemes.

- Pipeline analysis – four houses for outright sale, 189 houses and 47 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.

The trigger monitoring has worked effectively in assessing this risk.

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.

***Brexit 'no deal':*** this risk is affected by external pressures. We have considered the implications and where we can implement mitigation strategies we have done. We reviewed our short-term operational risks, the deteriorating housing market conditions, liquidity and treasury risk and the longer-term operational risks. Being a Kent based housing association there are specific risks around our location and potential impact on transport links if there are issues at the ports. We have reviewed our services and how we would mitigate issues with ensuring services continue especially those in the east of Kent such as our extra care schemes in Dover and Ramsgate. We have mitigated any potential liquidity issues by obtaining a further £10m of loans from The Housing Finance Corporation in January 2019.

***Maintenance re-procurement:*** during 2019 we will procure a new long-term contract for our building and electrical services as our current one comes to an end having been in place for 15 years. We have a clear plan to ensure services are maintained and are involving residents in the selection process.

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

***Health and safety:*** harm, that we should have prevented, is caused to our residents, staff, contractors or the public.
***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.
***ICT systems:*** our systems prevent business transformation affecting customer experience and business ambitions.
***Macro-Economic Environment:*** financial markets respond negatively leading to increased cost of capital. Economic situation leads to increased inflation during a period of rent reductions.
***Interest rate management:*** interest costs increase above assumptions after London Inter-bank Offered Rate (Libor) ceases to be published in 2021, with a suggested replacement of Sterling Overnight Index Average (Sonia).
***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 8 May 2019

**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 33) 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 judgements and estimates. The items in the financial statements where judgements 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 first tranche sales or 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 approved annually by the Board, 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 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 £31.9m (2017: £21.3m).

### *Kent Excellent Homes for All – Private Finance Initiative - Finance lease and depreciation*

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 used a qualified valuer to arrive at an existing use value of these assets. The valuation was estimated at £21.55m in 2016.

The assets are held on our balance sheet and depreciated over the lease term rather than the term of the private finance initiative contract. There is reasonable certainty that West Kent will own the homes after the term of the private finance initiative has expired. The assets are classified as land and structure as West Kent is not responsible for the replacement of components.

## 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 2018, we maintained future inflation assumptions in line with our long-term financial forecast. We increased our estimate of future payments under the finance lease for 2019 as these costs are known at year end based on retail price index inflation for September. Inflation applied to 2019 is 3.27%. This change has been reflected in the accounts and has increased the finance lease interest payable for 2018 from £730k to £777k.

### *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 £5.9m (2017: £6.0m).

### *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 liability at 31 December 2018 was £7.3m (2017: £9.8m).

| **Sensitivity analysis** | **£000s** | **£000s** | **£000s** |
|---|---|---|---|
| | | | |
| Adjustment to discount rate | +0.1% | 0.0% | -0.1% |
| Present value of total obligation | 49,601 | 50,607 | 51,635 |
| Projected service cost | 1,335 | 1,369 | 1,404 |
| | | | |
| Adjustment to long term salary increase | +0.1% | 0.0% | -0.1% |
| Present value of total obligation | 50,718 | 50,607 | 50,498 |
| Projected service cost | 1,369 | 1,369 | 1,369 |
| | | | |
| Adjustment to pension increases and deferred revaluation | +0.1% | 0.0% | -0.1% |
| Present value of total obligation | 51,528 | 50,607 | 49,705 |
| Projected service cost | 1,404 | 1,369 | 1,335 |
| | | | |
| Adjustment to life expectancy assumptions | +1 Year | None | -1 Year |
| Present value of total obligation | 52,457 | 50,607 | 48,825 |
| Projected service cost | 1,413 | 1,369 | 1,327 |
| | | | |

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 March 2019, the board reviewed the agreement 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 2019. The standard states that governance arrangements shall ensure registered providers adhere to all relevant law. As reported in 2017 financial statements there were two instances of non-compliance identified. In both instances the Regulator reviewed our response to these as part of the in-depth assessment in 2018.

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. All contracts have been corrected and further controls have been put in place.

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 six 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 29.

## 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). 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.
- 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 can 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 19 June 2019.

By order of the board

**Colin Wilby, Chair**

**Date: 8 May 2019**

## Executives and advisors

### West Kent Housing Association Board members
Colin Wilby, Chair
Judith Collings
Frank Czarnowski, Chief Executive
Helen Edwards (appointed 1 September 2018)
Joanne Frawley, Vice Chair
Angela George
Dave Hill
Brian Horton
Peter Kasch
Caroline Phillips
Rosie Serpis (resigned 20 June 2018)
Dr Joanne Simpson

### Executive team
Heather Brightwell, Communities Director (appointed 2 January 2019)
Frank Czarnowski, Chief Executive
Will Campbell-Wroe, Communities Director (resigned 2 January 2019)
Hilary Knight, Business Services Director (resigned 30 June 2018)
Mark Leader, Property Director
Craig Reynolds, Finance Director and Company Secretary
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
  NatWest Bank, 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 2018 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 reserves, 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 2018 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 Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

## Basis for opinion

We 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 and the Directors' report 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
- a satisfactory system of control has not been maintained over transactions; or
- the parent Association financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

**Responsibilities of the board**

As explained more fully in the board members responsibilities statement set out on page 27, 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**

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

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

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

**Use of our report**

This report is made solely to the members of the Association, as a body, in accordance with 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.

Elizabeth Kulczycki, senior statutory auditor
BDO LLP,
Statutory Auditor
Gatwick
Date:

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

# West Kent Housing Association

## Consolidated and Association statement of comprehensive income for the year ended 31 December 2018

| | Note | Group 2018 £'000 | Group 2017 £'000 | Association 2018 £'000 | Association 2017 £'000 |
|---|---|---|---|---|---|
| Turnover | 4 | 52,677 | 50,284 | 51,903 | 49,564 |
| Cost of sales | 4 | (3,398) | (2,655) | (3,398) | (2,655) |
| Operating costs | 4 | (30,900) | (29,687) | (30,033) | (28,981) |
| Surplus on disposal of housing properties | 4, 11 | 1,319 | 1,288 | 1,319 | 1,288 |
| **Operating surplus** | 4,7 | 19,698 | 19,230 | 19,791 | 19,216 |
| Movement in fair value of investment properties | 18 | - | (125) | - | (125) |
| **Operating surplus after fair value adjustment** | | 19,698 | 19,105 | 19,791 | 19,091 |
| Surplus on disposal of other fixed assets | 11 | 3 | 2 | 3 | 2 |
| Other interest receivable and similar income | 12 | 211 | 103 | 211 | 103 |
| Interest and financing costs | 13 | (7,461) | (7,518) | (7,461) | (7,518) |
| Surplus before taxation | | 12,451 | 11,692 | 12,544 | 11,678 |
| Taxation on surplus | 14 | - | - | - | - |
| **Surplus for the financial year** | | 12,451 | 11,692 | 12,544 | 11,678 |
| Actuarial gain/(loss) on defined benefit pension scheme | 28 | 3,279 | 3,468 | 3,279 | 3,468 |
| **Total comprehensive income for year** | | 15,730 | 15,160 | 15,823 | 15,146 |

The notes on pages 38 to 86 form part of these financial statements.

All activities relate to continuing operations.

## West Kent Housing Association
## Consolidated and Association balance sheets at 31 December 2018

| | Note | Group 2018 £'000 | Group 2017 £'000 | Association 2018 £'000 | Association 2017 £'000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Tangible fixed assets – housing properties | 15 | 563,083 | 534,392 | 563,083 | 534,392 |
| Tangible fixed assets - other | 16 | 2,595 | 2,864 | 2,578 | 2,837 |
| Investment properties | 18 | 6,500 | 6,500 | 6,500 | 6,500 |
| | | 572,178 | 543,756 | 572,161 | 543,729 |
| **Current assets** | | | | | |
| Properties for sale | 19 | 10,292 | 6,951 | 10,292 | 6,951 |
| Stock | | 82 | 93 | 71 | 78 |
| Debtors – receivable within one year | 20 | 1,887 | 36,828 | 1,786 | 36,728 |
| Debtors – receivable after one year | 20 | 3,350 | 3,288 | 3,350 | 3,288 |
| Cash and cash equivalents | 21 | 47,130 | 32,710 | 46,979 | 32,491 |
| | | 62,741 | 79,870 | 62,478 | 79,536 |
| **Creditors: amounts falling due within one year** | 22 | (8,077) | (8,459) | (8,001) | (8,395) |
| **Net current assets** | | 54,664 | 71,411 | 54,477 | 71,141 |
| **Total assets less current liabilities** | | 626,842 | 615,167 | 626,638 | 614,870 |
| **Creditors: amounts falling due after more than one year** | 23 | (337,582) | (339,131) | (337,582) | (339,131) |
| Net assets excluding pension liability | | 289,260 | 276,036 | 289,056 | 275,739 |
| Pension liability | 28 | (7,316) | (9,822) | (7,316) | (9,822) |
| **Net assets** | | 281,944 | 266,214 | 281,740 | 265,917 |
| **Capital and reserves** | | | | | |
| Called up share capital | 29 | - | - | - | - |
| Income and expenditure reserve | | 118,109 | 101,550 | 117,946 | 101,309 |
| Revaluation reserve | | 163,794 | 164,608 | 163,794 | 164,608 |
| Restricted reserve | | 41 | 56 | - | - |
| | | 281,944 | 266,214 | 281,740 | 265,917 |

The financial statements were approved by the board of directors and authorised for issue on 8 May 2019 and signed on their behalf by:

**C Wilby, Chair of Board**

The notes on pages 38 to 86 form part of these financial statements.

## West Kent Housing Association
## Consolidated statement of changes in reserves

| | Income and expenditure reserve £'000 | Restricted reserve £'000 | Revaluation reserve £'000 | Total £'000 |
|---|---|---|---|---|
| **Balance at 1 January 2018** | 101,550 | 56 | 164,608 | 266,214 |
| **Surplus for the year** | 12,466 | (15) | - | 12,451 |
| Actuarial gain on defined benefit pension scheme | 3,279 | - | - | 3,279 |
| Reserves transfers: | | | | |
| Transfer from revaluation reserve to income and expenditure reserve | 814 | - | (814) | - |
| Transfer of restricted expenditure from income and expenditure reserve | - | - | - | - |
| **Balance at 31 December 2018** | 118,109 | 41 | 163,794 | 281,944 |
| **Balance at 1 January 2017** | 82,491 | 67 | 168,496 | 251,054 |
| **Surplus for the year** | 11,696 | (4) | - | 11,692 |
| Actuarial gain 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 |

# West Kent Housing Association
## Association statement of changes in reserves

| | Income and expenditure reserve | Revaluation reserve | Total |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| **Balance at 1 January 2018** | 101,309 | 164,608 | 265,917 |
| **Surplus for the year** | 12,544 | - | 12,544 |
| Actuarial gain on defined benefit pension scheme | 3,279 | - | 3,279 |
| Reserves transfers: | | | |
| Transfer from revaluation reserve to income and expenditure reserve | 814 | (814) | - |
| **Balance at 31 December 2018** | 117,946 | 163,794 | 281,740 |
| **Balance at 1 January 2017** | 82,275 | 168,496 | 250,771 |
| **Surplus for the year** | 11,678 | - | 11,678 |
| Actuarial gain 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 |

## Consolidated statement of cash flows for the year ended 31 December 2018

| | Note | 2018 | 2017 |
|---|---|---|---|
| | | £'000 | £'000 |
| **Cash flows from operating activities** | | | |
| **Surplus for the financial year** | | 12,451 | 11,692 |
| Adjustments for: | | | |
| Depreciation of fixed assets - housing properties | 15 | 5,387 | 5,282 |
| Depreciation of other fixed assets | 16 | 540 | 673 |
| Impairment of other fixed assets | 16 | 9 | - |
| Amortised grant | 5 | (958) | (956) |
| Difference in fair value of investment properties | 18 | - | 125 |
| Interest payable and finance costs | 13 | 7,461 | 7,518 |
| Interest received | 12 | (211) | (103) |
| Difference between net pension expense and cash contribution | 28 | 773 | 670 |
| Disposal cost of sales - housing properties | 11 | 1,273 | 1,984 |
| Surplus on the sale of other fixed assets | 11 | (3) | (2) |
| Increase in trade and other debtors | | (1,120) | (1,857) |
| Increase in stocks | | (3,330) | (3,069) |
| Decrease/Increase in trade and other creditors | | (916) | 620 |
| **Cash from operations** | | 21,356 | 22,577 |
| Taxation paid | | - | - |
| **Net cash generated from operating activities** | | 21,356 | 22,577 |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of other fixed assets | 11 | 7 | 9 |
| Purchase of fixed assets – housing properties | 15 | (34,260) | (22,480) |
| Purchases of other fixed assets | 16 | (284) | (324) |
| Receipt of grant | 24 | 1,159 | 1,402 |
| Interest received | 12 | 211 | 103 |
| Loans redeemed | 20 | - | 1 |
| **Net cash from investing activities** | | (33,167) | (21,289) |
| **Cash flows from financing activities** | | | |
| Interest paid | 13 | (8,086) | (8,224) |
| Capital element of lease revalued/(repaid) | | (55) | 943 |
| New loans - bank | 27 | 36,000 | 20,914 |
| Debt issue costs incurred | 26 | (128) | (886) |
| Repayment of bank loans | 26 | (1,500) | (1,250) |
| **Net cash used in financing activities** | | 26,231 | 11,497 |
| **Net increase in cash and cash equivalents** | | 14,420 | 12,785 |
| Cash and cash equivalents at beginning of year | | 32,710 | 19,925 |
| **Cash and cash equivalents at end of year** | | 47,130 | 32,710 |

The notes on page 38 to 86 form part of these financial statements.

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## 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 £24k, 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 |

| Description | Economic useful life (years) |
|---|---|
| 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 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 biennially 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.

### 2.26 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.

### 2.27 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.

### 2.28 Stock

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

### 2.29 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.

### 2.30 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.

### 2.31 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.

### 2.32 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.

### 2.33 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.

### 2.34 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.

### 2.35 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.

### 2.36 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.

### 2.37 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.

### 2.38 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.

### 2.39 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 Existing Use Value – Social Housing (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.

- Whether the Kent Excellent Homes for All – Private Finance Initiative should be depreciated over the lease term rather than the term of the private finance initiative contract. There is reasonable certainty that West Kent will own the homes after the term of the private finance initiative has expired. The assets are classified as land and structure as West Kent is not responsible for the replacement of components.

- 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.

  Properties built under the ‘Private Finance Initiative – Kent Excellent Homes for All’ are depreciated over their useful economic life.

- 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 – i.e. 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 expenditure, 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) |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | 2018 | 2018 | 2018 | 2018 | 2017 | 2017 | 2017 | 2017 | 2017 |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Social housing lettings (Note 5)** | 45,582 | - | (27,916) | - | **17,666** | 44,383 | - | (26,242) | - | **18,141** |
| **Other social housing activities** | | | | | | | | | | |
| First tranche low cost home ownership sales | 4,746 | (3,398) | - | - | **1,348** | 3,710 | (2,655) | - | - | **1,055** |
| Staircasing activity on low cost home ownership (Note 11) | - | - | - | 805 | **805** | - | - | - | 875 | **875** |
| Sales of other housing properties (Note 11) | - | - | - | 514 | **514** | - | - | - | 413 | **413** |
| Charges for support services | 159 | - | (274) | - | **(115)** | 253 | - | (301) | - | **(48)** |
| Supporting people | 644 | - | (660) | - | **(16)** | 471 | - | (721) | - | **(250)** |
| Community engagement | 774 | - | (1,562) | - | **(788)** | 720 | - | (1,636) | - | **(916)** |
| Development costs not capitalised | - | - | (106) | - | **(106)** | - | - | (471) | - | **(471)** |
| Other | 20 | - | (60) | - | **(40)** | 39 | - | (73) | - | **(34)** |
| | 51,925 | (3,398) | (30,578) | 1,319 | **19,268** | 49,576 | (2,655) | (29,444) | 1,288 | **18,765** |
| **Activities other than social housing activities** | | | | | | | | | | |
| Lettings - Garages | 667 | - | (322) | - | **345** | 635 | - | (243) | - | **392** |
| Other | 85 | - | - | - | **85** | 73 | - | - | - | **73** |
| | 752 | - | (322) | - | **430** | 708 | - | (243) | - | **465** |
| | 52,677 | (3,398) | (30,900) | 1,319 | **19,698** | 50,284 | (2,655) | (29,687) | 1,288 | **19,230** |

## 4 Particulars of turnover, cost of sales, operating expenditure, 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) |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2018** | **2018** | **2018** | **2018** | **2018** | **2017** | **2017** | **2017** | **2017** | **2017** |
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| **Social housing lettings (Note 5)** | 45,582 | - | (27,916) | - | **17,666** | 44,383 | - | (26,242) | - | **18,141** |
| **Other social housing activities** | | | | | | | | | | |
| First tranche low cost home ownership sales | 4,746 | (3,398) | - | - | **1,348** | 3,710 | (2,655) | - | - | **1,055** |
| Staircasing activity on low cost home ownership (Note 11) | - | - | - | 805 | **805** | - | - | - | 875 | **875** |
| Sales of other housing properties (Note 11) | - | - | - | 514 | **514** | - | - | - | 413 | **413** |
| Charges for support services | 159 | - | (274) | - | **(115)** | 253 | - | (301) | - | **(48)** |
| Supporting people | 644 | - | (660) | - | **(16)** | 471 | - | (721) | - | **(250)** |
| Community engagement | - | - | (695) | - | **(695)** | - | - | (930) | - | **(930)** |
| Development costs not capitalised | - | - | (106) | - | **(106)** | - | - | (471) | - | **(471)** |
| Other | 20 | - | (60) | - | **(40)** | 39 | - | (73) | - | **(34)** |
| | 51,151 | (3,398) | (29,711) | 1,319 | **19,361** | 48,856 | (2,655) | (28,738) | 1,288 | **18,751** |
| **Activities other than social housing activities** | | | | | | | | | | |
| Lettings - Garages | 667 | - | (322) | - | **345** | 635 | - | (243) | - | **392** |
| Other | 85 | - | - | - | **85** | 73 | - | - | - | **73** |
| | 752 | - | (322) | - | **430** | 708 | - | (243) | - | **465** |
| | 51,903 | (3,398) | (30,033) | 1,319 | **19,791** | 49,564 | (2,655) | (28,981) | 1,288 | **19,216** |

## 5 Particulars of turnover and operating expenditure from social housing lettings - Group and Association

| | General needs housing | Supported housing (including housing for older people) | Kent Excellent Homes for All | Low cost home ownership | Leasehold | Total | Total |
|---|---|---|---|---|---|---|---|
| | 2018 | 2018 | 2018 | 2018 | 2018 | 2018 | 2017 |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Income** | | | | | | | |
| Rents net of identifiable service charges | 30,712 | 4,887 | 3,002 | 2,015 | 1 | 40,617 | 39,625 |
| Service charge income | 1,075 | 1,603 | 781 | 267 | 56 | 3,782 | 3,607 |
| **Net rental income** | 31,787 | 6,490 | 3,783 | 2,282 | 57 | 44,399 | 43,232 |
| Amortised government grants | 763 | 117 | - | 78 | - | 958 | 956 |
| Other grants | 189 | 36 | - | - | - | 225 | 195 |
| Turnover from social housing lettings | 32,739 | 6,643 | 3,783 | 2,360 | 57 | 45,582 | 44,383 |
| | | | | | | | |
| **Operating expenditure** | | | | | | | |
| Management | (2,872) | (522) | (369) | (274) | (88) | (4,125) | (3,961) |
| Service charge costs | (2,073) | (1,600) | (225) | (346) | (84) | (4,328) | (3,967) |
| Routine maintenance | (3,282) | (624) | (127) | - | - | (4,033) | (3,699) |
| Planned maintenance | (6,089) | (1,115) | (8) | - | - | (7,212) | (6,422) |
| Major repairs expenditure | (359) | (70) | - | - | - | (429) | (562) |
| Kent Excellent Homes for All operating service agreement | - | - | (2,000) | - | - | (2,000) | (1,934) |
| Bad debts | (284) | (27) | (46) | (1) | - | (358) | (371) |
| Depreciation of housing properties: | | | | | | | |
| - annual charge | (4,406) | (746) | (126) | - | - | (5,278) | (5,106) |
| - accelerated on disposal of components | (95) | (14) | - | - | - | (109) | (176) |
| Other costs | (13) | (31) | - | - | - | (44) | (44) |
| Operating expenditure on social housing lettings | (19,473) | (4,749) | (2,901) | (621) | (172) | (27,916) | (26,242) |
| | | | | | | | |
| Operating surplus/(deficit) on social housing lettings | 13,266 | 1,894 | 882 | 1,739 | (115) | 17,666 | 18,141 |
| | | | | | | | |
| Void losses (being rental income lost as a result of property not being let, although it is available for letting) | (169) | (111) | (33) | (11) | - | (324) | (357) |

## 6 Residential accommodation owned and / or managed

| | Group 2018 Number | Group 2017 Number | Association 2018 Number | Association 2017 Number |
|---|---|---|---|---|
| General needs housing: | | | | |
| - social | 4,876 | 4,861 | 4,876 | 4,861 |
| - affordable | 532 | 492 | 532 | 492 |
| Housing for older people: | | | | |
| - social | 837 | 852 | 837 | 852 |
| - affordable | 64 | 39 | 64 | 39 |
| - Kent Excellent Homes for All | 218 | 218 | 218 | 218 |
| Supported housing: | | | | |
| - social | 38 | 46 | 38 | 46 |
| - affordable | 8 | - | 8 | - |
| - Kent Excellent Homes for All | 20 | 20 | 20 | 20 |
| Intermediate rent | 30 | 34 | 30 | 34 |
| Low cost home ownership | 507 | 480 | 507 | 480 |
| Total owned and managed accommodation | 7,130 | 7,042 | 7,130 | 7,042 |
| Residential accommodation managed by others | 3 | 3 | 3 | 3 |
| Total owned and/or managed social housing | 7,133 | 7,045 | 7,133 | 7,045 |
| Leaseholders | 175 | 174 | 175 | 174 |
| Homes under construction | 425 | 275 | 425 | 275 |

## 7 Operating surplus

| | Group 2018 £'000 | Group 2017 £'000 | Association 2018 £'000 | Association 2017 £'000 |
|---|---|---|---|---|
| This is arrived at after charging/(crediting): | | | | |
| Depreciation of housing properties: | | | | |
| - annual charge | 5,278 | 5,106 | 5,278 | 5,106 |
| - accelerated depreciation on replaced components | 109 | 176 | 109 | 176 |
| - Impairment | 9 | - | - | - |
| Depreciation of other tangible fixed assets | 540 | 673 | 525 | 659 |
| Operating lease charges – land & building | 96 | 106 | 90 | 106 |
| Leasing income | (1,882) | (1,624) | (1,882) | (1,624) |
| Auditors' remuneration (excluding VAT): | | | | |
| - fees payable to the group's auditor for the audit of the group's annual accounts | 52 | 41 | 52 | 41 |
| - fees for audit of accounts of subsidiary entities | 11 | 13 | - | - |
| - fees for other non-audit services | - | - | - | - |
| | | | | |
| Defined benefit pension cost (Note 28) | 1,621 | 1,456 | 1,621 | 1,456 |
| Defined contribution pension cost (Note 8) | 177 | 165 | 177 | 165 |

## 8 Employees

| | Group 2018 £'000 | Group 2017 £'000 | Association 2018 £'000 | Association 2017 £'000 |
|---|---|---|---|---|
| Staff costs (including executive management team) consist of: | | | | |
| Wages and salaries | 7,757 | 7,488 | 7,757 | 7,488 |
| Social security costs | 738 | 715 | 738 | 715 |
| Cost of defined benefit pension scheme (Note 28) | 1,621 | 1,456 | 1,621 | 1,456 |
| Cost of defined contribution scheme | 177 | 165 | 177 | 165 |
| Less amounts recharged to group entities | - | - | (754) | (721) |
| | 10,293 | 9,824 | 9,539 | 9,103 |

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 2018 FTE | Group 2017 FTE | Association 2018 FTE | Association 2017 FTE |
|---|---|---|---|---|
| Administration | 40 | 40 | 40 | 40 |
| Development | 9 | 6 | 9 | 6 |
| Housing, Support and Care | 190 | 193 | 190 | 193 |
| | 239 | 239 | 239 | 239 |

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 £176,774 (2017 - £165,145). No contributions (2017 - £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 29.

| | Group 2018 £'000 | Group 2017 £'000 | Association 2018 £'000 | Association 2017 £'000 |
|---|---|---|---|---|
| Executive directors' emoluments | 571 | 605 | 571 | 605 |
| Amounts paid to non-executive directors | 68 | 68 | 68 | 68 |
| | 639 | 673 | 639 | 673 |

The total amount payable to the chief executive, who was also the highest paid director in respect of emoluments excluding pension was £125,646 (2017 - £122,834). 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 four directors in the KCC LGPS scheme (2017 - five) and no directors in the group's defined contribution pension scheme (2017 - Nil).

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

| | Group 2018 Number | Group 2017 Number | Association 2018 Number | Association 2017 Number |
|---|---|---|---|---|
| £60,000 - £69,999 | 7 | 4 | 7 | 4 |
| £70,000 - £79,999 | 1 | 2 | 1 | 2 |
| £80,000 - £89,999 | - | 1 | - | 1 |
| £90,000 - £99,999 | - | - | - | - |
| £100,000 - £109,999 | 2 | 3 | 2 | 3 |
| £110,000 - £119,999 | 1 | - | 1 | - |
| £120,000 - £129,999 | - | - | - | - |
| £130,000 - £139,999 | - | 1 | - | 1 |
| £140,000 - £149,999 | 1 | - | 1 | - |
| | 12 | 11 | 12 | 11 |

## 10 Board members

| | | Member of: | | | |
|---|---|---|---|---|---|
| Board members | Remuneration £ | Group Board | Audit and Finance | Communities and housing | Remuneration |
| Judith Collings | 6,205 | ● | ● | | |
| Frank Czarnowski (Chief executive) | 143,306 | ● | | ● | |
| Helen Edwards (Appointed 1 September 2018) | 2,081 | ● | | ● | |
| Joanne Frawley (Vice chair) | 6,205 | ● | | ⦿ | ● |
| Angela George | 6,205 | ● | | ● | |
| Dave Hill | 6,205 | ● | ● | | ⦿ |
| Brian Horton | 6,205 | ● | | ● | |
| Peter Kasch | 6,205 | ● | ● | | |
| Caroline Phillips | 7,148 | ● | ⦿ | | |
| Rosie Serpis (resigned 20 June 2018) | 2,910 | | | | |
| Dr Joanne Simpson | 6,205 | ● | | ● | |
| Colin Wilby (Chair) | 12,545 | ⦿ | *● | ● | ● |

⦿ Chair ● Member

## 11 Surplus on disposal of fixed assets

| Group and Association | Shared ownership 2018 £'000 | Other housing properties 2018 £'000 | Other 2018 £'000 | Total 2018 £'000 |
|---|---|---|---|---|
| Housing properties: | | | | |
| Disposal proceeds | 1,783 | 726 | 3 | 2,512 |
| Cost of disposals | (948) | (180) | - | (1,128) |
| Grant recycled on disposal | (23) | (30) | - | (53) |
| Selling costs | (7) | (2) | - | (9) |
| Surplus on disposal of fixed assets | 805 | 514 | 3 | 1,322 |

| 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 |

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 2018 £'000 | Group 2017 £'000 | Association 2018 £'000 | Association 2017 £'000 |
|---|---|---|---|---|
| Interest receivable and similar income | 211 | 103 | 211 | 103 |
| | 211 | 103 | 211 | 103 |

## 13 Interest payable and similar charges

| | Group 2018 £'000 | Group 2017 £'000 | Association 2018 £'000 | Association 2017 £'000 |
|---|---|---|---|---|
| Bank loans and overdrafts | 7,504 | 6,414 | 7,504 | 6,414 |
| Finance leases | 777 | 1,748 | 777 | 1,748 |
| Net interest on net defined benefit liability | 241 | 338 | 241 | 338 |
| | 8,522 | 8,500 | 8,522 | 8,500 |
| Interest capitalised in construction costs of housing properties | (1,061) | (982) | (1,061) | (982) |
| | 7,461 | 7,518 | 7,461 | 7,518 |

## 14 Taxation on surplus on ordinary activities

| | Group 2018 £'000 | Group 2017 £'000 | Association 2018 £'000 | Association 2017 £'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 2018 £'000 | Group 2017 £'000 | Association 2018 £'000 | Association 2017 £'000 |
|---|---|---|---|---|
| Surplus on ordinary activities before tax | 12,451 | 11,692 | 12,544 | 11,678 |
| Surplus on ordinary activities at the standard rate of corporation tax in the UK of 19% (2017 - 19%) | 2,366 | 2,221 | 2,383 | 2,219 |
| Effects of: | | | | |
| Charitable income | (2,366) | (2,221) | (2,383) | (2,219) |
| Total tax charge for period | - | - | - | - |

The aggregate current and deferred tax relating to items recognised in other comprehensive income is a charge of £Nil (2017: £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 was sold without it being possible to claim rollover relief. The total un-provided amount is £Nil (2017 - £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 2018 | 513,024 | 13,523 | 52,059 | 9,494 | 588,100 |
| Additions: | | | | | |
| construction costs | - | 16,991 | - | 14,939 | 31,930 |
| replaced components | 3,276 | - | - | - | 3,276 |
| Completed schemes | 12,434 | (12,434) | 5,334 | (5,334) | - |
| Disposals: | | | | | |
| staircasing sales to 100% | - | - | (629) | - | (629) |
| staircasing sales partial | - | - | (319) | - | (319) |
| other sales | (208) | - | - | - | (208) |
| replaced components | (563) | - | - | - | (563) |
| At 31 December 2018 | 527,963 | 18,080 | 56,445 | 19,099 | 621,587 |
| Depreciation: | | | | | |
| At 1 January 2018 | (53,708) | - | - | - | (53,708) |
| Charge for the year | (5,387) | - | - | - | (5,387) |
| Eliminated on disposals: | | | | | |
| other sales | 28 | - | - | - | 28 |
| replaced components | 563 | - | - | - | 563 |
| At 31 December 2018 | (58,504) | - | - | - | (58,504) |
| Net book value at 31 December 2018 | 469,459 | 18,080 | 56,445 | 19,099 | 563,083 |
| Net book value at 31 December 2017 | 459,316 | 13,523 | 52,059 | 9,494 | 534,392 |

## 15 Tangible fixed assets - housing properties (continued)

| | Group 2018 £'000 | Group 2017 £'000 | Association 2018 £'000 | Association 2017 £'000 |
|---|---|---|---|---|
| The net book value of housing properties may be further analysed as: | | | | |
| Freehold | 524,228 | 495,615 | 524,228 | 495,615 |
| Long leasehold | 38,855 | 38,777 | 38,855 | 38,777 |
| | 563,083 | 534,392 | 563,083 | 534,392 |
| Interest capitalisation | | | | |
| Interest capitalised in the year | 1,061 | 952 | 1,061 | 952 |
| Rate used for capitalisation | 3.1% | 4.2% | 3.1% | 4.2% |
| Works to properties | | | | |
| Improvements to existing properties capitalised | - | 2 | - | 2 |
| Major components replacement capitalised | 3,276 | 2,888 | 3,276 | 2,888 |
| Major repairs expenditure to income and expenditure account | 429 | 562 | 429 | 562 |
| | 3,705 | 3,452 | 3,705 | 3,452 |
| Total Social Housing Grant received or receivable to date is as follows: | | | | |
| Deferred capital grant – Housing properties - general needs | 78,598 | 78,500 | 78,598 | 78,500 |
| Deferred capital grant – Housing properties - shared ownerships | 7,214 | 7,298 | 7,214 | 7,298 |
| Recycled capital grant fund | 1,337 | 1,004 | 1,337 | 1,004 |
| Revenue grant – income and expenditure | 958 | 956 | 958 | 956 |
| Revenue grant – reserves | 34,401 | 33,445 | 34,401 | 33,445 |
| | 122,508 | 121,203 | 122,508 | 121,203 |

## 15 Tangible fixed assets - housing properties (continued)

### Finance leases

The net book value of housing properties for the group includes an amount of £21,299k (2017 - £21,424k) 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 £355m pledged as security at 31 December 2018 (2017 - £333m).

## 16 Other tangible fixed assets

| Group | Office buildings | Plant, machinery and vehicles | Fixtures, fittings, tools and equipment | Total |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Cost | | | | |
| At 1 January 2018 | 2,423 | 4,911 | 1,335 | 8,669 |
| Additions | - | 235 | 49 | 284 |
| Disposals | - | (74) | (11) | (85) |
| At 31 December 2018 | 2,423 | 5,072 | 1,373 | 8,868 |
| Depreciation | | | | |
| At 1 January 2018 | (765) | (3,931) | (1,109) | (5,805) |
| Charge for year | (38) | (446) | (56) | (540) |
| Disposals | - | 74 | 7 | 81 |
| At 31 December 2018 | (803) | (4,303) | (1,158) | (6,264) |
| Impairment | | | | |
| At 1 January 2018 | - | - | - | - |
| Charge for year | - | - | (9) | (9) |
| Released | - | - | - | - |
| At 31 December 2018 | - | - | (9) | (9) |
| Net book value | | | | |
| At 31 December 2018 | 1,620 | 769 | 206 | 2,595 |
| At 31 December 2017 | 1,658 | 980 | 226 | 2,864 |

## 16 Other tangible fixed assets (continued)

| Association | Office buildings £'000 | Plant, machinery and vehicles £'000 | Fixtures, fittings, tools and equipment £'000 | Total £'000 |
|---|---|---|---|---|
| Cost | | | | |
| At 1 January 2018 | 2,423 | 4,855 | 1,282 | 8,560 |
| Additions | - | 235 | 31 | 266 |
| Disposals | - | (59) | - | (59) |
| At 31 December 2018 | 2,423 | 5,031 | 1,313 | 8,767 |
| Depreciation | | | | |
| At 1 January 2018 | (765) | (3,882) | (1,076) | (5,723) |
| Charge for year | (38) | (440) | (47) | (525) |
| Disposals | - | 59 | - | 59 |
| At 31 December 2018 | (803) | (4,263) | (1,123) | (6,189) |
| Net book value | | | | |
| At 31 December 2018 | 1,620 | 768 | 190 | 2,578 |
| At 31 December 2017 | 1,658 | 973 | 206 | 2,837 |

| | Group 2018 £'000 | Group 2017 £'000 | Association 2018 £'000 | Association 2017 £'000 |
|---|---|---|---|---|
| The net book value of office buildings may be further analysed as: | | | | |
| Freehold | 1,601 | 1,637 | 1,601 | 1,637 |
| Short leasehold | 36 | 21 | 19 | 21 |
| | 1,637 | 1,658 | 1,620 | 1,658 |

**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 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 2018 is calculated to be £47,640 (2017: £32,755). West Kent's share of the profits to date would be £23,820 (2017: £16,378). 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 2018 | 6,500 | 6,500 |
| Movements in fair value of investment | - | - |
| At 31 December 2018 | 6,500 | 6,500 |
| Net book value at 31 December 2018 | 6,500 | 6,500 |
| Net book value at 31 December 2017 | 6,500 | 6,500 |

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 | 2018 £'000 | 2017 £'000 |
|---|---|---|
| First tranche shared ownership properties: | | |
| Work in progress (Properties under construction) | 9,633 | 5,891 |
| Completed properties (Properties completed and unsold) | 659 | 1,060 |
| | 10,292 | 6,951 |

Properties developed for sale include capitalised interest of £350,741 (2017 - £215,697).

## 20 Debtors

| | Group 2018 £'000 | Group 2017 £'000 | Association 2018 £'000 | Association 2017 £'000 |
|---|---|---|---|---|
| **Due within one year** | | | | |
| Rent and service charge arrears | 1,270 | 999 | 1,270 | 999 |
| Less: Provision for doubtful debts | (709) | (596) | (709) | (596) |
| | 561 | 403 | 561 | 403 |
| Amounts owed by group undertakings | - | - | 25 | - |
| Amounts held in trust | - | 35,367 | - | 35,367 |
| Staff loans | 2 | 2 | 2 | 2 |
| Other debtors | 388 | 391 | 330 | 326 |
| Prepayments and accrued income | 936 | 665 | 868 | 630 |
| | 1,887 | 36,828 | 1,786 | 36,728 |
| **Due after one year** | | | | |
| Staff loans | - | - | - | - |
| Amounts held on trust | 3,017 | 3,035 | 3,017 | 3,035 |
| Prepayments and accrued income | 333 | 253 | 333 | 253 |
| | 3,350 | 3,288 | 3,350 | 3,288 |
| | 5,237 | 40,116 | 5,136 | 40,016 |

The amounts held in trust relate to interest servicing reserve held on loans of £3,017k (2017 - £3,035k) held by Affordable Housing Finance Plc.  Amounts held on trust for the loan principle where security is to be provided Nil (2017 - £35,367k).

## 21 Cash and cash equivalents

| | Group 2018 £'000 | Group 2017 £'000 | Association 2018 £'000 | Association 2017 £'000 |
|---|---|---|---|---|
| Cash at bank and in hand | 46,462 | 32,050 | 46,311 | 31,831 |
| Leaseholder accounts | 668 | 660 | 668 | 660 |
| | 47,130 | 32,710 | 46,979 | 32,491 |

## 22 Creditors: amounts falling due within one year

| | Group 2018 £'000 | Group 2017 £'000 | Association 2018 £'000 | Association 2017 £'000 |
|---|---|---|---|---|
| Loans and borrowings (Note 26) | 1,635 | 1,519 | 1,635 | 1,519 |
| Trade creditors | 384 | 957 | 384 | 957 |
| Rent and service charges received in advance | 864 | 1,097 | 864 | 1,097 |
| Amounts owed to group undertakings | - | - | - | 16 |
| Obligations under finance leases (Note 26) | 133 | 102 | 133 | 102 |
| Other creditors | 976 | 858 | 976 | 858 |
| Recycled capital grant fund (Note 25) | 354 | 275 | 354 | 275 |
| Accruals and deferred income | 2,354 | 2,548 | 2,278 | 2,468 |
| Accrued interest | 1,377 | 1,103 | 1,377 | 1,103 |
| | 8,077 | 8,459 | 8,001 | 8,395 |

## 23 Creditors: amounts falling due after more than one year

| | Group 2018 £'000 | Group 2017 £'000 | Association 2018 £'000 | Association 2017 £'000 |
|---|---|---|---|---|
| Loans and borrowings (Note 26) | 227,818 | 229,562 | 227,818 | 229,562 |
| Obligations under finance leases (Note 26) | 22,279 | 22,365 | 22,279 | 22,365 |
| Deferred capital grant (Note 24) | 85,811 | 85,798 | 85,811 | 85,798 |
| Recycled capital grant fund (Note 25) | 983 | 729 | 983 | 729 |
| Sinking fund balances | 691 | 677 | 691 | 677 |
| | 337,582 | 339,131 | 337,582 | 339,131 |

## 24 Deferred capital grant

| | Group 2018 £'000 | Group 2017 £'000 | Association 2018 £'000 | Association 2017 £'000 |
|---|---|---|---|---|
| At 1 January | 85,798 | 85,696 | 85,798 | 85,696 |
| Grants received during the year | 1,251 | 1,397 | 1,251 | 1,397 |
| Grants recycled from the recycled capital grant fund and disposal proceeds fund | - | - | - | - |
| Released to income during the year | (958) | (956) | (958) | (956) |
| Grants on disposed properties | (280) | (339) | (280) | (339) |
| At 31 December | 85,811 | 85,798 | 85,811 | 85,798 |

## 25 Recycled capital grant fund

| | Group 2018 £'000 | Group 2017 £'000 | Association 2018 £'000 | Association 2017 £'000 |
|---|---|---|---|---|
| At 1 January | 1,004 | 521 | 1,004 | 521 |
| Inputs to Recycled capital grant fund: | | | | |
| - grants recycled from deferred capital grants | 280 | 339 | 280 | 339 |
| - grants recycled from statement of comprehensive income | 53 | 144 | 53 | 144 |
| - interest accrued | - | - | - | - |
| Recycling of grant: | | | | |
| - new build | - | - | - | - |
| At 31 December | 1,337 | 1,004 | 1,337 | 1,004 |
| Amounts three years or older where repayment may be required | 275 | 28 | 275 | 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 funds pertain to activities within areas covered by Homes England.

## 26 Loans and borrowings

| Group and Assocation | Loans 2018 £'000 | Finance Lease 2018 £'000 | Total 2018 £'000 | Loans 2017 £'000 | Finance Lease 2017 £'000 | Total 2017 £'000 |
|---|---|---|---|---|---|---|
| No later than one year | 1,635 | 133 | 1,768 | 1,519 | 102 | 1,621 |
| Later than one year and not later than two years | 1,885 | 163 | 2,048 | 1,519 | 132 | 1,651 |
| Later than two years and not later than five years | 11,157 | 688 | 11,845 | 8,558 | 584 | 9,142 |
| Later than five years | 214,776 | 21,428 | 236,204 | 219,485 | 21,649 | 241,134 |
| | 229,453 | 22,412 | 251,865 | 231,081 | 22,467 | 253,548 |

All borrowings are in the form of bank loans. 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 2018 the group had undrawn loan facilities of £12m (2017 - £12m).

| Loans principle excluding fees | Facility 2018 £'000 | Drawn 2018 £'000 | Available 2018 £'000 | Facility 2017 £'000 | Drawn 2017 £'000 | Available 2017 £'000 |
|---|---|---|---|---|---|---|
| The Royal Bank of Scotland | 50,000 | 45,000 | 5,000 | 50,000 | 45,000 | 5,000 |
| Lloyds Bank | 99,250 | 92,250 | 7,000 | 100,750 | 93,750 | 7,000 |
| The Housing Finance Corporation | 35,000 | 35,000 | - | 35,000 | 35,000 | - |
| Affordable Housing Finance | 54,000 | 54,000 | - | 54,000 | 54,000 | - |
| | 238,250 | 226,250 | 12,000 | 239,750 | 227,750 | 12,000 |

## 27 Financial instruments

| | Group 2018 £'000 | Group 2017 £'000 | Association 2018 £'000 | Association 2017 £'000 |
|---|---|---|---|---|
| **Financial assets measured at historic cost** | | | | |
| Trade receivables | 561 | 403 | 561 | 403 |
| Other receivables | 4,676 | 4,346 | 4,575 | 4,246 |
| Cash and cash equivalents | 47,130 | 32,710 | 46,979 | 32,491 |
| Total financial assets | 52,367 | 37,459 | 52,115 | 37,140 |
| | | | | |
| **Financial liabilities measured at historic cost** | | | | |
| Loans payable | 229,453 | 231,081 | 229,453 | 231,081 |
| Trade creditors | 384 | 959 | 384 | 957 |
| Other creditors | 93,410 | 93,083 | 93,334 | 93,021 |
| Finance leases | 22,412 | 22,467 | 22,412 | 22,467 |
| Total financial liabilities | 345,659 | 347,590 | 345,583 | 347,526 |

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 2018 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* | **2018**<br>**£'000** | **2017**<br>**£'000** |
|---|---|---|
| At the beginning of the year | 54,445 | 51,401 |
| Current service cost | 1,615 | 1,430 |
| Interest cost | 1,404 | 1,430 |
| Actuarial (gains) / losses: | | |
| - Change in financial assumptions | (5,953) | 64 |
| - Change in demographic assumptions | - | (601) |
| - Experience gains on curtailments | - | 1,392 |
| Estimated benefits paid | (1,160) | (932) |
| Past service costs, including curtailments | - | - |
| Contributions by scheme participants | 280 | 285 |
| Unfunded pension payments | (24) | (24) |
| At the end of the year | 50,607 | 54,445 |

| *Composition of plan liabilities* | | |
|---|---|---|
| Schemes wholly or partly funded | Partly | Partly |

**28 Pensions (continued)**

| *Reconciliation of fair value of plan assets* | **2018 £'000** | **2017 £'000** |
|---|---|---|
| At the beginning of the year | 44,623 | 38,781 |
| Interest income on plan assets | 1,163 | 1,092 |
| Return on assets less interest | (2,674) | 4,644 |
| Other actuarial gains/(losses) | - | (321) |
| Administration expenses | (20) | (22) |
| Contributions by employer including unfunded | 1,103 | 1,120 |
| Contributions by fund participants | 280 | 285 |
| Estimated benefits paid | (1,184) | (956) |
| At the end of the year | 43,291 | 44,623 |
| | | |
| Fair value of plan assets | 43,291 | 44,623 |
| Present value of the defined benefit obligation | (50,356) | (54,165) |
| Present value of unfunded obligation | (251) | (280) |
| Net pension scheme liability | (7,316) | (9,822) |
| | | |
| Amounts recognised in other comprehensive income are as follows: | | |
| Current service cost | 1,615 | 1,430 |
| Administrative expenses | 20 | 22 |
| Interest cost | 1,404 | 1,430 |
| Interest on assets | (1,163) | (1,092) |
| | 1,876 | 1,790 |
| | | |
| Analysis of actuarial loss recognised in Other Comprehensive Income: | | |
| Actual return less interest income included in net interest income | (2,674) | 4,644 |
| Other actuarial gains/(losses) on assets | - | (321) |
| Experience gains and losses arising on the scheme liabilities | - | (1,392) |
| Changes in assumptions underlying the present value of the scheme liabilities | 5,953 | 537 |
| | 3,279 | 3,468 |

## 28 Pensions (continued)

| *Composition of plan assets* | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Equities | 29,739 | 30,302 |
| Gilts | 314 | 347 |
| Other bonds | 3,842 | 4,195 |
| Property | 5,191 | 5,483 |
| Cash | 845 | 1,106 |
| Target return portfolio | 3,360 | 3,190 |
| Total plan assets | 43,291 | 44,623 |
| Actual return on plan assets | (1,511) | 5,736 |

| Principal actuarial assumptions used at the balance sheet date | | |
|---|---|---|
| Discount rates | 2.9% | 2.6% |
| Future salary increases | 3.9% | 4.2% |
| Future pension increases | 2.4% | 2.7% |
| Mortality rates | | |
| for a male aged 65 now | 23.1 | 23.0 |
| at 65 for a male member aged 45 now | 25.4 | 25.2 |
| for a female aged 65 now | 25.2 | 25.1 |
| at 65 for a female member aged 45 now | 27.6 | 27.4 |

**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 £177k (2017 - £165k). Contributions totalling £Nil (2017 - £Nil) were payable to the fund at the year end and are included in creditors.

## 29 Share capital

| | Group 2018 £ | Group 2017 £ | Association 2018 £ | Association 2017 £ |
|---|---|---|---|---|
| At 1 January | 29 | 29 | 29 | 29 |
| Shares issued in the year | 1 | 1 | 1 | 1 |
| Shares cancelled in the year | (2) | (1) | (2) | (1) |
| At 31 December | 28 | 29 | 28 | 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 exceeds £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 2018 £'000 | Group 2017 £'000 | Association 2018 £'000 | Association 2017 £'000 |
|---|---|---|---|---|
| No later than one year | 135 | 86 | 114 | 86 |
| Later than one year and not later than five years | 508 | 324 | 422 | 324 |
| Later than five years | 2,456 | 2,357 | 2,384 | 2,357 |
| | 3,099 | 2,767 | 2,920 | 2,767 |

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 2018 £'000 | Group 2017 £'000 | Association 2018 £'000 | Association 2017 £'000 |
|---|---|---|---|---|
| No later than one year | 1,996 | 1,713 | 1,996 | 1,713 |
| Later than one year and not later than five years | 7,982 | 6,852 | 7,982 | 6,852 |
| Later than five years | 221,389 | 189,626 | 221,389 | 189,626 |
| | 231,367 | 198,191 | 231,367 | 198,191 |

Amounts receivable as lessor relate to Leasehold and Shared Ownership properties for the term of the lease where West Kent Housing Association 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 2018 £'000 | Group 2017 £'000 | Association 2018 £'000 | Association 2017 £'000 |
|---|---|---|---|---|
| Commitments contracted but not provided for: | | | | |
| Construction | 49,644 | 21,887 | 49,644 | 21,887 |
| Construction - Ink Development Company Ltd. | 4,678 | 15,988 | 4,678 | 15,988 |
| | | | | |
| Commitments approved by the Board but not contracted for: | | | | |
| Construction | 9,447 | 47,803 | 9,447 | 47,803 |
| Construction - Ink Development Company Ltd. | - | - | - | - |
| | 63,769 | 85,678 | 63,769 | 85,678 |

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

| | Group 2018 £'000 | Group 2017 £'000 | Association 2018 £'000 | Association 2017 £'000 |
|---|---|---|---|---|
| Social Housing Grant | 4,809 | 4,709 | 4,809 | 4,709 |
| New loans | - | - | - | - |
| Sales of properties | 26,453 | 30,471 | 26,453 | 30,471 |
| Existing reserves | 32,507 | 50,498 | 32,507 | 50,498 |
| | 63,769 | 85,678 | 63,769 | 85,678 |

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, the Kent County Council defined benefit pension scheme (closed for new entrants) and The Royal London defined contribution scheme. The transactions with these pension schemes are set out in note 28.

The board includes two tenant members (2017 - two) who hold tenancy agreements on normal terms and cannot use their position to their advantage. There were ten shareholders (2017 - 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:

| | 2018<br>£'000 | 2017<br>£'000 |
|---|---|---|
| Payment due from previous year | (1) | (2) |
| Charges in year | 74 | 73 |
| Payments in year | (74) | (72) |
| Payments due at end of year | (1) | (1) |

### Joint venture

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

| | 2018<br>£'000 | 2017<br>£'000 |
|---|---|---|
| Net sales and purchases of goods and services | 10,809 | 4,062 |
| Debtors due to Ink | 486 | 421 |
| Creditor due from Ink | 255 | 73 |
| Administration fees received by West Kent | 8 | 8 |

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 | |
|---|---|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** |
| **Payable to association by subsidiaries:** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| West Kent Extra Limited | 402 | 443 | 352 | 278 | 106 | 131 |
| | 402 | 443 | 352 | 278 | 106 | 131 |

| | Management charges | | Staff recharged | | Other charges | |
|---|---|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** |
| **Donation by association to subsidiaries:** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| West Kent Extra Limited | 402 | 443 | - | - | 106 | 131 |
| | 402 | 443 | - | - | 106 | 131 |

### 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.