Orbit Group Limited

Financial Statements

For The Year Ended
31 March 2016

building communities

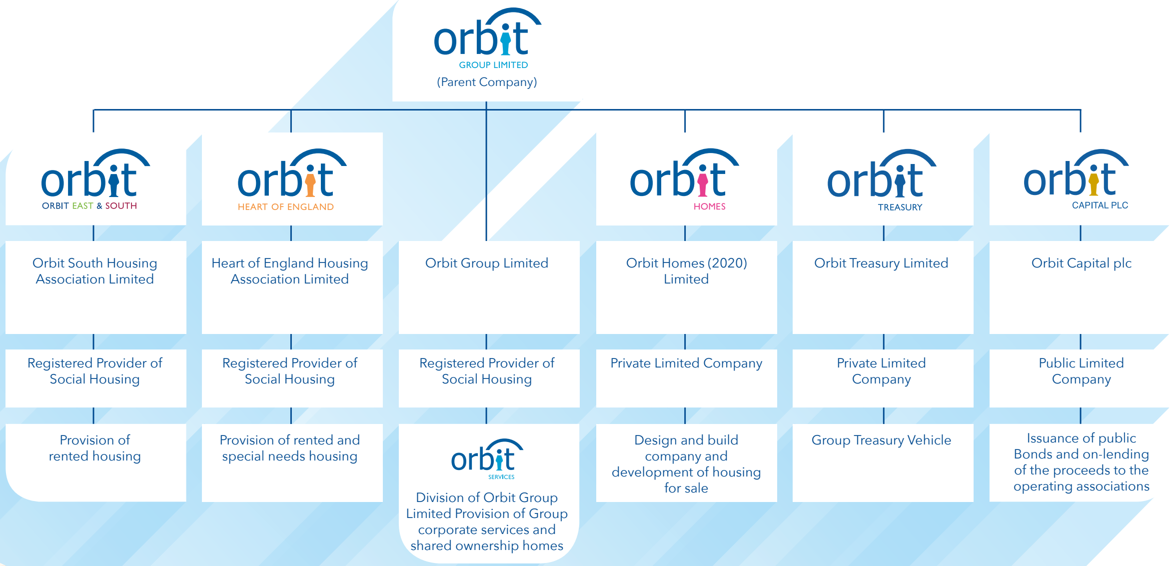
Co-operative and Community Benefit Society Number 28503R
Homes and Communities Agency Number L4123

Contents

Strategic Report

Group Structure & Overview

The Orbit Group manages 39,000 homes and serves around 100,000 customers across the Midlands, East and South East. We have been growing and thriving for almost 50 years. Orbit Living is our housing management business comprising Orbit Heart of England (Heart of England Housing Association Ltd) and Orbit East and South (Orbit South Housing Association Ltd). Orbit Homes is our development and sales organisation, building around 1,500 new homes a year, including market sale. Orbit Treasury is our main funding vehicle, delivering more than 95% of our loan funding. Orbit Group Limited is the parent organisation of the Orbit Group - it includes Orbit Services which provides a range of professional and support services to both internal and external customers. Orbit Capital plc was set up during 2014-15 as a funding vehicle for the issue of our first bond.



What we do:

Orbit offers a wide range of services and housing options to our customers, as well as professional and support services to numerous other housing organisations. Our core services include:

- General needs rented housing;
- Older persons housing including sheltered and very-sheltered schemes, private retirement schemes and extra-care;
- Low cost home ownership;
- Homes for market sale;
- Help to Buy;
- Supported housing (including mother and baby, ex-offender, homeless, victims of domestic violence and mental health); and
- Care and Repair/Home Improvement Agencies.

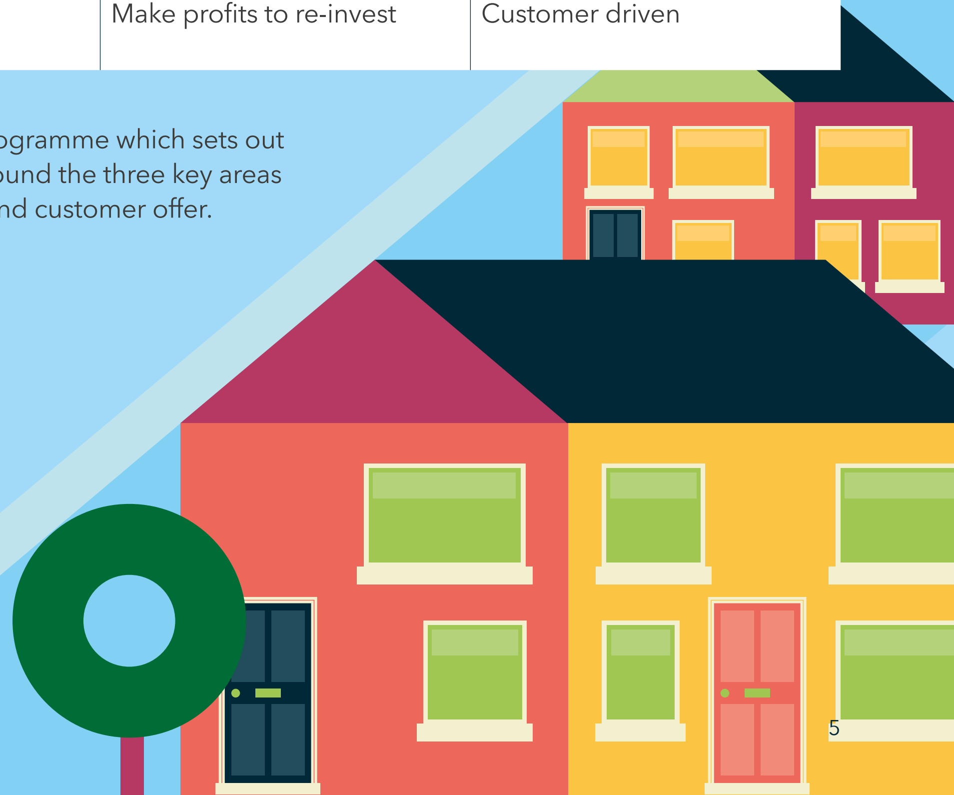
Objectives and Strategy

Our purpose of 'Building Communities' remains unchanged; to improve the social, economic and environmental prospects of people and communities. We break this down into three key areas:

Vision

Purpose (Why we exist)	Building Communities By working together to improve the social, economic and environmental prospects of people and communities		
Passion (What we do)	Housing Choice Providing a wide range of homes to meet needs and aspirations	Community Investment Creating thriving and empowered communities	Customer Offer Enabling customers to make choices and take control
Resources (How we do it)	People Investing in our people, creating a dynamic culture of trust, enterprise and achievement	Value Maximising efficiency and resources through a commercial approach	Futures Harnessing insight, innovation and technology to create solutions
Principles	Live our Values Lead and influence Disciplined, open and accountable	Be 'One Team' Simplify and be consistent Make profits to re-invest	Innovate & change Learn from others Customer driven

This vision is delivered through the 2020 programme which sets out the long term strategy for Orbit, focused around the three key areas of housing choice, community investment and customer offer.

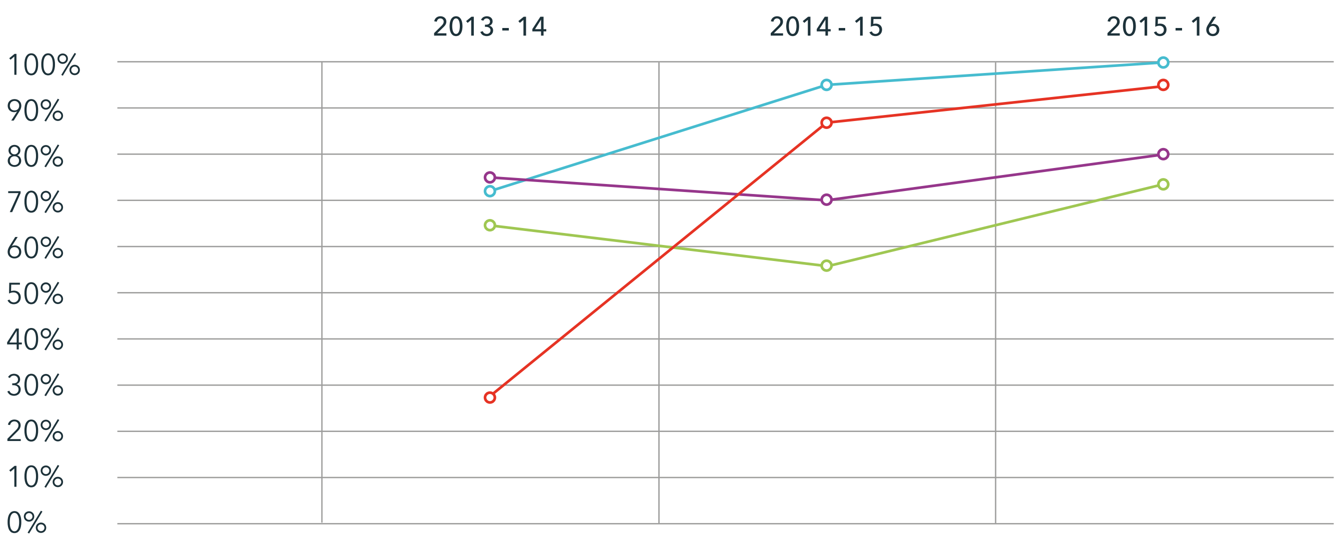


2015-16 Highlights

Despite a challenging operating environment and the significant demands of responding to the downgrade, we have delivered strong performance during the year and delivered or partially delivered 13 of our 16 key Business Plan outcomes for the year. We also continued to make good progress towards our 2020 targets and cemented our market position as one of the top three developing housing associations in the country. Highlights for the year include:

- Delivered £38.3m profit and 30.9% operating margin
- Delivered 1750 new homes against a target of 1486
- Achieved a sales profit of £12.0m against a target of £10.1m (market and shared ownership sales)
- Achieved net arrears of 2.98% against target of 2.82%, despite Welfare Reform
- Achieved efficiency savings of £5.1m against a target of £4.9m
- Achieved re-let times of 18.7 days against a target of 21.2days
- Helped 315 people into jobs and provided training for a further 1,307
- Implemented a sector first Real Time feedback with 30,000 responses from customers
- Launching innovative and sector leading tools including Orbit Move, MyM@ps and My Intel
- Implemented a new integrated Performance Management Framework
- Continued to improve our external reputation and impact

Our stakeholder influence survey tells us how effectively we are communicating our key messages.



	2013 - 14	2014 - 15	2015 - 16
Financially Strong	72%	95%	100%
Collaborate partner	28%	87%	95%
Developer of choice	64%	56%	73%
Ability to influence	75%	70%	79%

Housing Choice

Orbit Homes enjoyed very strong performance during the year, delivering the country's third largest Affordable Homes Programme and more than 220 market sales. We also enjoyed a record year in the Help to Buy team which supported almost 8,000 people into home ownership during the year.

We started on site with our first private rented development at St Anne's Wharf in Norwich and made good progress on contracts and planning at our second PRS site in Stratford-upon-Avon as we continued to work towards our 2020 target of providing a range of housing options.

Orbit also delivered a highly-successful campaign promoting Shared Ownership which resulted in a Government consultation and significant increase in funding announced in the 2015 Comprehensive Spending Review. http://www.orbit.org.uk/shared-ownership-report/. As a result Orbit also hosted a visit to a Shared Ownership development with the Prime Minister David Cameron in late 2015.

Customer Offer

Performance on gas compliance was strong with only seven of our homes without a gas certificate at year end, which were completed in early April. During the year we completely overhauled our compliance structure, systems, processes and reporting to ensure a robust platform going forward.

Although we did not deliver our ambitious repairs service satisfaction target of 85%, our year end performance of 79.9% was within the context of declining satisfaction generally and contractor challenges, and will remain a key focus for the business during 2016-17.

Delivery of a new website and innovations such as 'Live Chat' - a housing first - saw the number of online transactions rise to just over 10% against a target of 20%. Although this was disappointing, we are now piloting a new online repairs service which has the potential to transform the number of online transactions in the year ahead.

Community Investment

Our performance in this area was very strong with the majority of targets surpassed due to a more strategic and ambitious approach. In total, Orbit invested £2.2m against the priorities identified in the new community profiles developed for the first time this year.

As well as helping more than 300 people into employment, the team provided training and support to 1,307 people, digital assistance to 861 and financial and energy advice to 4,170 people in what was a record year.

The team also secured £1.3m of external funding and support and Orbit successfully negotiated an Energy Company Obligation funding deal worth almost £800,000 to upgrade the thermal efficiency of customers' homes.

Priorities and targets – 2016-17

We have engineered our plans to focus on the following objectives for the year ahead:

• Improving maintenance and core landlord operations

• Strengthening our infrastructure and management

• Continuing to deliver growth

Efficiency and effectively engaging our people to create the right culture will be key to delivering this agenda as we continue to grow the business by around 5% per year.

Our targets for 2016-17 as we move towards achieving our overall 2020 targets are:

Service	2020 Target
• Upper Quartile Net Promoter Score for market sale homes • 87.5% customers satisfied with new rented home • 81.7% customers satisfied with services • 30% customer transactions online • 1,400 people given employment/other training • 6,750 people given financial and energy advice • 180 employment outcomes	• 90% customer satisfaction • 75% customer transactions online • 10,000 training and job opportunities • 20,000 finance and energy advice sessions

Property	2020 Target
• c1,000 general needs homes for rent • c500 Shared Ownership sales • c230 Market Sale homes sales • £12.3m profit from sales • Deliver Private Rented offer • Proposals on off-site manufacturing/new product • £400k external & £452k ECO funding secured • Upgrade 250 homes to Energy Band C	• Deliver 12,000 homes • Provide a range of housing options • Provide a flexible housing journey • £30m of community investment • Upgrade homes to Band C

Profits	People
• £44.4m profit • £3.1m efficiencies • 24% operating margin	• 76% staff engagement index score • Develop two-year transformation plan

These priorities form the basis of the Group Business Plan, and drive the operating plans of each of the Group members. Each Board approves its own operating plan, and subsequently monitors progress against the detailed delivery plans via regular performance reports.

Delivery of our 2020 vision and outcomes will be achieved through a culture which is driven by 'Profit for a Purpose' – we have defined this as maximising efficiency and resources through a commercial approach; harnessing insight and innovation; and investing in our people to create a dynamic culture of trust, enterprise and achievement. By April 2017 we aim to deliver a staff engagement score of 76% by putting people at the heart of the business and we are developing an integrated engagement plan to ensure managers are equipped to engage their teams, as we know that enhancing staff engagement and driving a more dynamic and commercial culture will be critical to our success.

Underpinning our commercial approach of 'Profit for a Purpose' are our values of honesty, respect, excellence, partnership and innovation which are required of all staff across every part of the organisation.

Equality and Diversity

We recognise that we cannot Build Communities without considering equality and diversity, and this is an integral part of our culture and values. Our commitment is for E&D to support our vision for Orbit 2020. We see an equal society being defined as one which recognises people's different needs, situations and goals and removes the barriers that limit what people can do. Diversity is about valuing difference.

Performance for the year – 2015-16

Our performance against the key performance indicators (KPIs) agreed by the Group Board over the last three years is shown below:

		Target 2015-16	Actual 2015-16	FRS102 Restated Actual 2014-15	Actual 2013-14
	New Homes				
1	Number of new homes completed	1,486	1,750	1,521	865
2	Outright sales profit	£10.97m	£12.20m	£6.20m	£3.88m
3	Satisfaction with new homes (sales – Net Promoter Score)	72	57	75	N/A
4	Satisfaction with new homes (rented)	85.0%	86.0%	89.5%	71.4%
	Quality Service				
5	Customer satisfaction with repairs	85%	79.9%	80.3%	78.5%
6	Right first Time	56.5%	55.0%	56.0%	57.7%
	Increased Profits				
7	Efficiency savings	£4.9m	£5.1m	N/A	N/A
8	Surplus for the year	£44.0m	£38.3m	£31.1m	£67.0m
9	Net arrears	2.82%	2.98%	3.00%	2.70%
10	Re-let times (days)	18.7	21.2	22.4	23.0
11	Voids sales	£11.8m	£9.9m	£11.1m	£10.8m
	People & Organisation				
12	Staff turnover – voluntary	15.2%	13.0%	13.0%	16.0%

In addition to these measures, our annual customer survey (STAR) rated customer satisfaction at 81%, an increase on the previous year.

Performance for the year

Financial summary

Statement of Comprehensive Income	2015-16 £m (FRS102)	2014-15 £m (FRS102)	2013-14 £m	2012-13 £m	2011-12 £m
Turnover	301	250	222	193	177
Operating surplus	93	84	62	46	47
Operating margin	**30.9%**	**33.7%**	**28%**	**24%**	**27%**
Profit on sale of housing	20	15	36	23	11
Surplus as % turnover	**13.1%**	**12%**	**30%**	**21%**	**19%**
Surplus excluding interest as % of turnover	**29%**	**27%**	**44%**	**36%**	**33%**

Statement of Financial Position	2015-16 £m	2014-15 £m	2013-14 £m	2012-13 £m	2011-12 £m
Tangible fixed assets	2,073	1,905	1,083	984	936
Debtors due after more than one year	2	2	-	-	-
Net current assets	117	100	51	78	46
Total assets less current liabilities	**2,192**	**2,007**	**1,134**	**1,062**	**982**
Creditors due after more than one year	1,843	1,691	752	747	707
Designated reserves	-	-	9	9	8
Cash flow hedge reserve	(62)	(56)	-	-	-
Revenue reserves	411	372	373	306	267
	2,192	**2,007**	**1,134**	**1,062**	**982**

Key indicators	2015-16	2014-15	2013-14	2012-13	2011-12
Debt per unit (£k)	31.0	27.9	24.2	23.8	22.4
Headroom above loan covenants (£m)	22.7	37.2	36.0	23.5	21.4
Months cash /secured loans available	14	18	30	24	19
Months approved loans available	20	24	30	36	27
Void loss as % of rent	1.8%	1.8%	1.8%	1.6%	1.7%

Key indicators	2015-16 (UK GAAP basis)	2014-15 (UK GAAP basis)	2013-14	2012-13	2011-12
Interest cover	1.99	2.19	2.46	1.86	1.87

2015-16 saw a continuing strong financial position, delivering an overall surplus for the year of £38.3 million (2015: £31.1 million - restated for FRS102). Operating surplus was £93.1 million (2015: £84.4 million - restated for FRS102). Turnover was £301.2 million, increasing £50.9 million from 2015. 15% of the overall surplus came from the sale of properties, primarily market and Low Cost Home Ownership sales. Our key financial indicators have all been achieved for the year and exceeded targeted levels.

The surplus generated will allow us to continue to reinvest; firstly in our existing properties through our annual component replacement programmes. We will also invest in improving services for our customers, in our communities, and to continue to develop new homes.

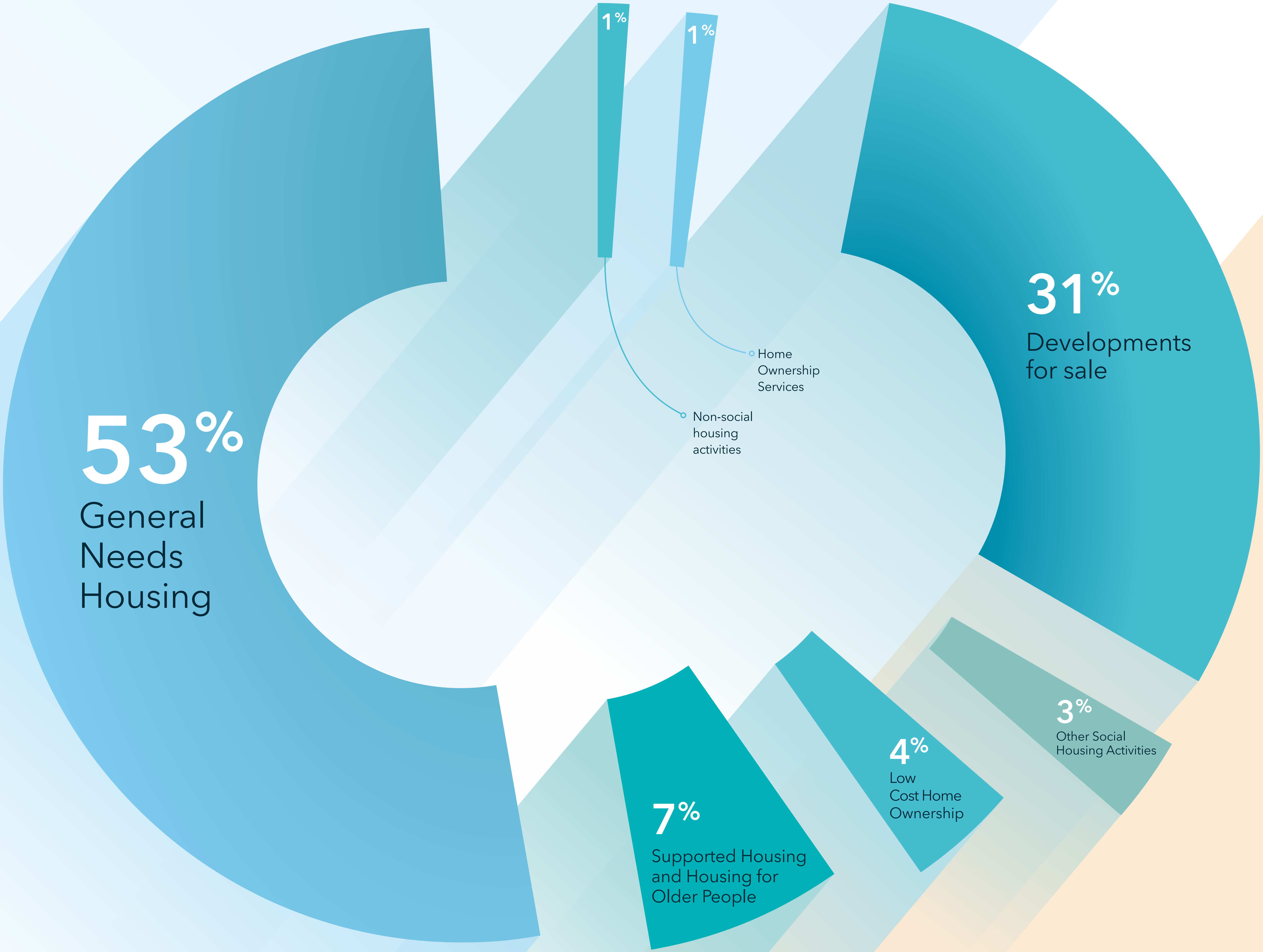
The statement of financial position has also increased in strength with fixed assets increasing to £2,073 million (2015: £1,905 million - restated for FRS102) and reserves to £411 million (2015: £372 million - restated for FRS102), with of over 39,000 homes in management.

The principal accounting policies are set out in Note 1. The key policies which have the most significant impact and/or require judgement are housing property impairment and components, capitalisation of interest, grants and provisions.

The table below provides a summary of the FRS102 changes and the impact against profits. Note 37 shows the changes upon transition and the restated 2015 results.

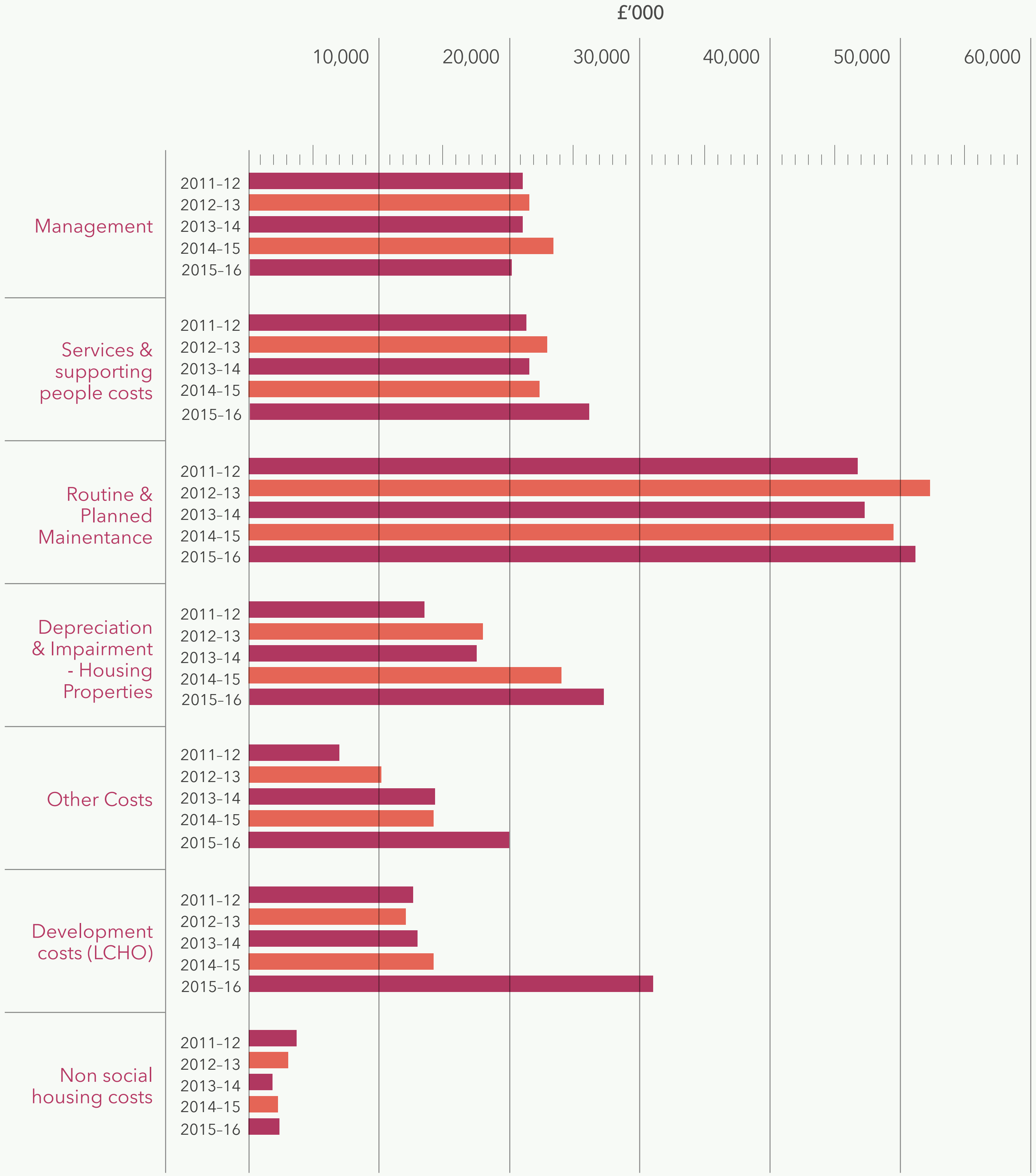
	2016	2015
Profit per SoCI	38.3	31.1
Movement in Fair value of financial instruments	4.8	16.9
Pension adjustments	6.9	(1.4)
Others	(1.7)	(1.2)
Adjusted profit (UK GAAP basis)	48.3	45.4

Turnover 2015-16



The majority of our income continues to be generated from our core business – the rented portfolio of general needs housing and housing for older people.

Comparison of Costs



Our largest area of expenditure continues to be the maintenance of our properties, which was £51.1 million in 2015-16. This includes £6.9m as we continued our programme to improve the energy efficiency of our properties, in line with our objective to bring all properties up to band C. A further £19.7m was spent on the replacement of components (including kitchens, bathrooms and boiler replacements) which has been capitalised. Management costs have decreased year on year by £3.6m at £20.0m in 2015-16. This reflects our success in delivering an efficiency programme across the business. Development costs for Low Cost Home Ownership have increased showing our increased programme for Shared Ownership – a tenure which Orbit are strongly growing and promoting.

The increase in depreciation is a result of adopting FRS 102. Previously depreciation figures were presented net of amortised grant. Amortisation of grant is now included within turnover.

The principal accounting policies are set out in Note 1. The key policies which have the most significant impact and/or require judgement are housing property components, financial instruments, capitalisation of interest, grants and provisions.

External Environment

The external environment in 2016-17 will continue to provide a range of challenges and opportunities to Orbit. Further welfare reform changes will impact on our customers, who have already seen their household budgets squeezed over the last five years. Our community investment programme will therefore continue to focus on supporting our customers by providing financial advice, improving access to training and jobs, and tackling fuel poverty.

The recovering housing market and continuing growth of the private rented sector provide both challenge and opportunity, as we seek to contribute to redress the underlying shortfall in housing supply. There continues to be strong demand for housing reflected in increasing house prices and rental income, driven by the continuing annual shortfall in new homes. Many face continuing difficulties in accessing home-ownership – or indeed in meeting rental costs – and we will continue to address this by delivering new homes at scale and offering products for those unable to access the market.

The referendum outcome and subsequent political and economic uncertainty are clearly another area of risk, however there has been no immediate financial, liquidity or other concerns for Orbit as a result. We will continue to monitor the situation and implications for us and take appropriate action if and when necessary

Development - Measures contained in the Housing and Planning Act 2016 to introduce Starter Homes could have a significant impact on our development strategy and we are closely monitoring the detail as it emerges. The possibility of capping rent for supported housing at Local Housing Allowance from April 2017 undermines the viability of future schemes and we are working with the National Housing Federation to engage Government on this important agenda. Finally, modelling the impact of the Voluntary Right to Buy (VRTB) on our financial plan confirms the policy would have a positive impact on our plan, enabling us to replace properties almost one for one if we were reimbursed the full discount. Further work on the impact will take place once details emerge.

Affordability - We are conducting research into the affordability of our homes across the range of housing markets where we operate and will continue to monitor and review this during 2016-17. Our development contract with the HCA means we are seeing increasing numbers of affordable (up to 80% market rent) homes within our portfolio. We are also converting some of our older homes to affordable rent. We now have over 3,000 affordable tenancies, making up around 10% of our rented stock. While this is an increasing trend, it should also be noted Orbit operates in a number of areas where affordable rents are less than or very similar to social rents. Conversely, in some areas where affordable is considerably more than social rents, we have taken a decision to apply a reduced percentage of market rents only, to ensure the properties remain affordable for our core customer base.

Welfare Reform – We have continued with our preparations and response to the ongoing welfare reform changes, adapting our business strategies to face the challenges. Our response to the first tranche of welfare reform changes under the previous Coalition Government was widely recognised as sector leading, resulting in award nominations and our communication materials being adopted by other organisations.

Our efforts in 2016-17 will be focused on:

- Prevention of arrears and early interventions by vetting all potential customers to ensure they can afford and sustain their tenancy, and providing support as appropriate
- A relentless information campaign enabling customers to make informed choices and maximise their income and/or downsize to ensure they can afford their home
- Undertaking a cost-benefit analysis to inform our policy position on the 'Pay to Stay' policy, which will be voluntary for housing associations to implement
- Retaining our trusted partner status with the Department for Work and Pensions and engaging in Universal Credit trials
- Continuing to monitor the external environment for future changes and then implementing plans to mitigate the risks to the business.

Regulation - In October 2015, the Office for National Statistics (ONS) reclassified Housing Associations (HAs) as 'public non-financial corporations' for the purpose of national accounts and other ONS economic statistics. The ONS estimated this will lead to an added £60 billion in public sector net debt. The ONS review was prompted following legislative and regulatory changes brought about through the Housing and Regeneration Act 2008, as well as the planned extension of the Right to Buy to HAs and reduction in social rents.

HAs were already judged to be 'public bodies' under human rights legislation in 2009 since they receive public fund and exercise public duties, such as agreeing to accept nominations from council waiting lists. Whilst this covered areas of HAs' work, it did not change their corporate status.

In addition to the VRTB and making 'Pay to Stay' optional for HAs, the Housing and Planning Act 2016 changed the way local authorities are involved with LSVT associations deregulatory measures, which is a direct result of the ONS reclassification decision.

Other deregulatory measures contained in the Act include:

- A special administrative regime for HAs that become insolvent.
- Removal of the Government's powers of consent over the disposal of HA property - both vacant and tenanted.
- The removal of artificial restrictions on the valuation of HA homes which have been transferred from a local authority.
- Removal of government control over the voluntary winding up, dissolution and restructuring of HAs; and
- Changes and limitations to the regulator's powers to appoint officers and managers.

Risk Management

The Orbit Board maintains overall responsibility for strategic risk management. There are systems in place to ensure the Board and Executive Team can analyse, understand, manage and mitigate key strategic and business critical risks.

Our approach to risk management is based on good practice and the control environment to manage risk is continually reviewed and monitored by the Audit, Risk and Compliance Committee (ARAC) on behalf of the Orbit Board. All of our subsidiaries are required to implement the Orbit risk management framework and provide reports to their respective Boards.

As part of Orbit's risk management strategy, a set of early warning indicators (EWI) and risk triggers are monitored by senior management and the Board alongside the Group's key performance targets. There are four risk pillars within which the EWI's and risk triggers are identified and monitored:

- Financial strength
- Statutory and regulatory compliance
- Safe working environment
- Customer service standards

This approach enables the Group to foresee key risks materialising and put in interventions before they adversely impact upon the sustainability of the business and/or the delivery of key business targets.

We have identified four 'Business Critical Risks', which are actively managed, and a further five 'Strategic Risks' which are monitored.

Risk	Description and mitigation
Inability to keep employees, customers and key stakeholders safe as a result of negligence / poor working practices by Orbit.	The health and safety management system across Orbit has been strengthened with greater transparency on the management of health & safety risk areas. Orbit continues to deliver its programme of statutory inspections, with close monitoring of performance by both management within Orbit Living and the Executive Team. Orbit Homes continues to operate a robust system of health and safety.
Adverse house sales income variations due to changing market conditions.	The early warning indicator in relation to decreasing sales prices is closely monitored and does not currently give us cause for concern. Following the EU Referendum we will closely monitor this indicator. The Managing Director Orbit Homes monitors sales performance on a weekly basis with the Orbit Homes Senior Management Team, Executive Team and Orbit Homes Board reviewing this on a monthly basis.
Ineffective management of repairs service leading to poor customer satisfaction and poor Value for Money.	A robust contract management framework has been developed and is being implemented to manage the two key repairs contractors. Orbit Living SMT and the Executive Team receive monthly performance reports on the repairs service. The quarterly early warning indicators identify work in progress levels and flag up any downward trends to the Executive and Board.
Further downgrade from G2 to G3 due to other significant issues of non compliance identified.	Orbit has delivered the HCA action plan, the recommendations from which are being delivered by the business with oversight from the Executive Team and the Board. Over half of the recommendations have been addressed with the remainder on track to be delivered to agreed deadlines.

These are reviewed by the Executive Team every quarter, along with the following 'Strategic Risks':

- Inability to effectively adapt to the key impacts of welfare reform, including:
  - Reduction in revenue (increase in arrears / bad debts)
  - Additional pull on Orbit services (increase in cost) as Local Housing Authorities' (HAs) budgets are reduced
- Key financial plan assumptions are incorrect
- Lack of skills within Orbit to deliver diversification in an effective manner
- Unable to deliver government development contracts in line with contractual obligations
- Not being able to embed culture change in a sufficient manner so as to deliver 2020 aspirations

The Board and Audit and Risk Assurance Committee review these nine risks twice a year.

For 2016-17 the Executive Team and Board are undertaking a risk assessment based on the revised Business Plan.

Board members, Executive Officers and Auditors

Board Members

Name	Position	Appointed
The Rt Hon Baroness Blackstone	Chair/Non Exec Director	1st February 2013
Professor Tony Crook	Deputy Chair/Non Exec Director	1st October 2010
Fran Beckett	Non Exec Director	1st April 2011
Richard Berrett	Non Exec Director	10th July 2013
Steve Brown	Non Exec Director	1st February 2013
Chris Crook	Non Exec Director	6th December 2011
Andrew Stanford	Non Exec Director	1st April 2014
Paul Tennant	Executive Director	11th September 2012
David Young	Non Exec Director	10th July 2013

Executive Team

Executive Director	Role
Paul Tennant	Chief Executive
Anne Turner	Chief Operating Officer (retired 31 March 2016)
Paul High	Executive Director – Orbit Homes
Afzal Ismail	Executive Director – Orbit Services
Vivien Knibbs	Executive Director – Orbit Living (resigned December 2015)
Boris Worrall	Executive Director – Futures
Paul Richards	Executive Director – Customer Services (appointed January 2016)
Suzanne Forster	Group Finance Director (appointed August 2015)

	Independent Auditors	Principal Solicitors	Registered Office
Address	KPMG LLP One Snowhill Snow Hill Queensway Birmingham B4 6GH	Towers and Hamlins 3 Bunhill Row London EC1Y 8YZ	Garden Court Binley Business Park Harry Weston Road Binley Coventry CV3 2SU

Value for Money

Board Statement

As the Board, we have ultimate accountability for driving, embedding and delivering Value for Money (VFM) across Orbit.

Our Ambition

Orbit's Customer First framework makes the commitment to "fully satisfy agreed customer requirements, at the lowest internal cost". Therefore VFM to Orbit means maximising our resources to provide the level of service agreed with our existing customers while creating a 'Profit for a Purpose' to fund our 2020 strategic objectives - delivering new properties, improving the fuel efficiency of our homes, enhancing services to customers and investing in our communities.

VFM is part of the Orbit culture embedded throughout what we do at Orbit. The Group has delivered on its efficiency targets to date and will continue to set and deliver challenging targets.

Our Approach

VFM is at the heart of our business plans and Orbit Board will continue to challenge the business to demonstrate strong delivery and transparency to our key stakeholders in the year ahead, building on the solid foundations already in place. None of us - board, directors, managers or staff, can be complacent and we will continue to strive for improvement.

Our customers are integral to VFM at Orbit. A VFM training package has been implemented and successfully rolled out to our involved customers. Customers have also been involved in significant procurement exercises.

The Executive Team monitor business performance every month and this is reported to board regularly. All Board reports include a specific section relating to VFM helping to ensure it is a key consideration in every aspect of the business.

As a Board, we are responsible for Orbit's assets and resources and setting our VFM strategy. The Group Board oversees VFM with delegated authorities to:

- Orbit Homes (build, development and sales);
- Orbit Heart of England; a trading name for the activities of Heart of England HA Ltd
- Orbit South HA Ltd (Landlord Services including housing management and repairs);
- Strategic Support Services and Orbit Services (Corporate Support Centre) for the Group and external housing providers;
- Orbit Treasury Limited (tasked with achieving funding needs to meet growth aspirations).

We strongly believe we comply with the HCA VFM Standard. This statement should show that VFM is not an add-on to what Orbit do but is embedded within everything we do.

Our VFM Governance Framework can be found on our website www.orbit.org.uk in the ABOUT section together with a full copy of our VFM Self Assessment and other VFM information.

Introduction

Delivering VFM is an integral part of Orbit's corporate ethos and values; our ambition is to run an efficient and effective organisation whilst providing VFM services to our customers. Our Customer First framework commits Orbit to, "fully satisfy agreed customer requirements, at the lowest internal cost". In the very simplest terms this means making the best use of the resources available for the provision of homes and services, whilst achieving quality standards agreed with our customers. We challenge ourselves to ensure the best use of our resources firstly by understanding the benefits and measuring them, thus enabling us to realise those benefits over the lifetime of the investment or project. Providing VFM will improve our services and release resources to provide more houses, improve our existing homes and enable us to invest in our products and services and the communities where we work.

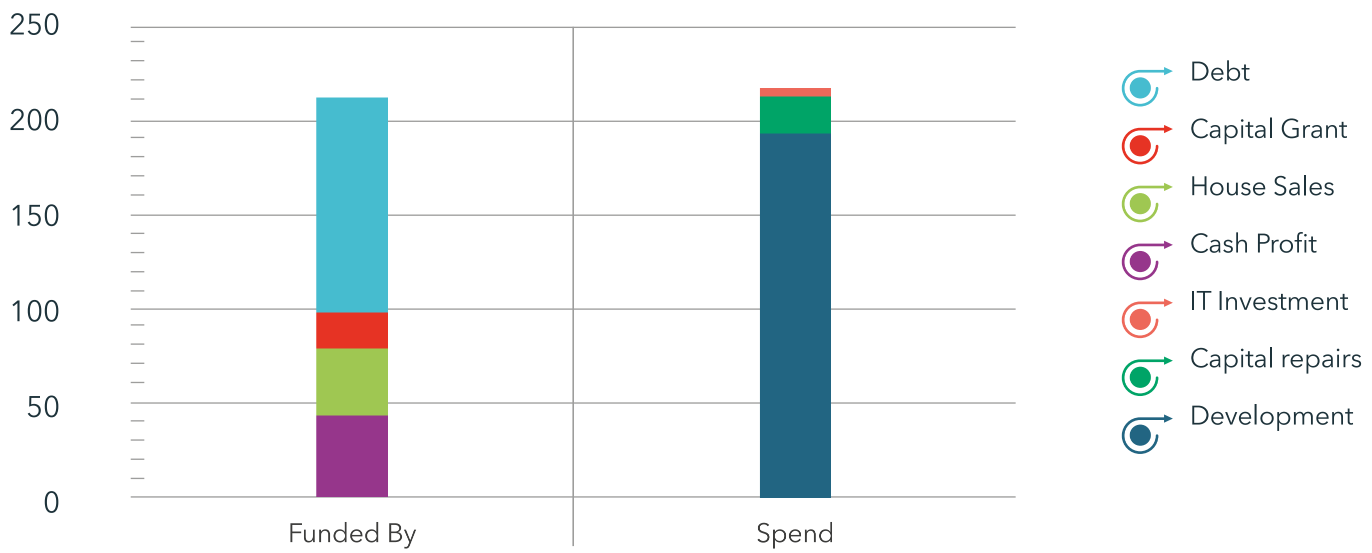
Profit for a Purpose

Orbit achieved a surplus of £38.3m for the 2015-16 financial year. Within this Orbit has achieved a £5.1m efficiency saving in 2015-16, and has identified a further £3.1m in the 2016-17 budget. In 2014 Orbit set a 3 year, £10.9m efficiency target which the Group is on course to meet. Due to the success and progress of the efficiency programme, the target has been increased by £1.9m to £12.7m and plans are in place to identify these efficiencies.

The £5.1m achieved in 2015-16 came from many sources and areas of the business including bad debt management (c£900k), increased margins on Service Matters work by reducing costs (c£700k), cost reductions through office and central budgets (c£1.6m), and reduced insurance premiums (c£600k). All of this was achieved while also managing to increase our STAR survey customer satisfaction score to 81% demonstrating that more has been achieved for less.

For Orbit the 'Profit for a Purpose' strap line is extremely important if we are able to deliver on our ambitions. The graph below demonstrates how Orbit uses its profits and what other funding went into the overall expenditure of the business in 2015-16.

Orbit using its Profits

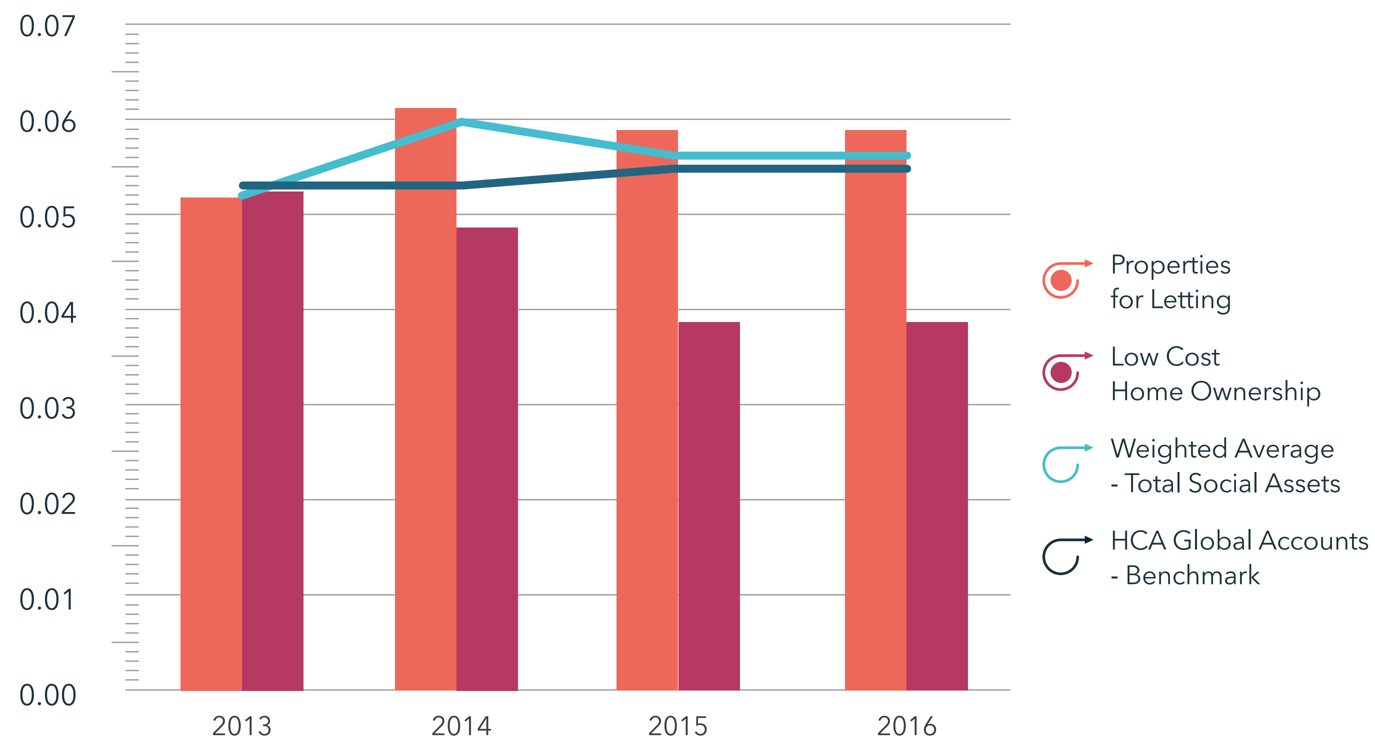


This clearly demonstrates Orbit's commitment to developing and maintaining homes and shows how important the profit generated is in delivering these outcomes.

This Group surplus can be seen as a sign of our financial strength and efficiency. A strong Orbit can continue to invest in our housing stock and in our communities as well as mitigating the risks within, and external to, the organisation. Every penny of the profit is re-invested in social housing and in Orbit's communities – none is distributed to share-holders. It is central to Orbit's ethos that we deliver 'Profit for a Purpose' which allows us to invest in the areas we believe make a difference to our customer's lives.

Orbit addresses VFM on a number of different fronts, led by Board, senior management, front line staff and our customers. We have worked hard to embed VFM within our culture throughout the organisation. Employees at all levels are encouraged to find efficiencies within their teams, whether they control a multi-million pound major works programme or a small office supplies budget. For every £25,000 saved in our operating costs Orbit can deliver a new home to house a family in need. This is a message easily communicated through the organisation and highlights the amount of internal subsidy required to cover reduced grant levels.

Return on Investment



(Global accounts for 2016 are estimated)

Return on our Asset Investment

The Group currently owns over 39,000 properties with a carrying value of £2.0bn. The following table shows a high level picture of the Return on Investment for Orbit's housing stock. The blue line shows the total for the Group. It is broadly in line with the Properties for Letting as this is by far the largest stock group. The green line is taken as a benchmark position and is from the HCA global accounts – which Orbit is just outperforming.

Orbit recognises there is a need to make the best use of existing assets. As well as making sure properties are fit for purpose and meet the need of Orbit's customers. The financial performance of each of its properties is regularly reviewed. Active management of the property portfolio is important to ensure financial and management resources are not focused on properties that do not meet current or future demand.

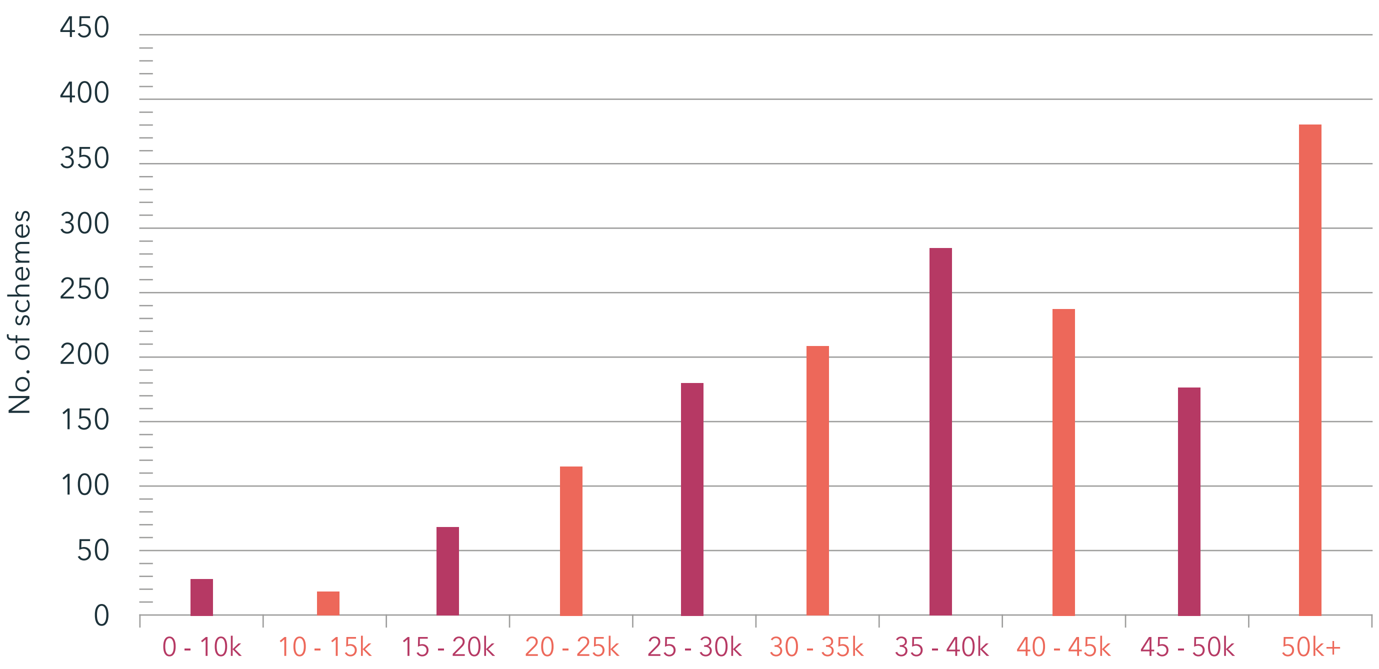
Asset performance is updated on a quarterly basis which in turn feeds Orbit's Asset Management Strategy. These key factors are reviewed in each of Orbit's existing properties:

- **NPV** (Net Present Value) – **what is current NPV and are we likely to be able to improve NPV significantly?**
- **EPC** (Energy Performance Certificate) – **is the current rating poor and are improvement measures viable?**
- **Maintenance and Repair liability – is this significantly outside the average?**
- **Strategic Fit – how does the scheme fit with Orbit's 2020 vision and geographical spread?**
- **Lettability/Housing need – how easy is it to identify customers in the area for the property concerned?**

Orbit sets a minimum NPV (1) of £25,000 per unit, under which a property is considered to be poor performing financially. There are a total of 232 schemes (c5,700 properties) under £25,000 NPV, meaning they are not contributing enough financially. These properties are in fact subsidised by the remaining population of properties that are performing over the £25,000 threshold. This performance is affected by a number of factors and most of Orbit's units have been hit by the imposed rent reduction that Government have applied to the sector. The impact of this single change pushed over 2,000 properties under the £25,000 target.

The graph below shows a distribution of c1,700 Orbit schemes that are put through our Asset Management tool.

NPV of Orbit Schemes



We will continue to improve our commerciality in managing our property portfolio to assess the opportunities which exist within our owned stock.

(1) NPV – Net Present Value. This means valuing all of the expected cash income and expenditure for 30 years in today's prices.

Procurement

Orbit has an established procurement team which works alongside the business to ensure compliance to relevant standards and to maintain VFM objectives when entering into new contracts. The team has been set a target of £9m savings by 2020, £4.5m of which had been identified by March 2016 – which is ahead of target. In 2015-16 the procurement team achieved an overall customer satisfaction rating of 91% - an indication their work is increasingly seen as integral to the business.

In 2015-16 a five year programme of reviews was identified; utilising the principles of category management. This approach, based on risk and expenditure will ensure Orbit is identifying appropriate areas for procurement review. Whilst in its early days we will be able to plan procurement activity more effectively, giving more time to consider requirements, improve specifications and incorporate other objectives such as Social Value and Sustainability.

A forward plan of projects is regularly reviewed by the Executive Team and is updated as existing contracts come to an end and new activities are undertaken.

Customers

Customers continue to play an integral part of the procurement process being involved in the new windows and doors contract within Orbit Heart of England with their involvement enabling over £400k savings over the life of the contract. During the year a dedicated VFM training package was developed and implemented as part of the overall training and support which is provided to our involved customers.

Additionally there has been a strong customer led VFM challenge of customer involvement activities which has seen a reduction of 40% (Circa £25k) in direct costs whilst increasing the number of customers involved in our co-regulatory activities. A number of changes to how our co-regulatory approach was undertaken as part of this VFM challenge which included stopping certain activities such as some of our well established groups e.g. Sheltered forum as well as increased use of technology to undertake customer consultations rather than holding meetings.

It is planned to develop a range of e-learning packages so customers who wish to be involved remotely from their own homes have greater access to training which will include a specific module for VFM.

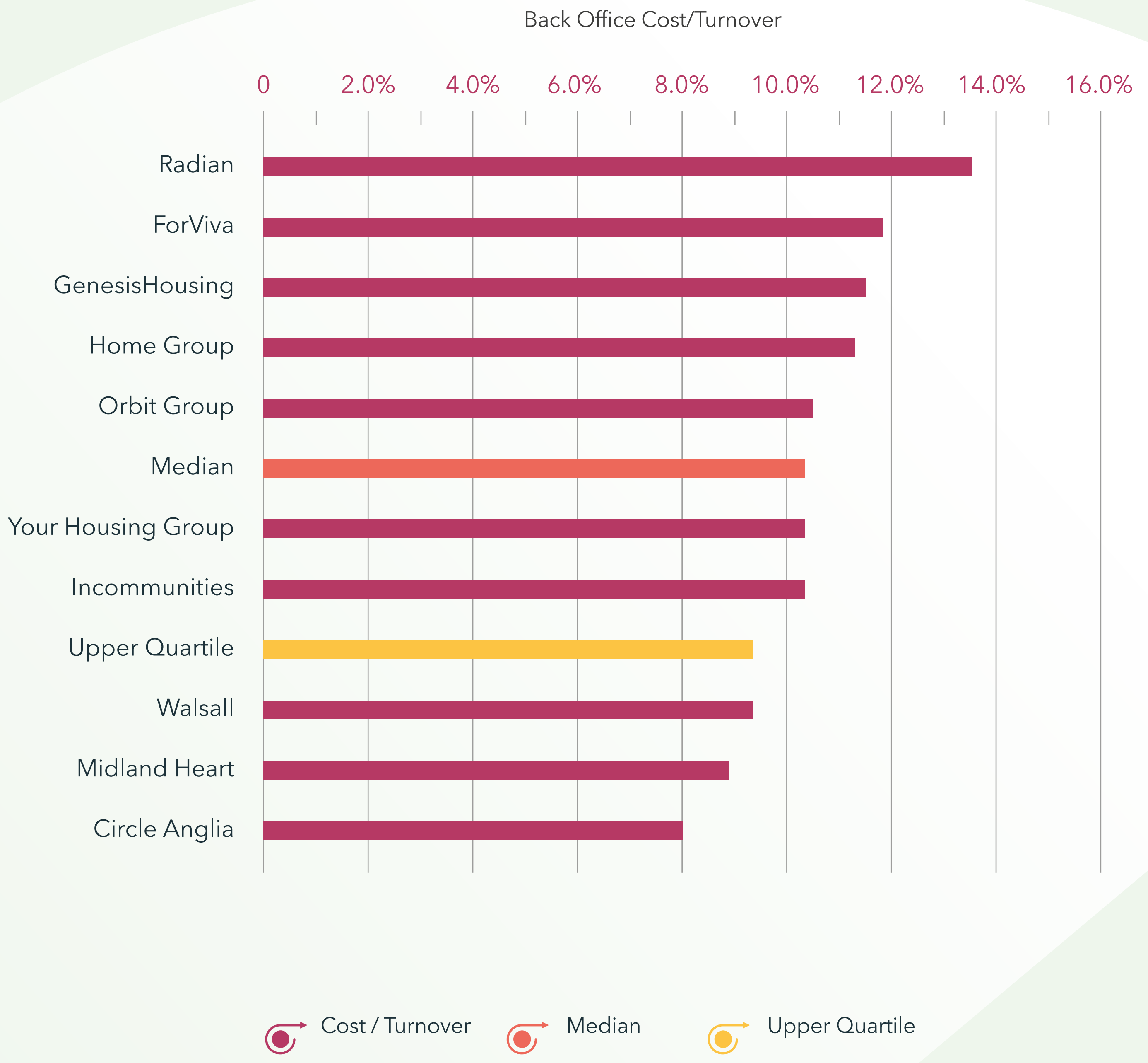
Benchmarking

Orbit undertakes a number of benchmarking exercises at both Group and departmental level to assess performance against peers. The largest exercise is run with HouseMark, which is an organisation-wide application, specific to the housing sector. The following table shows high level results against other HouseMark users. 2015-16 data is not available at time of writing but will be updated in the full version of the company's VFM Statement on the website.

Housemark VFM Scorecard (Selected Ratios)	Trend	vs Median	2014-15	2013-14	Median
Rent Collected as % of rent due			98.5%	99.4%	99.5%
Repairs completed at the first visit			79.5%	78.0%	91.2%
Satisfaction with Service Provided			81.1%	76.6%	86.1%
Satisfaction with Repairs and Maintenance			68.0%	80.0%	80.7%
Satisfaction that rent provides VFM			80.4%	76.4%	82.0%
Cost per Property Housing Management			447	453	444
Cost per Property Major Works			1,229	1,165	1,520
Cost per Property Responsive Repairs			845	925	806

A report is prepared for Executive Team which analyses these figures and trends in much more detail. Senior management teams also see the results and discuss and agree actions to address issues. We are confident actions taken during 2015-16 should see improvements in satisfaction levels and in some of the costs per property ratios when the 2015-16 figures are published. Benchmarking is an important exercise and one from which we can learn and drive VFM. However, it is important to recognise and understand some of the underlying factors such as quality of stock, disbursement of properties etc. rather than purely focusing on the figures presented.

Orbit has carried out more detailed Back Office Benchmarking, which focuses on functions such as finance, HR and IT. The results show Orbit Group is performing to a median position compared against similar organisations undertaking this exercise.



Social and Environmental challenges

Below is a snapshot of the various ways in which we have been creating social value over the course of 2015-16.

Community Investment - As a responsible business we think beyond 'bricks and mortar' and look at what really makes a community – the people. We use our expertise and funding to support local communities to thrive and prosper, economically, socially and environmentally. To maximise impact we are working with a range of local partners and organisations.

Our community investment offer focuses on four key areas, namely employment and skills; financial inclusion; digital inclusion; and wellbeing. In total, Orbit invested £2.2m against the priorities identified in the new community profiles developed for the first time this year.

In 2015-16 our Community Investment programme helped:

- 1,307 customers to undertake employment-related training skills;
- 315 customers into jobs;
- 2,242 customers with financial advice from in-house teams and projects;
- 5,823 with wellbeing programmes to help manage issues of mental health, hoarding and ASB; and
- 861 customers to build and improve their online skills.

To assess the social value created by our community investment activities, we use the well-recognised HACT valuation tool. This has shown our investment in 2015-16 has generated £3.39 million in net social value at a ratio of 1:3.39, meaning that every £1 invested resulted in £3.39 worth of social value.

We also use the 'Social Return on Investment (SROI) methodology' where this is felt to be useful and appropriate. Whilst we have not carried out a standard SROI in 2015-16, we have considered social value/benefits to inform decision-making, such as in relation to changes in funding to our 'Lifeline' service for older people. The evaluation showed that there is compelling evidence of the social benefits, on individual service users, their support networks and society at large.

Sustainability - A key focus of our sustainability strategy is to support our customers to reduce their energy usage, helping them to save money and tackle fuel poverty.

Our Energy Efficiency Renovation Programme (EERP) to increase EPC banding to at least Band C has seen 860 properties retrofitted with external wall/cavity/loft insulation. It has enabled customers to save money, carbon and to take advantage of the benefits a warm home has on an individual's wellbeing.

The Energy Clinic is our new way by which customers are provided with energy advice at the right level, by the right person, at the right time. It consists of three integrated parts, namely:

- Energy Advice Triage – assessment of a customer's need;
- Energy Advice Treatment – provision of appropriate advice based upon identified need;
- Energy Advice Follow Up – collecting feedback to assess the effectiveness of the advice provided.

In 2015-16, the Energy Clinic supported a total of 1,928 customers.

We have further been campaigning on the issue of fuel poverty, publishing our report **Warm Homes, Better Lives**, which sets out how government, together with housing, health and third sector partners, can take a comprehensive approach to tackling fuel poverty.

Staff Volunteering - We encourage and support staff who either wish to become or who are already involved in volunteering for the benefit of Orbit residents and/or the wider community. All staff are eligible to take up 1 day paid volunteering leave per year.

In 2015-16, 95 staff volunteers invested 631 hours to support 26 different projects.

Conclusions

Orbit is working in an ever-more commercial environment, with a £1bn+ loan book and development ambitions requiring a further £500m over the next 5 years creating a healthy profit is vital. External assessment of the Group's finances – by the Government, our funders and our credit rating agency has increased in importance. An adverse credit rating could impact on the cost and perhaps the availability of future funding, jeopardising the Group's long term objectives.

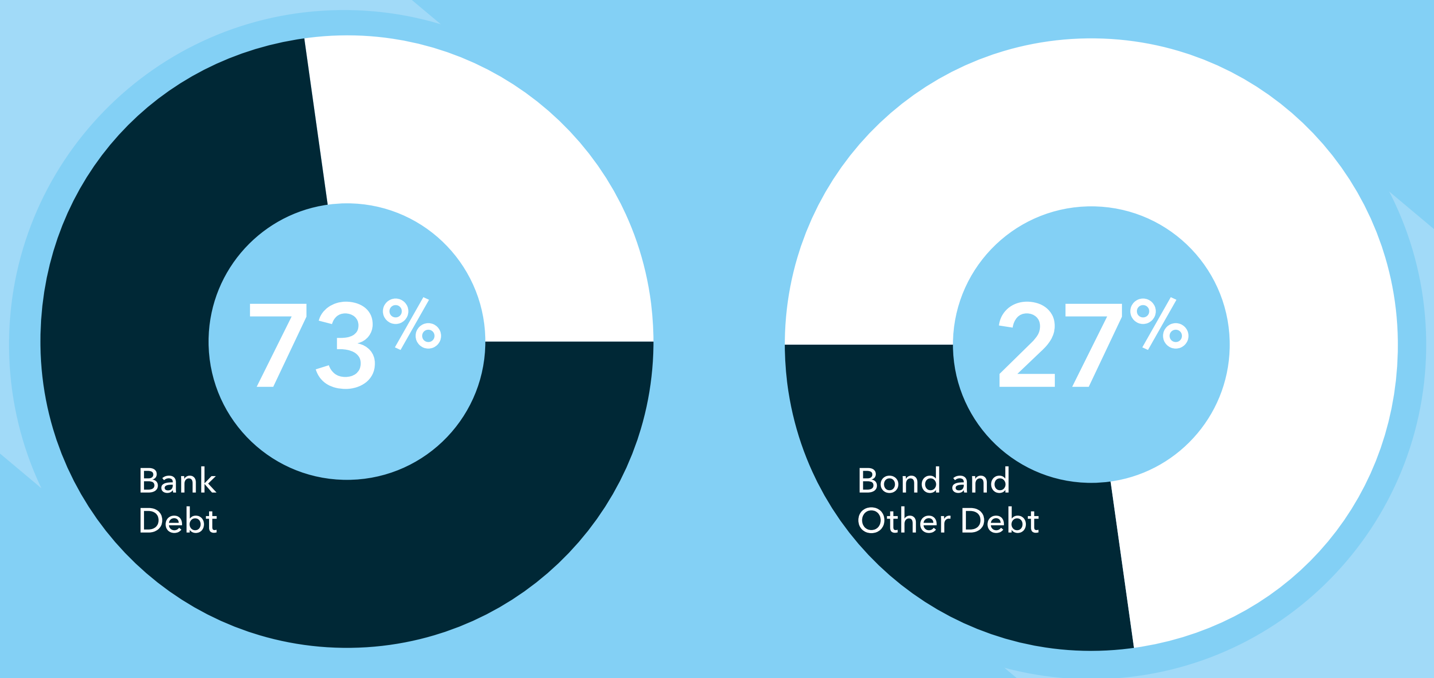
Those objectives can be summarised into three areas:

- Subsidise future development activities – to provide 12,000 new properties to the market by 2020, maintain a large development programme after 2020 and contribute to meeting the nation's housing crisis.
- Continue to invest in Orbit properties – ensuring all homes are at Decent Homes standard and meet a Band C energy efficiency level.
- Continue to invest in our communities – to continue to help give people the tools they need to thrive and succeed.

Orbit is evolving to its environment. Senior management are working hard to drive out process inefficiencies. Orbit is employing compassionate commerciality in its management of existing properties – considering what is best for customers and communities as well as for the bottom line. Growth opportunities are being maximised to sell our services externally. 'Profit for a Purpose' is an important part of Orbit's DNA.

A full VFM statement will be produced on our website by 30 September 2016.

Bank vs Other Debt

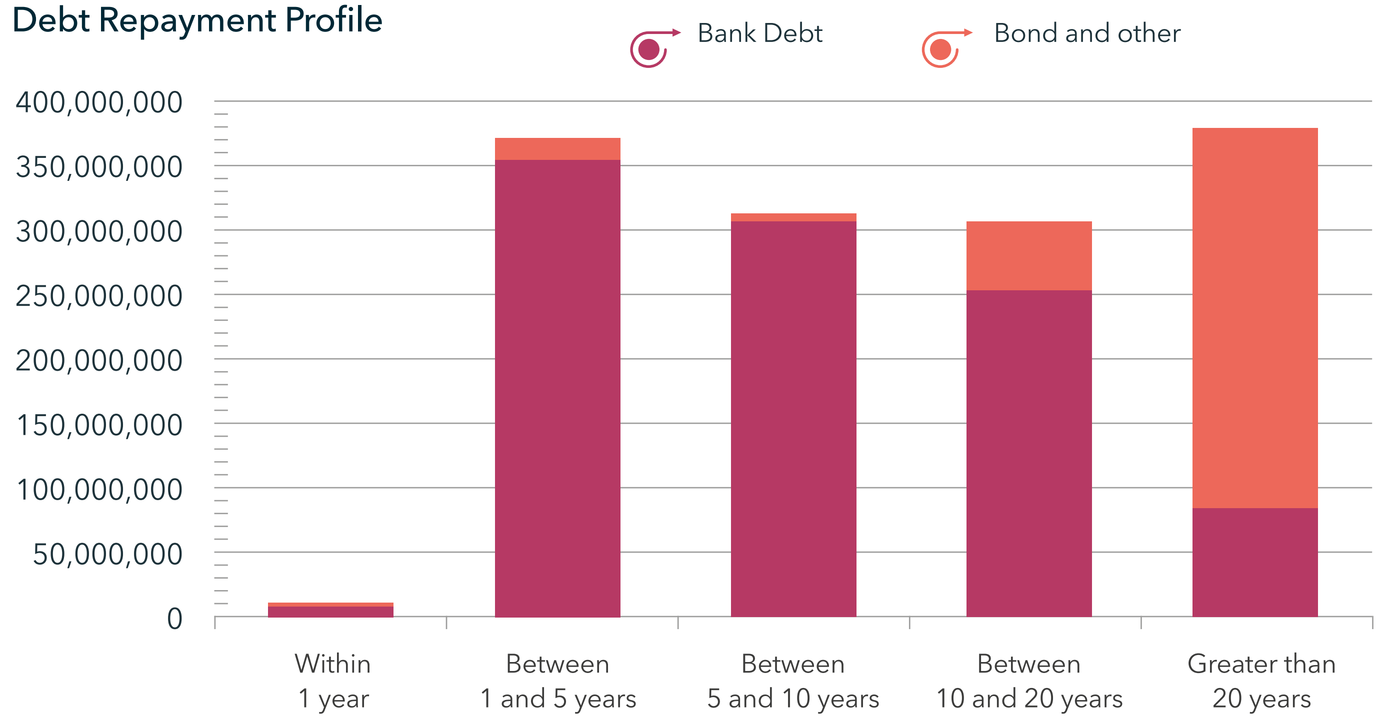


Capital Structure and Treasury policy

As at 31 March, the Group had £1,380 million of committed debt funding, including the £50 million of retained bonds. Drawn funding totalled £1,037 million, an increase from 2015 (£909 million). The Group seeks to maintain diversification in its funding sources with 73% coming from 8 banks and building societies and 27% from capital markets.

The Group's re-financing risk in the next five years is £384 million, (28% of loan facilities) with over 72% of the Groups debt maturing after 5 years.

Debt Repayment Profile



As at 31 March, the Group maintained £343 million of committed undrawn facilities available for immediate drawing and £67.7 million of cash in hand, representing total available liquidity of £408.5 million. These resources are considered sufficient to fund 20 months worth of commitments.

The adequacy of future funding and liquidity is controlled via policy limits as follows:

i. Sufficient cash to cover the next three months' forecast cash requirements;

ii. Sufficient cash and secured loan facilities to cover the next twelve months' forecast cash requirement; and

iii. Sufficient cash and committed loan facilities (secured and unsecured) to cover the higher of committed development spend and the next eighteen months' net forecast cash requirement.

Key Indicators

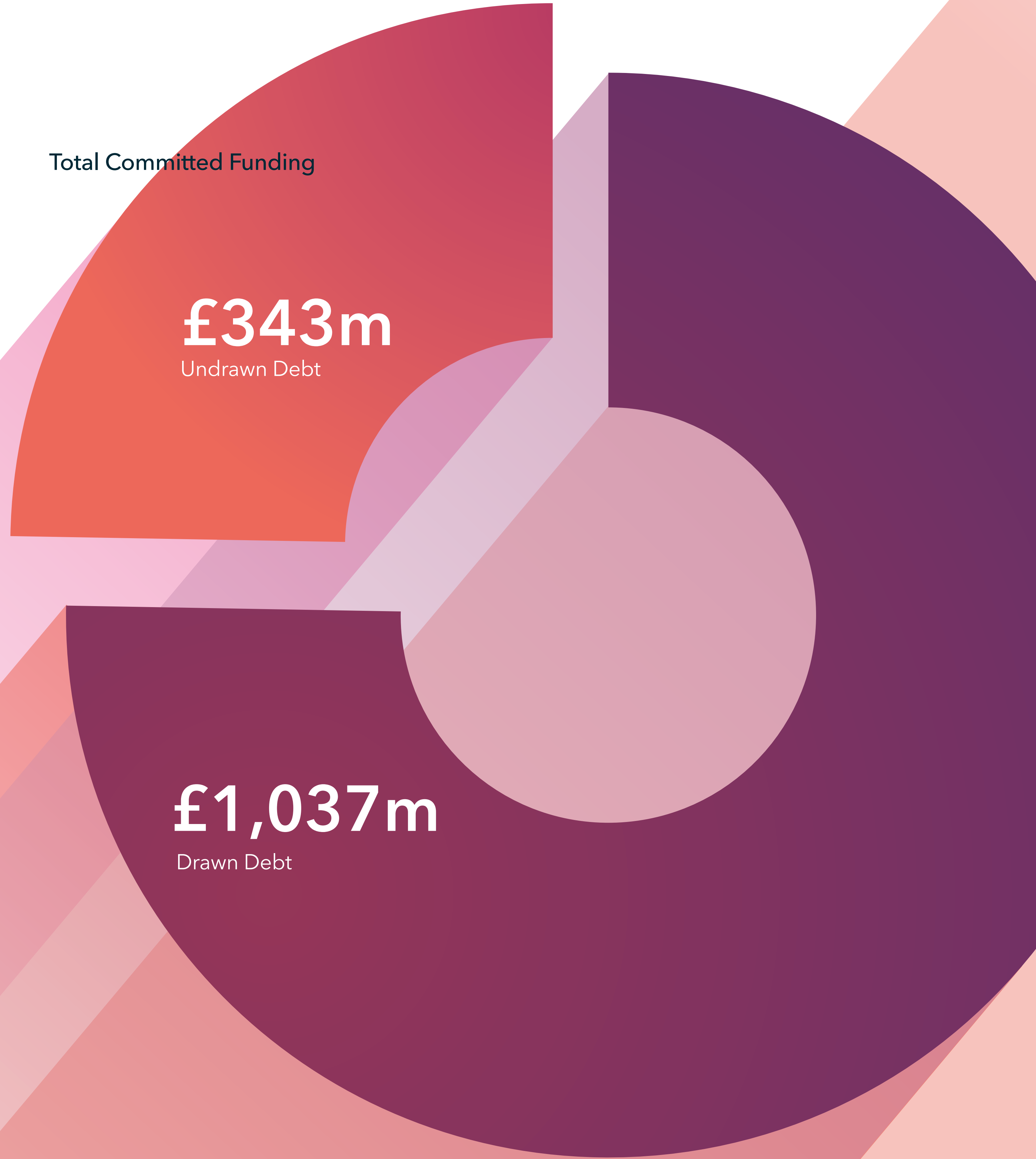
	Target 2015-16	Actual 2015-16
Immediately available cash and loans against budget	100%	164%

	2015-16	2014-15
Months cash/secured loans available	14	18
Months approved loans available	20	24

All committed facilities are secured by fixed charges. At the year-end the Group held approximately 10,000 unencumbered properties available for use for new loans. These properties are conservatively estimated to provide potential security for a further £703 million of new loans. This ability to raise new loans may enable us to develop a significant number of new homes in the future.

Available Liquidity

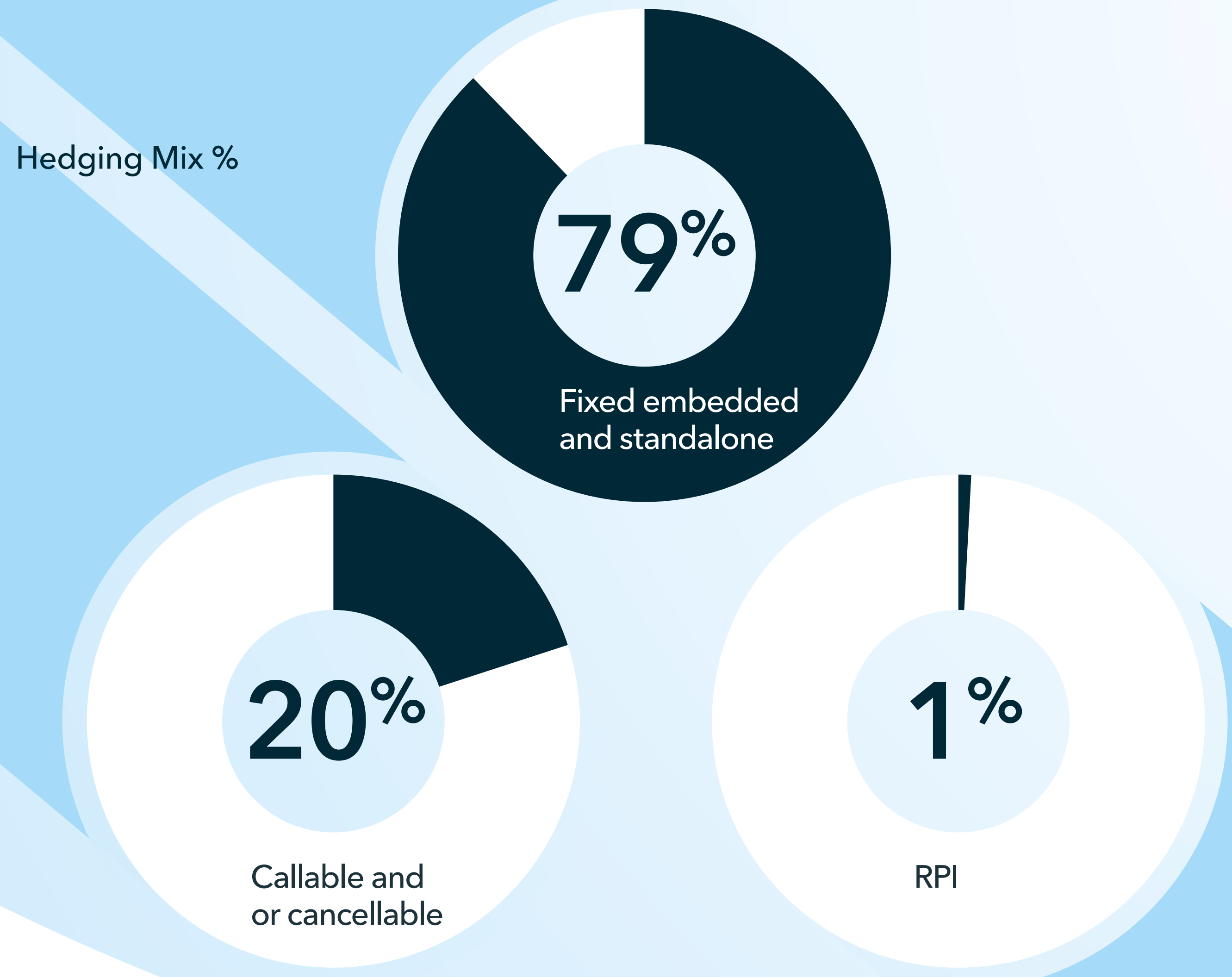
Total Committed Funding



The Group continues to be risk averse in its approach to interest rate management. Borrowing related to cash in hand is held at floating rates of interest. The Group targets a flexible policy of hedging 55% to 90% of its debt with predominantly fixed rate instruments and a small proportion of index linked instruments, with flexibility to depart from these parameters if circumstances make this appropriate.

The Board regularly monitors interest rate risk and at the year-end this resulted in a portfolio that was 85% fixed.

The Group's average interest cost for the year is 4.54% reflecting the fixed rate hedging noted above. The Group does not have any non-sterling or exchange rate exposures.



The Group maintains a desired interest rate profile through a mixture of embedded instruments (including fixed rate bank loans and bonds) and stand-alone swaps (including fixed and index linked derivatives with bank counterparties). As at the year-end, 79% of the Group's hedged activities were undertaken through embedded instruments and stand-alone swaps.

The Group's weighted average duration of standalone swaps is just over 15 years. This limits the impact of an increase in interest rates.

All of the Group's swap transactions allow social housing assets to be used as collateral to cover mark to market positions.

The Group maintains a formal counterparty policy in respect of those organisations from which it will borrow or with which it will enter into other finance arrangements and derivative transactions. Similarly, on investments, the Group regards the primary objective of its treasury management activity to be the security of the principal sums invested.

The Group's treasury strategy is reviewed and approved at least annually, to ensure it underpins the budget and longer term financial plan. Detailed cash flow forecasts, key ratios and limits are all monitored regularly by either Executive Team and/or OTL Board.

Cash Flows

The Group net cash generated from operating activities during the year was £131.4 million (2015: £113.0 million). The principal sources of cash inflow remain rental income and proceeds from sale of housing properties. The principal sources of cash outflow for Orbit were the costs associated with the provision of housing accommodation, the acquisition and construction of housing properties and interest payable on loan facilities.

For Orbit Group Limited as an individual association, the net cash generated from operating activities in 2016 was £56.9 million (2015: £32.3 million) primarily due to movements in debtors and creditor balances.

The principal sources of cash inflow for the Association were the income from other Orbit members for support services, income from the provision of shared ownership housing accommodation and the sale of housing properties. The principal sources of cash outflow for the Association were the costs associated with the provision of support services and housing accommodation, the acquisition and construction of housing properties and interest payable on loan facilities.

Housing Association Governance

Governance

Orbit Group Board and its Subsidiaries

The Board Members of Orbit Group Limited during the year are listed on page 20.

The Orbit Group Board comprises up to twelve non-executive members and up to two executive members and is responsible for governing the affairs of Orbit Group Limited and Orbit as a whole. Board Members are drawn from a wide background bringing together professional, commercial and public sector experience. The primary role of the Group Board is to focus on strategic direction, growth and risk. The Board meets formally at least five times a year for regular business, and at other times to discuss strategic issues and for Members' personal development.

In addition to Orbit Group Limited, there are two further Registered Providers within Orbit – Heart of England Housing Association Limited (Orbit Heart of England) and Orbit South Housing Association Limited (Orbit South). From 1st April 2013, Orbit Heart of England and Orbit South were brought together as 'Orbit Living' under a single management structure with one Executive Director. At the same time, the Boards of these two legal entities were combined as a single shared Board arrangement to oversee the operational performance of the two legal entities.

The other three active members of the Group are non-charitable wholly-owned subsidiaries of Orbit Group Limited. Orbit Treasury Limited (OTL) co-ordinates funding across the Group to enable more cost effective borrowing. Orbit Homes (2020) Limited builds houses for the Group's Registered Providers across a wide range of tenures as well as housing for market sale. Orbit Capital plc was established in March 2015 specifically for the Group's first bond issue.

All members of the Group remunerate their board members for undertaking their duties and responsibilities. The boards delegate the day-to-day management of Orbit to the Group Chief Executive and the Executive Directors who form the Executive Team (ET). The ET met at least monthly throughout 2015-16 and the Directors attend meetings of the Group Board and subsidiary boards.

Code of Governance

The Group has adopted the National Housing Federation's (NHF) 2015 Code of Governance as the Code of Governance for its Registered Providers. Whilst our non-charitable subsidiaries are not required to comply with the Code, they undertake to adhere to the spirit of the Code. Orbit Group Limited complies with the Code of Governance in all material aspects and the HCA's Governance and Financial Viability Standard. In those areas where we do not comply fully with the Code or Standard, we have provided a Statement to our Regulator (refer to page 37 where an issue with non-compliance has been identified during the year). The Group has developed its own Probity and Severance policy, which picks up the key principles of the NHF's Code of Conduct. In addition to this policy, the Group has its own Code of Conduct for board members.

Shareholding Policy

Under the Association's Rules, the Group Board retains discretion over the issue of shares in the Association and current policy is Orbit will operate a closed membership, with shares only issued to individuals who are board members. This policy will be kept under review.

Committees of the Board

The Group Board is supported by two committees with specific responsibilities.

Governance and Remuneration Committee - responsible for developing and maintaining Orbit's governance framework, which includes arrangements for the recruitment, induction, appraisal and development of Board Members and reviewing the roles and responsibilities of Board Members. The Committee also considers the Group's policy on remuneration, contracts of employment and conditions of service generally for Executive Directors and recommends to Group Board the specific remuneration packages for each of the Directors, including pension rights and any compensation/severance payments. It also approves and keeps under review Orbit's Board Member Payment (Non-Executive Directors) structure and policies, including levels of payment, and recommends changes to the Group Board as necessary.

Audit and Risk Assurance Committee - considers the operations of internal audit and the appointment of external auditors, the scope of their work and their reports. The Committee monitors the implementation of the Group's Risk Management Strategy and internal audit plans. It reports to the Group Board on the effectiveness of the internal control arrangements and considers the financial statements before they are presented to the Board for approval.

Resident Involvement

Orbit is committed to involving customers in decisions affecting their homes. There is representation from customers on the Orbit Living Board/Operations Committee, and a range of involvement opportunities for customers to scrutinise, hold Orbit to account for its performance and have input into shaping service delivery have been developed as part of the co-regulation agenda. This ensures Orbit meets regulatory requirements and good practice in terms of governance and customer involvement.

Regular customer experience surveys (Real Time Feedback) are undertaken, with feedback from customers being used to drive service improvements. In addition, the Orbit Complaints and Compliments procedure is used to capture customer feedback more effectively and apply the learning.

The key focus of the approach to involvement is making involvement activities easier to take part in, encouraging a wider range of customers to take part, making sure involvement leads to better services and improving VFM. An annual review of the impact of customer involvement activities is conducted to evaluate the cost, quality and outcomes of these. The annual report to customers summarises performance against the key regulatory standards.

Subsequent Events

There are no subsequent events requiring adjustment to, or disclosure in, the financial statements.

Going Concern

After making enquiries the Orbit Board has a reasonable expectation the Group and Association have adequate resources to continue in operational existence for the foreseeable future. For this reason, they have adopted the going concern basis in the financial statements.

On behalf of the Orbit Board

The Rt Hon Baroness Blackstone

CHAIR

26 July 2016

STATEMENT OF INTERNAL CONTROL FOR ORBIT GROUP

Purpose

The Statement of Internal Control provides an opinion to internal and external stakeholders on how effectively Orbit governs its business so as to manage the key risks to the successful delivery of its Business and Financial Plan.

Sources of assurance

A key element of providing this opinion is based upon Orbit's Internal Regulatory Framework, which pulls together assurance from a number of sources which feed into the annual statement of internal controls. Orbit's standard assurance providers include the following:

- Internal Audit
- External Audit
- Treasury advisors
- Risk management strategy
- Health and safety management system
- External specialist reviews
- Regulatory opinions

Outcomes

During 2015-16 the outcomes from key areas of assurance have been generally positive, however management continue to recognise improvements can be made, particularly as the operating environment for the housing sector evolves. It is important to note:

1. Internal audit outcomes have been positive with no red reports in 2015-16 and recommendations in previous years audits have been followed up.
2. External audit opinion is unqualified.
3. The new approach to risk management, including stress testing is being embedded.
4. The health and safety culture continues to strengthen.
5. The Board and its sub committee's continue to receive performance information and challenge the Executive Management on relevant areas to ensure performance either meets or exceeds targets.
6. Orbit's response to the regulatory downgrade has been robust, through the delivery of the HCA action plan.

Downgrade – G1 to G2

During 2015-16, Orbit received a downgrade to its governance rating from G1 to G2, due to weaknesses in its internal control environment relating to fire safety within the Property Services business of the Orbit Living subsidiary. This issue was identified internally by two of our sources of assurance (Health & Safety Team and Internal Audit) and was then reported through the governance structure and subsequently self-reported to the Regulator (Homes & Communities Agency – HCA). Improvements were immediately implemented to address the weakness in the internal control environment and complete all high risk actions to meet the deadline agreed with the HCA of 31st December 2015. Orbit hopes to move back to G1 during the summer of 2016.

Overall opinion - Group Chief Executive on behalf of the Executive Team

The Group Chief Executive provides the Group and the Audit and Risk Assurance Committee with an opinion on behalf of the Executive Team regarding the effectiveness of the sources of assurance operating within the Orbit Group.

'Based on the risk and assurance work undertaken in 2015-16 the overall opinion is that Orbit's internal control (financial and non-financial) environment supported by risk management and governance arrangements is operating with **sufficient effectiveness** to provide reasonable assurance to the Audit and Risk Assurance Committee and Group Board.

The Assurance framework highlighted the issues which led to the downgrade and actions identified have been or are being addressed. These are being actively monitored by the Executive Team with oversight from the Audit and Risk Assurance Committee to ensure the necessary improvements are delivered in the timescales agreed'.

Statement of Board's responsibilities in respect of the strategic report, the Board's report and the financial statements

The Board is responsible for preparing the Board's Report and the financial statements in accordance with applicable law and regulations.

Co-operative and Community Benefit Society law requires the Board to prepare financial statements for each financial year. Under those regulations the Board have elected to prepare the financial statements in accordance with UK Accounting Standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

The financial statements are required by law to give a true and fair view of the state of affairs of the association and of its income and expenditure for that period.

In preparing these financial statements, the Board is required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the association will continue in business.

The Board is responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the association and enable them to ensure that its financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. The Board has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the association and to prevent and detect fraud and other irregularities.

The Board is responsible for the maintenance and integrity of the corporate and financial information included on the association's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Annual General Meeting

The annual general meeting will be held on 14 September 2016.

Disclosure of information to Auditors

The Directors who held office at the date of approval of this statement confirm, so far as they are each aware, there is no relevant audit information of which the Group's independent auditors are unaware; and each Director has taken all the steps he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Group's independent auditors are aware of that information.

Independent Auditors

KPMG LLP were appointed as external auditors for the year ended 31 March 2016. A resolution to re-appoint the Association's auditors for external audit services will be proposed at the Annual General Meeting.

The report of the Board was approved on 26 July 2016 and signed on its behalf by:

Richard Wright
Secretary

Independent Auditors' Report To The Members Of Orbit Group Limited For The Year Ended 31 March 2016

We have audited the financial statements of Orbit Group Limited for the year ended 31 March 2016 set out on pages 41 to 102. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

This report is made solely to the Association's members, as a body, in accordance with section 87 of the Co-operative and Community Benefit Societies Act 2014 and section 128 of the Housing and Regeneration Act 2008. Our audit work has been undertaken so that we might state to the association those matters we are required to state to it 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 as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As more fully explained in the Statement of Board's Responsibilities set out on page 38, the association's Directors are responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the Group and the Association as at 31 March 2016 and of the surplus of the Group and the Association for the year then ended;
- comply with the requirements of the Co-operative and Community Benefit Societies Act 2014; and
- have been properly prepared in accordance with the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

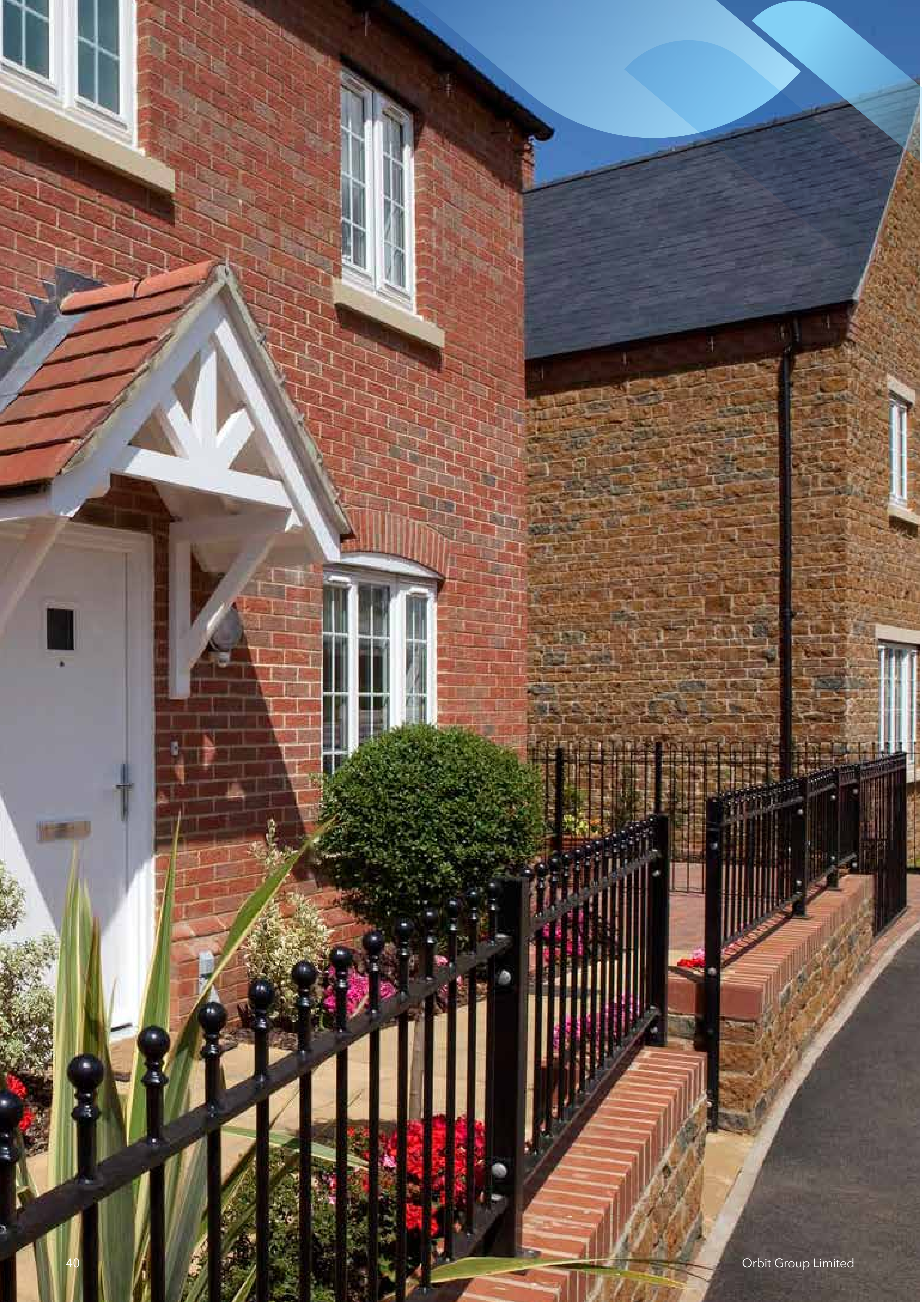
Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Co-operative and Community Benefit Societies Act 2014 requires us to report to you if, in our opinion:

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

Harry Mears
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

9 August 2016



Consolidated and Association Statement of Comprehensive Income

For the year ended 31 March 2016

	Note	Group 2016 £000	Group 2015 £000	Association 2016 £000	Association 2015 £000
Turnover	2	**301,217**	250,326	**71,103**	73,710
Cost of sales	2	**(78,238)**	(42,091)	**(33,265)**	(16,681)
Operating costs	2	**(149,338)**	(138,853)	**(30,937)**	(46,815)
Surplus on sale of housing properties	7	**19,506**	15,044	**3,347**	2,055
Operating surplus	2&5	**93,147**	84,426	**10,248**	12,269
(Loss) on sale of property, plant and equipment – other	5	**(503)**	(353)	**(503)**	(21)
Income from shares in Group undertakings		**-**	-	**1,700**	1,361
Interest receivable	8	**749**	528	**1,770**	1,157
Interest payable	9	**(48,363)**	(36,051)	**(5,041)**	(3,815)
Other financing costs	9	**(4,128)**	(574)	**(788)**	(527)
Movement in fair value of financial instruments		**(1,806)**	(16,871)	**(4)**	(4)
Donations received		**-**	-	**12,167**	17,669
Surplus before taxation		**39,096**	31,105	**19,549**	28,089
Taxation	10	**(836)**	11	**1**	(15)
Surplus for the year		**38,260**	31,116	**19,550**	28,074
Unrealised surplus on revaluation of housing properties	25	**-**	-	**130**	195
Actuarial gain/(loss) in respect of pension schemes	35	**588**	(1,819)	**-**	(853)
Change in fair value of hedged financial instrument		**(6,487)**	(44,414)	**-**	-
Total comprehensive income		**32,361**	(15,117)	**19,680**	27,416

All amounts derive from continuing operations.

Consolidated and Association Statement of Changes in Reserves

For the Year Ended 31 March 2016

Group	**Income and Expenditure Reserve £000**	**Revaluation Reserve £000**	**Cash Flow Hedge Reserve £000**	**Total Reserves £000**
Balance as at 1 April 2014	**342,680**	**-**	**(11,207)**	**331,473**
Surplus for the year restated	**31,116**	**-**	**-**	**31,116**
Transfer from revaluation reserve to I&E reserve	**-**	**-**	**-**	**-**
Change in fair value of hedged financial instruments	**-**	**-**	**(44,414)**	**(44,414)**
Other comprehensive income	**(1,819)**	**-**	**-**	**(1,819)**
Balance as at 31 March 2015	**371,977**	**-**	**(55,621)**	**316,356**
Surplus for the year	**38,260**	**-**	**-**	**38,260**
Transfer from revaluation reserve to I&E reserve	**-**	**-**	**-**	**-**
Actuarial gain/(loss) in respect of pension schemes	**588**	**-**	**-**	**588**
Change in fair value of hedged financial instruments	-	**-**	**(6,487)**	**(6,487)**
Balance as at 31 March 2016	**410,825**	**-**	**(62,108)**	**348,717**

Association	**Income and Expenditure Reserve £000**	**Revaluation Reserve £000**	**Cash Flow Hedge Reserve £000**	**Total Reserves £000**
Balance as at 1 April 2014	147,267	551	-	147,818
Surplus for the year restated	28,074	-	-	28,074
Transfer from revaluation reserve to I&E reserve	195	(195)	-	-
Other comprehensive income	(853)	-	-	(853)
Balance as at 31 March 2015	**174,683**	**356**	**-**	**175,039**
Surplus for the year	19,550	-	-	19,550
Transfer from revaluation reserve to I&E reserve	130	(130)	-	-
Balance as at 31 March 2016	194,363	226	-	194,589

Consolidated and Association Statement of Financial Position

As at 31 March 2016

		Group		Association	
	Note	2016 £000	2015 £000	2016 £000	2015 £000
Fixed Assets					
Tangible fixed assets	11&14	**2,057,531**	1,887,970	**261,986**	235,506
Investments – HomeBuy loans receivable	13	**15,073**	16,428	**15,073**	16,428
Fixed asset investments	12	**800**	800	**34,013**	34,013
		2,073,404	1,905,198	**311,072**	285,947
Debtors: amounts falling due after more than one year	16	**1,910**	1,920	**32,496**	38,197
Current Assets					
Properties for sale and stock	15	**103,657**	104,801	**35,286**	31,026
Trade and other debtors	16	**24,993**	26,372	**51,316**	42,693
Investments	17	**6,041**	7,254	**5,230**	1,925
Cash and cash equivalents		**67,738**	43,385	**56,260**	38,528
		202,429	181,812	**148,092**	114,172
Less: creditors: amounts falling due within one year	18	**(85,127)**	(81,270)	**(81,857)**	(51,064)
Less: provisions for liabilities due within one year	21	**(530)**	(657)	**-**	-
Net current assets		**116,772**	99,885	**66,235**	63,108
Total assets less current liabilities		**2,192,086**	2,007,003	**409,803**	387,252
Creditors: amounts falling due after more than one year					
Disposal proceeds and Recycled Capital Grants Funds	22	**(10,751)**	(10,322)	**(5,658)**	(4,987)
Derivative liabilities	19	**(110,564)**	(102,115)	**-**	-
Other creditors	19	**(1,694,928)**	(1,555,775)	**(186,818)**	(189,320)
		(1,816,243)	(1,668,212)	**(192,476)**	(194,307)
Provisions for Liabilities					
Pension provision	36	**(25,307)**	(21,023)	**(22,738)**	(17,906)
Other provisions	21	**(1,819)**	(1,412)	**-**	-
TOTAL NET ASSETS		**348,717**	316,356	**194,589**	175,039
Reserves					
Income and expenditure reserve		**410,825**	371,977	**194,363**	174,683
Revaluation reserve		**-**	-	**226**	356
Cash flow hedge reserve		**(62,108)**	(55,621)	**-**	-
TOTAL RESERVES		**348,717**	316,356	**194,589**	175,039

The financial statements on pages 41 to 102 were approved by the Orbit Board and signed on its behalf by:

The Rt Hon Baroness Blackstone
CHAIR
26 July 2016

BOARD MEMBER

Richard Wright
SECRETARY

Consolidated and Association Statement of Cash Flows

For the Year Ended 31 March 2016

		Group		Association	
	Note	2016 £000	2015 £000	2016 £000	2015 £000
NET CASH GENRATED FROM OPERATING ACTIVITIES	28	**131,360**	113,037	**56,943**	32,302
Cash flow from investing activities					
Interest Received		**749**	453	**1,770**	1,157
Dividends Received		**-**	-	**1,700**	1,361
Grants Received		**18,662**	35,310	**3,589**	2,030
Acquisition and Construction of Housing Properties		**(209,868)**	(233,645)	**(43,482)**	(49,703)
Housing and other fixed assets sold to other Group members		**-**	-	**5,109**	3,939
Mortgages Redeemed/(Issued)		**44**	(216)	**300**	(134)
Net movement on Equity Loans and Grants		**15**	156	**47**	157
Purchase of Other Fixed Assets		**(2,109)**	(1,781)	**(1,801)**	(1,653)
Sale of Other Fixed Assets		**171**	82	**171**	23
Investment in Subsidiary Company		**-**	-	**-**	(12,013)
Cash flow from Financing activities		**-**	-	**-**	-
Donations Received		**-**	-	**6,769**	1,889
Taxation Paid		**(474)**	(107)	**(4)**	(11)
Interest Paid		**(50,947)**	(36,021)	**(6,139)**	(4,141)
Other financing costs paid		**(3,703)**	-	**(464)**	-
(Increase) in Bank Deposits with a maturity in excess of 24 hours		**1,213**	(7,254)	**(3,305)**	(1,925)
Housing Loans & Bond Finance Received		**135,688**	196,062	**229,284**	258,239
Housing Loans Repaid		**(2,578)**	(50,476)	**(232,755)**	(218,129)
Loan Arrangement Fees Paid		**(2,319)**	(1,080)	**-**	-
Other financial liabilities		**8,449**	-	**-**	-
Net Change in cash and cash equivalents		**24,353**	14,520	**17,732**	13,388
Cash and cash equivalents at beginning of the year		**43,385**	28,865	**38,528**	25,140
Cash and cash equivalents at end of the year	30	**67,738**	43,385	**56,260**	38,528

Notes to the Consolidated and Association Financial Statements

For the Year Ended 31 March 2016

1. Principal Accounting Policies

Legal status

Orbit Group Limited is incorporated under the Co-operative and Community Benefit Societies Act 2014 and is registered with the Homes & Communities Agency (HCA) as a not for profit Registered Provider of social housing as defined by the Housing and Regeneration Act 2008.

Basis of accounting

The financial statements have been prepared on a going concern basis, under the historical cost basis of accounting except as modified by the revaluation of freehold and leasehold offices, in accordance with United Kingdom applicable Accounting Standards including the Financial reporting Standard 102 (FRS 102) and the Housing SORP 2014, Statement of Recommended Practice for Registered Social Housing Providers, and comply with the Accounting Direction for Private Registered Providers of Social Housing 2015. As a public benefit entity Orbit Group Limited has applied all paragraphs of FRS 102 which relate to public benefit entities in preparing the financial statements. Details of the impact of transition to FRS102 are shown in note 34. The principal accounting policies, which have been consistently applied unless otherwise stated throughout the year, are set out below.

Going Concern

The Group's key activities are set out in the Strategic Report along with an assessment of the risks to the current operating environment. The Group is expected to have adequate resources to continue in operational existence for the foreseeable future. The financial statements have therefore been prepared on a going concern basis.

Basis of consolidation

The financial statements for Orbit Group Limited are the result of the consolidation of the financial statements of the Association and its subsidiaries during the year ended 31 March 2016. The subsidiaries consolidated are: Orbit South Housing Association Limited, Heart of England Housing Association Limited (Orbit Heart of England), Orbit Treasury Limited, Orbit New Homes Limited, Orbit Homes (2020) Limited and Orbit Capital plc. Uniform accounting policies have been adopted across the Group, and surpluses/deficits and balances on intra group transactions have been eliminated on consolidation.

Turnover

Turnover represents rental and service charge income receivable, grants from local authorities and the Homes & Communities Agency (HCA), income from shared ownership first tranche sales, income from properties developed for sale, grant amortisation and other income, all of which arise in the UK.

Properties for sale

Properties developed for outright sale are included in turnover, cost of sales and operating costs. Properties developed for shared ownership sale are divided into first tranche sales and other sales. First tranche sales are included in turnover, cost of sales and operating costs. Subsequent tranches are not included in turnover and cost of sales, but are shown as a separate item before the operating surplus in the Statement of Comprehensive Income. All other sales of fixed asset properties are dealt with in this latter way.

Properties developed for outright sale and shared ownership first tranche proportions are included in current assets as they are intended to be sold. Shared ownership subsequent tranche proportions are included in fixed assets.

1. Principal Accounting Policies (continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the services provided net of Value Added Tax and customer discounts and incentives.

Operating costs

Direct employee, administration and operating costs are apportioned to either the Statement of Comprehensive Income or capital schemes on the basis of costs of staff and the extent to which they are directly engaged in the operations concerned.

Value Added Tax

Orbit Group Limited is party to a Group Registration for VAT. All amounts disclosed in the financial statements are inclusive of VAT with the exception of those relating to Orbit Homes (2020) Limited, which is separately registered for VAT outside the VAT group and Orbit New Homes Limited, which is no longer registered for VAT.

Liquid resources

Liquid Resources comprise bank deposits that are readily convertible into cash and loans to fund the purchase of housing properties.

Housing properties

Housing properties are stated at cost, less accumulated depreciation and impairment provision. Depreciation is charged by component on a straight line basis over the following expected economic useful lives:

Housing property components	Depreciation life
Kitchens	20 years
Bathrooms	30 years
Windows & Doors	30 years
Boilers	15 years
PV panels	25 years
Roof	60 years
External Wall Insulation	36 years
Rewiring	30 years
Structure (rehabilitated)	60 years
Structure (new stock)	100 years

Freehold land and the associated element of grant is not depreciated. Attributable overheads and profit are included in cost of components.

The useful economic lives of all tangible fixed assets are reviewed annually.

Donated land is included in cost at its valuation on donation, with the donation treated as a capital grant.

Housing properties are shown at cost less applicable grants, depreciation and impairment provision. Housing properties in the course of construction are stated at cost and not depreciated and are transferred to completed properties when they are ready for letting. When housing properties are to be transferred to another association, the net costs, after SHG, are dealt with in current assets.

Shared 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 are included in turnover. The remaining element is classed as a fixed asset, and included in housing properties at cost, less any provisions needed for depreciation or impairment.

Completed properties for outright sale and work in progress are valued at the lower of cost and net realisable value. Cost comprises materials, direct labour and attributable overheads. Net realisable value is based on estimated sales price after allowing for all further costs of completion and disposal.

Government and other grants

Social Housing Grant (SHG) is receivable from the Homes & Communities Agency (HCA). This is recognised within income through the amortisation of the grant over the useful economic life of the structure of the asset as are any other grants received for the development of social housing. Grant is amortised even if there are no related depreciation charges.

For shared ownership (SO) stock this is the useful economic life of the asset (these assets are not accounted for by component as with rented stock). Therefore, the useful economic life will be the period over which the SO property will be available for use, by the entity and hence is deemed to be the average time SO properties are held before becoming fully stair-cased.

1. Principal Accounting Policies (continued)

SHG due from the HCA or received in advance is included as a current asset or liability within the Statement of Financial Position.

SHG can be recycled by the Association under certain circumstances such as if a property is sold, or if another relevant event takes place. In these cases, the SHG can be recycled for use on projects approved by the HCA and is held on the Statement of Financial Position as a liability in the Recycled Capital Grant Fund. However, SHG may need to be repaid if certain conditions are not met and in that event, is a subordinated unsecured repayable debt.

Capitalisation of Interest and Administration Costs

Interest on loans financing non-market development has been capitalised since 1 April 2004. Administration costs relating to development activities are capitalised only to the extent they are incremental to the development process and directly attributable to bringing the property into its intended use.

Interest costs on loans financing market sale development are written off as incurred for the first time in 2015-16 following a change in accounting estimate. This has resulted in an increased interest expense of £4.7 million for the year ended 31 March 2016. It would be impracticable to state the effect on future periods, ultimately the change in accounting estimate is a timing change.

Other Tangible Fixed Assets and Depreciation

Tangible fixed assets are stated at historic purchase cost, less accumulated depreciation and capital grants.

Certain Orbit Group Limited offices were valued in February 1997 on the basis of their Open Market Value for existing use. On adoption of Financial Reporting Standard 15 "Tangible Fixed Assets", the Association has followed the transitional provisions to retain the book value of the offices which were revalued in 1997, but not to adopt a policy of revaluation in the future. This policy has been retained with the adoption of FRS 102.

Depreciation is provided to write off the cost on a straight line basis over the expected economic useful lives of the assets at the following annual rates:

Freehold offices and commercial premises	2% - 4%
Leasehold offices	Over the life of the lease
Motor vehicles	25%
Computer equipment	17% - 33%
Fixtures, fittings and other equipment	15% - 25%

Freehold land is not depreciated. The useful economic lives of all tangible fixed assets are reviewed annually.

Stock and Work in Progress

Stock and work in progress are stated at the lower of cost and net realisable value. Cost includes land, build costs, applicable overheads and interest. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow moving or defective items where appropriate. Interest on borrowings incurred during the development period is capitalised.

Investment in subsidiary undertakings

Investments in subsidiary undertakings are recorded at cost plus incidental expenses less any provision for impairment. Impairment reviews are performed by the directors when there has been an indication of potential impairment.

Leased assets

Where assets are financed by leasing agreements that give rights approximating to ownership, they are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as obligations to the lessor. Lease payments are treated as consisting of capital and interest elements and the interest is charged to the Statement of Comprehensive Income using the annuity method. Rentals paid under operating leases are charged to the Statement of Comprehensive Income as incurred.

1. Principal Accounting Policies (continued)

Pension costs

Orbit Group Limited participates in the Social Housing Pension Scheme (SHPS), the full details are given in note 35 to the financial statements. For the purposes of the financial statements this scheme is accounted for on a defined contribution basis. Orbit Group Limited also offered a Stakeholder pension scheme for employees who were not eligible to join SHPS because of the nature of their contract of employment.

The scheme available is The Pensions Trust - Standard Life Stakeholder Pension Plan. Employees were able to join the scheme if they met the earnings criteria at which point the Association matched the employee's contribution, up to a maximum of 5%.

The cost of providing retirement pensions and related benefits is charged to management expenses over the periods benefiting from the employees' services. The disclosures in the financial statements follow the requirements of FRS 102

Orbit South Housing Association Limited operates defined benefit funded pension schemes. The assets of the schemes are held separately from those of the association in independently administered funds. The requirements of FRS 102 are fully reflected in the financial statements and associated notes. Note 35 provides a summary of the pension valuation report, together with prior year statements which state last year's revenue and reserves. For funding purposes, surpluses or deficiencies are dealt with as advised by the actuary.

For defined benefit schemes the amounts charged to operating surplus are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the Statement of Comprehensive Income if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of financial position.

The difference between the fair value of the assets held in the defined benefit pension scheme and the scheme's liabilities measured on an actuarial basis using the projected unit method are recognised in the Operating Association's Statement of Financial Position as a pension scheme liability. Changes in the defined benefit pension scheme liability arising from factors other than cash contribution by the Association are charged to the Statement of Comprehensive Income in accordance with applicable accounting standards

For funding purposes, the actuary has accepted an undertaking from the Operating Association that contributions to clear the deficit will be made over a period beyond the expected service lives of the remaining participating employees in line with other participating employees in the scheme.

Impairment

Reviews for impairment of housing properties are carried out on a twice yearly basis and any impairment in an income generating unit is recognised by a charge to the Statement of Comprehensive Income. Impairment is recognised where the carrying value of an income generating unit exceeds the higher of its net realisable value or its value in use.

This policy also provides that where macro level changes in the market environment and changes in government legislation occur these are triggers for Orbit Group to conduct an impairment test upon all rented social housing properties.

This year government legislation has imposed a 1% reduction in social rent over a 4 year period and triggered the following impairment test upon all rented social housing properties.

1. Principal Accounting Policies (continued)

Policy guides impairment test assumptions, this year's assumptions on undertaking a full impairment were on cash generated units. These are defined as:

- Orbit Group recognises both scheme and local authority as cash generating units.
- The principal cash generating units have remained the same as 2014/15.
- The carrying values for each CGU are compared against their EUV-SH values.
- A discounted cash flow valuation is used as a proxy for EUV-SH.
- For practical reasons Orbit Group considers a scheme or collection of units within a local authority to be a CGU as this is how activities are managed.
- Material cost streams (such as major repairs) are also specifically assessed and managed across scheme and local authority level.
- Should disposal be considered, Orbit Group looks at both scheme level and local authority level exit strategies.

An additional step was taken in the impairment review to compare the carrying values of the properties deemed most at risk of impairment through the discounted cashflow methodology against depreciated replacement cost (DRC), to demonstrate that it provided a suitable method in line with the SORP's preferred use of DRC.

Discounted Cash Flow (DCF) has been used to estimate the value in use of properties held for their social benefit based on the expected future cashflows of the cash generating in line with SORP (para 14.20). The key assumptions used were:

- A discount rate of 4.8% was used within the discounted cashflow calculation. This represents adequate costs of capital and risks associated but also incorporate marginal increased management costs with each additional CGU.
- Rent, major repairs and maintenance are the three largest cashflow streams within the DCF. They are assumed to inflate by 2.5% per annum.
- The DCF is calculated over 40 years.
- Voids and Bad Debts are assumed to contain some prudence at a combined 2.3% of rental income over the life of the DCF.

Works to existing housing properties

Expenditure on housing properties which increases the net rental stream over the life of the property is capitalised. An increase in the net rental stream may arise through an increase in the rental income, a reduction in future maintenance costs, or a significant extension of the life of the property. All other costs are classified as maintenance and are charged to the Statement of Comprehensive Income in the year in which the work is undertaken. No depreciation charge is made during the year in which a property comes into management, nor in the year of sale.

Disposal proceeds fund

Voluntary Purchase Grant net of disposal proceeds is credited to this fund, which appears as a creditor until spent.

Recycling of capital grant

Where Social Housing Grant (SHG) is recycled the SHG is credited to a fund that appears as a creditor until spent.

Service charge sinking funds

Service charge sinking funds are dealt with as creditors.

Taxation

The charge for the year is based on surpluses arising on activities that are liable to tax. Taxable members of the Group have adopted the accounting standard for deferred tax (FRS 102, section 29). Deferred Tax is provided in full, at the tax rates expected to apply to the period when the asset is realised or the liability is settled, on any timing differences, although deferred tax assets are only recognised to the extent it is regarded as more likely than not they will be recovered. Timing differences arising from the revaluation of fixed assets are only recognised where there is a binding agreement to sell the revalued assets. Deferred tax assets and liabilities are not discounted.

1. Principal Accounting Policies (continued)

Loan finance issue costs

These are written off over the life of the related loan. Loans are stated in the Statement of Financial Position at the amount of the net proceeds after issue, plus increases to account for any subsequent amounts written off.

Property managed by agents

Where an Association carries the majority of the financial risk on property managed by agents, all the income and expenditure arising from the property is included in the Statement of Comprehensive Income. Where the agency carries the majority of the financial risk, the Statement of Comprehensive Income includes only that income and expenditure which relates solely to the risk carried by the Association. In both cases, where revenue grants are claimed by the Association, these are included in the Statement of Comprehensive Income.

Loan interest costs

The full costs of deferred interest rate and indexation loans are shown in the Statement of Comprehensive Income in accordance with EIR treatment.

Derivative financial instruments

The Group uses derivative financial instruments to reduce exposure to interest rate movements. The Group does not hold or issue derivative financial instruments for speculative purposes. For an interest rate swap to be treated as a hedge the instrument must be related to actual assets or liabilities or a probable commitment and must change the nature of the interest rate by converting a fixed rate to a variable rate or vice versa. Interest differentials under these swaps are recognised by adjusting net interest payable over the periods of the contracts. The principle of hedge accounting applies only to standalone swaps, which have to be fair valued at each period end.

However, RPI swaps and swaps with cancellable options do not meet the criteria of hedging instruments (FRS 102. Section 12.17C). The movement in fair value is therefore taken directly to the Statement of Comprehensive Income.

For the remaining vanilla interest rate swaps an assessment must be made of the hedge effectiveness. The MTM movement during the accounting period on each vanilla swap is analysed between Effective and Ineffective, with the Effective element posted to the cash flow hedge reserve and the Ineffective element charged/credited to the Statement of Comprehensive Income.

Housing loans

External loans also need to be categorised either as Basic or Other. The Basic approach results in a requirement to report interest costs using the EIR (Effective Interest Rate) method. This necessitates modelling on a loan by loan basis averaging (via an EIR calculation) all elements of income and expenditure relating to the loan (margin, including future step ups, arrangement fees).

The EIR for fixed rate instruments will be calculated as the rate which exactly discounts the instrument's future cash flows to the carrying amount (11.15). Arrangement fee amortisation will be calculated separately and netted off against the carrying value of the debt liability.

Due to the short term of our floating rate instruments the carrying amount will be set equal to the nominal loan amount less unamortised fee.

Bond finance

Bonds are shown at their redemption value net of discount and issue costs. The discount on issue of the bonds is written off through the Statement of Comprehensive Income on an actuarial basis over the life of the bond.

HomeBuy

The Association operates the HomeBuy scheme lending a percentage of the cost to home purchasers, secured on the property. The loans are interest free and repayable only on the sale of the property. On a sale, the fixed percentage of the proceeds are repaid. The loans are financed by an equal amount of SHG. On repayment:

(a) The SHG is recycled
(b) The SHG is written off, if a loss occurs
(c) The Association keeps any surplus

1. Principal Accounting Policies (continued)

Mortgage rescue

The Association operates the Mortgage Rescue equity loan scheme whereby, in a mortgage rescue case, if the occupier has sufficient equity in the product to not require a full mortgage rescue option, the Association can offer an interest only loan for between 25% and 75% of the outstanding mortgage secured on the property, with interest payable at 1.75% on the loan, increasing by RPI + 0.5%. The loan period will be up to 25 years, usually linked to the remaining period on the mortgage.

The equity loans are financed in part by grants of 73% received from the HCA, which are recycled on repayment of the loan.

The loans and associated grants are disclosed as 'HomeBuy and Other Equity Loans and Grants' in note 13 to the financial statements.

2. Turnover, Cost of Sales, Operating Costs and Operating Surplus by Class of Business

Group – Current Year	Turnover £000	Cost of sales £000	Operating costs £000	Operating Surplus/(Deficit) £000
Social Housing Lettings	193,411	-	(115,915)	77,496
Other Social Housing Activities				
Development for sale	49,565	(44,080)	-	5,485
Properties for sale	5,985	(5,985)	-	-
Home Ownership services	4,734	-	(5,609)	(875)
LCHO first tranche sales	36,865	(28,173)	(2,906)	5,786
Charges for support services	1,901	-	(3,788)	(1,887)
Other	7,111	-	(12,254)	(5,143)
SHPS Pension remeasurement expense	-	-	(6,539)	(6,539)
	106,161	(78,238)	(31,096)	(3,173)
	299,572	(78,238)	(147,011)	74,323
Non-social housing activities	1,645	-	(2,327)	(682)
Surplus on sale of housing	-	-	-	19,506
Total	301,217	(78,238)	(149,338)	93,147

Group – Prior Year	Turnover £000	Cost of sales £000	Operating costs £000	Operating Surplus/(Deficit) £000
Social Housing Lettings	182,108	-	(113,340)	68,768
Other Social Housing Activities				
Development for sale	27,759	(24,787)	-	2,972
Properties for sale	5,649	(5,649)	-	-
Home Ownership services	3,951	-	(4,812)	(861)
LCHO first tranche sales	16,984	(12,093)	(2,131)	2,760
Charges for support services	1,976	-	(3,473)	(1,497)
Other	9,814	438	(12,799)	(2,547)
	66,133	(42,091)	(23,215)	827
	248,241	(42,091)	(136,555)	69,595
Non-social housing activities	2,085	-	(2,298)	(213)
Surplus on sale of housing	-	-	-	15,044
Total	250,326	(42,091)	(138,853)	84,426

2. Turnover, Cost of Sales, Operating Costs and Operating Surplus by Class of Business (continued)

Association – Current Year	Turnover £000	Cost of sales £000	Operating costs £000	Operating Surplus/(Deficit) £000
Social Housing Lettings	11,920	-	(4,482)	7,438
Other Social Housing Activities				
Properties for sale	5,985	(5,985)	-	-
Home Ownership services	701	-	(672)	29
LCHO first tranche sales	35,788	(27,280)	(2,906)	5,602
Group Recharges	15,569	-	(15,569)	-
Other	1,075	-	(740)	335
SHPS pension remeasurement expense	-	-	(6,539)	(6,539)
	59,118	(33,265)	(26,426)	(573)
	71,038	(33,265)	(30,908)	6,865
Non-social housing activities	65	-	(29)	36
Surplus on sale of housing	-	-	-	3,347
Total	71,103	(33,265)	(30,937)	10,248

Association – Prior Year	Turnover £000	Cost of sales £000	Operating costs £000	Operating Surplus/(Deficit) £000
Social Housing Lettings	11,024	-	(3,856)	7,168
Other Social Housing Activities				
Properties for sale	4,588	(4,588)	-	-
Home Ownership services	610	-	(471)	139
LCHO first tranche Sales	16,984	(12,093)	(2,130)	2,761
Group recharges	39,029	-	(39,024)	5
Other	1,268	-	(1,195)	73
	62,479	(16,681)	(42,820)	2,978
	73,503	(16,681)	(46,676)	10,146
Non-social housing activities	207	-	(139)	68
Surplus on sale of housing	-	-	-	2,055
Total	73,710	(16,681)	(46,815)	12,269

3. Income and Expenditure from Social Housing Lettings

Group	General Needs Housing £000	Supported Housing and Housing for Older People £000	Low Cost Home Ownership £000	2016 £000	2015 £000
Rent receivable net of identifiable service charges	148,744	11,583	9,186	**169,513**	**159,416**
Service charge Income	9,082	4,837	897	**14,816**	**13,714**
Amortisation of social housing and other capital grants	3,727	4,061	781	**8,569**	**7,992**
Other income from lettings	-	-	513	**513**	**986**
	161,553	20,481	11,377	**193,411**	**182,108**
Expenditure					
Management	(14,584)	(3,839)	(1,591)	**(20,014)**	**(23,520)**
Service charge costs	(11,730)	(3,910)	(1,047)	**(16,687)**	**(14,600)**
Routine maintenance	(27,655)	(1,564)	(61)	**(29,280)**	**(28,762)**
Planned maintenance	(19,755)	(2,110)	4	**(21,861)**	**(20,847)**
Bad debts	(908)	(68)	10	**(966)**	**(1,405)**
Depreciation of housing properties	(23,297)	(2,400)	(1,410)	**(27,107)**	**(24,724)**
Impairment of housing properties	-	-	-	**-**	**559**
Other costs	-	-	-	**-**	**(41)**
Operating costs on social housing lettings	(97,929)	(13,891)	(4,095)	**(115,915)**	**(113,340)**
Surplus on social housing lettings	63,624	6,590	7,282	**77,496**	**68,768**
Void losses	1,821	1,139	18	**2,978**	**2,834**

Association	General Needs Housing £000	Supported Housing and Housing for Older People £000	Low Cost Home Ownership £000	2016 £000	2015 £000
Rent receivable net of identifiable service charges	538	-	9,186	**9,724**	**8,976**
Service charge Income	-	-	897	**897**	**800**
Amortisation of social housing and other capital grants	5	-	781	**786**	**721**
Other income from lettings	-	-	513	**513**	**527**
	543	-	11,377	**11,920**	**11,024**
Expenditure					
Management	(45)	-	(1,591)	**(1,637)**	**(1,775)**
Service charge costs	-	-	(1,047)	**(1,047)**	**(973)**
Routine maintenance	(1)	-	(61)	**(62)**	**(30)**
Planned maintenance	-	-	4	**4**	**(10)**
Bad debts	(10)	-	10	**1**	**(73)**
Depreciation of housing properties	(331)	-	(1,410)	**(1,741)**	**(1,554)**
Impairment of housing properties	-	-	-	**-**	**559**
Other costs	-	-	-	**-**	**-**
Operating costs on social housing lettings	(387)	-	(4,095)	**(4,482)**	**(3,856)**
Surplus on social housing lettings	156	-	7,282	**7,438**	**7,168**
Void losses	-	-	18	**18**	**41**

4. Staff costs

	Group		Association	
	2016 Number	2015 Number	2016 Number	2015 Number
Average Number Employed				
Office Staff	**946**	923	**921**	890
Scheme Staff	**300**	333	**290**	320
Operatives	**-**	-	**-**	-
	1,246	1,256	**1211**	1,210
Full time	**959**	927	**933**	879
Part time	**287**	329	**278**	331
	1,246	1,256	**1,211**	1,210
Full time Equivalents	**1,183**	1,148	**1,151**	1,108

A full time equivalent would be 35 hours per week.

	Group		Association	
	2016 £000	2015 £000	2016 £000	2015 £000
Staff Costs for the Above				
Wages and Salaries	**36,218**	33,318	**34,629**	32,160
Social Security Costs	**3,410**	3,057	**3,233**	2,943
Other Pension Costs	**1,888**	1,734	**1,772**	1,581
	41,516	38,109	**39,634**	36,684

	Group		Association	
	2016 Number	2015 Number	2016 Number	2015 Number
Number Employed at 31 March				
Office staff	**976**	897	**953**	867
Scheme staff	**274**	318	**264**	308
Operatives	**-**	-	**-**	-
	1,250	1,215	**1,217**	1,175

Directors and Senior Staff emoluments - FTE

The full time equivalent number of staff whose remunerations paid in the year was in excess of £60k:

Band	Group	
	2016 Number	2015 Number
Over £190k	**1**	1
Over £140k	**1**	-
Over £130k	**2**	1
Over £120k	**1**	2
Over £110k	**1**	3
Over £100k	**5**	7
Over £90k	**5**	2
Over £80k	**10**	8
Over £70k	**13**	11
Over £60k	**30**	24
Total	**69**	59

5. Operating Surplus

	Group		Association	
	2016 £000	2015 £000	2016 £000	2015 £000
Operating surplus is arrived at after charging/(crediting)				
Depreciation of housing properties	**27,107**	24,724	**1,741**	1,554
Impairment of housing properties	**-**	(42)	**-**	(42)
Depreciation of other tangible fixed assets	**2,261**	2,478	**1,876**	2,002
Impairment of other tangible fixed assets	**647**	(517)	**-**	(517)
Deficit on disposal of other tangible fixed assets	**503**	353	**503**	21
Operating lease rentals				
Land and buildings	**788**	1,126	**51**	49
Office equipment and vehicles	**412**	424	**268**	213
Vehicles	**269**	-	**-**	-
Aerial	**147**	147	**-**	-
White goods	**72**	78	**-**	-
Auditors' remuneration (excluding VAT)				
Fees payable to the Association's auditors for the audit of the financial statements	**90**	127	**15**	21
Non-audit services				
Fees payable to the Association's auditors for other services	**45**	16	**43**	16
Tax compliance services	**58**	36	**43**	29
Total non-audit services	**103**	52	**86**	45

6. Directors Emoluments

The Directors of the Association are its Board Members and the Group Chief Executive.

Aggregate emoluments paid to or received by Directors who are not executive staff members including salaries, honoraria and other benefits:

	Group		Association	
	2016 £000	2015 £000	2016 £000	2015 £000
J Ball	**2**	2	**-**	-
F Beckett	**16**	16	**16**	16
R Berrett	**9**	8	**9**	8
The Rt Hon Baroness Blackstone	**27**	22	**27**	22
K Bolister	**5**	-	**-**	-
S Brown	**10**	9	**10**	9
W Colgrave	**3**	-	**-**	-
A Crook	**15**	13	**15**	13
C Crook	**15**	13	**15**	13
L Dexter	**4**	-	**-**	-
H Devy	**5**	-	**-**	-
J Dickinson	**2**	2	**-**	-
S Fisher	**3**	-	**-**	-
D Ghandi	**3**	-	**-**	-
J Hopes	**5**	1	**-**	-
G Kyle	**5**	1	**-**	-
S Margrave	**5**	2	**-**	-
V Nicholls	**1**	1	**-**	-
G Richardson	**5**	2	**-**	-
S Shubhankar	**-**	1	**-**	-
A Squirrell	**2**	1	**-**	-

6. Directors Emoluments (continued)

	Group 2016 £000	Group 2015 £000	Association 2016 £000	Association 2015 £000
A Stanford	-	8	-	8
K Strong	**5**	1	-	-
S Sumar	**5**	-	-	-
N Topping	**3**	-	-	-
D Tampin	**3**	-	-	-
S Tandooran- Sentain	**3**	-	-	-
S Watson	**3**	-	-	-
W Yardley	**3**	2	-	-
D Young	**11**	10	**11**	10
Total	**178**	115	**103**	99

	Group 2016 £000	Group 2015 £000	Association 2016 £000	Association 2015 £000
Aggregate emoluments (including pension contributions) paid to or received by Directors who are executive staff members including salaries, honoraria and other benefits	**1,013**	1,000	**1,013**	1,000
Aggregate emoluments of the highest paid Director excluding pension contributions included in aggregate emoluments of Directors who are executive staff members	**215**	207	**215**	207

The Group Chief Executive is a member of SHPS on the same terms as all other staff that are also members; no enhanced or special terms apply. Expenses paid during the year to Board Members amounted to £38k (2015: £36k).

7. Surplus on Sale of Fixed Assets - Housing Properties

Group	2016 Letting £000	2016 Shared Equity £000	2016 Total £000	2015 Letting £000	2015 Shared Equity £000	2015 Total £000
Disposal proceeds	**27,607**	**7,919**	**35,526**	20,237	6,921	27,158
Carrying value of fixed assets	**(11,994)**	**(5,970)**	**(17,965)**	(8,510)	(6,170)	(14,680)
	15,613	**1,949**	**17,562**	11,727	751	12,478
Capital grant recycled	**1,991**	**1,531**	**3,522**	2,348	1,393	3,741
RTB Clawback	**(1,407)**	**-**	**(1,407)**	(911)	-	(911)
Disposal proceeds fund	**(171)**	**-**	**(171)**	(316)	52	(264)
Surplus on Disposal	**16,026**	**3,480**	**19,506**	12,848	2,196	15,044

Association	2016 Letting £000	2016 Shared Equity £000	2016 Total £000	2015 Letting £000	2015 Shared Equity £000	2015 Total £000
Disposal proceeds	**-**	**7,706**	**7,706**	370	6,645	7,015
Carrying value of fixed assets	**-**	**(5,890)**	**(5,890)**	(423)	(5,899)	(6,322)
	-	**1,816**	**1,816**	(53)	746	693
Capital grant recycled	**-**	**1,531**	**1,531**	-	1,362	1,362
Disposal proceeds fund	**-**	**-**	**-**	-	-	-
Surplus on Disposal	**-**	**3,347**	**3,347**	(53)	2,108	2,055

8. Interest Receivable and Other Income

	Group		Association	
	2016 £000	2015 £000	2016 £000	2015 £000
Interest receivable and similar income	**749**	528	**1,770**	1,157

9. Interest Payable

	Group		Association	
	2016 £000	2015 £000	2016 £000	2015 £000
Finance leases				-
Loans and bank overdrafts	**48,595**	37,779	**5,285**	4,126
Interest payable capitalised on housing properties under construction	**(232)**	(1,728)	**(244)**	(311)
	48,363	**36,051**	**5,041**	**3,815**
Capitalisation rate used to determine the finance costs capitalised during the period	0.75%	0.75%	0.75%	0.75%
Other Financing Costs				
Early redemption fee for Dexia loan	**3,703**	-	**464**	-
Defined benefit pension charge	**425**	574	**324**	527
	4,128	574	**788**	527

10. Tax on surplus on ordinary activities

The only members of the Group liable to a tax charge or credit throughout the year ended 31 March 2016 were Orbit Group Limited, Orbit Homes (2020) Limited, Heart of England Housing Association Limited, Orbit Treasury Limited and Orbit Capital plc. Orbit Group Limited obtained charitable status with effect from 3 April 2006. From that point, its principal sources of income and gains have been exempt from corporation tax and accordingly, no deferred tax assets have been recognised in the statement of financial position of the Association at either 31 March 2016 or 31 March 2015.

No deferred tax asset has been provided in respect of trading losses carried forward due to the uncertainty as to when the benefit of this asset would be obtained.

The charge for the year is based on the surpluses/deficits arising on activities that are liable to tax.

10. Tax on surplus on ordinary activities (continued)

	Group		Association	
	2016 £000	2015 £000	2016 £000	2015 £000
(a) Analysis of (credit)/charge in year:				
Current tax:				
UK corporation tax on profits of the year	**-**	3	**-**	3
Adjustment in respect of previous year	**836**	(14)	**(1)**	12
	836	(11)	**(1)**	15

There is no deferred tax for the year, either recognised or unrecognised (2015: £Nil).

The current tax charge for the year is lower (2015: lower) than the standard rate of Corporation Tax in the UK of 20% (2015: 21%). The differences are explained below:

	Group		Association	
	2016 £000	2015 £000	2016 £000	2015 £000
(b) Factors affecting tax charge for current year				
Surplus on ordinary activities before taxation	**39,096**	31,105	**19,549**	28,089
Tax Charge at 20% (2015: 21%) thereon	**7,819**	6,532	**3,910**	5,899
Non taxable (surpluses) (primarily charitable exemptions)	**(7,819)**	(6,529)	**(3,926)**	(5,896)
Capital allowances less than depreciation	**-**	-	**-**	-
Adjustment in respect of previous year	**836**	(14)	**15**	12
Current tax charge for the year	**836**	(11)	**(1)**	15

(c) Factors that may affect future tax charges:

Reductions to the UK corporation tax rate were announced in the March 2012 Budget. The changes propose to reduce the rate by 1% per annum to 24% from 1 April 2012, by a further 1% to 23% from 1 April 2013, by an additional 2% to 21% from 1 April 2014 and by 1% to 20% from 1 April 2015. At Summer Budget 2015, the government announced legislation setting the Corporation Tax main rate at 19% for the years starting 1 April 2017, 2018 and 2019. At Budget 2016, the government announced a further reduction to the Corporation Tax main rate for the year starting 1 April 2020, setting the rate at 17%.

11. Housing Properties

Group	Housing Properties for Letting		Supported Housing		Low Cost Home Ownership		Non-social Housing	
	Complete	In Development	Complete	In Development	Complete	In Development	Complete	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Cost								
At 1 April 2015 revised opening balance as per FRS102 changes	1,647,964	149,027	54,195	-	196,183	35,524	2,600	2,085,493
Reclassifications	(1,045)	-	1,045	-	-	-	-	-
Additions	17,041	154,805	1,246	-	582	71,395	-	245,069
Transfer on completion	143,932	(146,646)	-	-	51,672	(48,958)	-	-
Transfer to other Group members	3,102	-	-	-	(3,102)	-	-	-
Transfer to stock/WIP	-	-	-	-	(33,268)	(1,229)	-	(34,497)
Disposals	(13,395)	-	(242)	-	(4,272)	(2,999)	-	(20,908)
At 31 March 2016	1,797,599	157,186	56,244	-	207,795	53,733	2,600	2,275,157
Less: Accumulated Depreciation								
At 1 April 2015 revised opening balance as per FRS102 changes	(178,960)	-	(13,337)	-	(12,780)	-	(131)	(205,208)
Eliminated on disposal	3,785	-	204	-	289	-	-	4,278
Depreciation	(22,569)	-	(1,373)	-	(1,429)	-	(10)	(25,381)
Reclassification	56	-	(56)	-	-	-	-	-
At 31 March 2016	(197,688)	-	(14,562)	-	(13,920)	-	(141)	(226,311)
Less: Provisions for impairment								
At 1 April 2015	(4,029)	(219)	(93)	-	(54)	(985)	-	(5,380)
Reclassifications	2,162	219	93	-	-	-	-	2,474
(Charge)/credit for the year	-	-	-	-	-	-	-	-
At 31 March 2016	(1,867)	-	-	-	(54)	(985)	-	(2,906)

11. Housing Properties (continued)

Group	Housing Properties for Letting		Supported Housing		Low Cost Home Ownership		Non-social Housing	
	Complete	In Development	Complete	In Development	Complete	In Development	Complete	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Net Book Amount								
At 31 March 2016	1,598,044	157,186	41,682	-	193,821	52,748	2,459	2,045,940
At 31 March 2015	1,464,975	148,808	44,765	-	183,349	34,539	2,469	1,874,905

Additions to properties during the year include capitalised interest and finance costs of £0.2 million (2015: £1.7 million) and development administration costs / project management fees of £7.4 million (2015: £5.3million). The Group reviewed its properties for impairment and there was a charge of £Nil (2015: £42k charge) to the Statement of Comprehensive Income. During the year the total expenditure on works to existing properties was £55.2 million of which £19.7 million has been capitalised.

The Group has loan facilities of £1,380m which are secured by fixed charges on 24,023 assets with carrying amount of £910 million.

11. Housing Properties (continued)

Group	Housing Properties for Letting		Supported Housing		Low Cost Home Ownership		Non-social Housing	
	Complete	In Development	Complete	In Development	Complete	In Development	Complete	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Cost								
At 1 April 2015 revised opening balance as per FRS102 changes	13,580	-	-	-	191,880	35,524	-	240,984
Additions	-	-	-	-	580	45,728	-	46,308
Transfer on completion	-	-	-	-	48,958	(48,958)	-	-
Transfer to other Group members	-	-	-	-	(3,102)	25,667	-	22,565
Transfer to stock/WIP	-	-	-	-	(31,774)	(1,229)	-	(33,003)
Disposals	-	-	-	-	(4,193)	(2,999)	-	(7,192)
At 31 March 2016	13,580	-	-	-	202,349	53,733	-	269,662
Less: Accumulated Depreciation								
At 1 April 2015 revised opening balance as per FRS102 changes	(518)	-	-	-	(12,697)	-	-	(13,215)
Eliminated on disposal	-	-	-	-	291	-	-	291
Depreciation	(331)	-	-	-	(1,410)	-	-	(1,741)
At 31 March 2016	(849)	-	-	-	(13,816)	-	-	(14,665)
Less: Provisions for impairment	-	-	-	-	(54)	(985)	-	(1,039)
At 1 April 2015								

11. Housing Properties (continued)

	£000	£000	£000	£000	£000	£000	£000	£000
(Charge)/credit for the year	-	-	-	-	-	-	-	-
At 31 March 2016	-	-	-	-	(54)	(985)	-	(1,039)
Net Book Amount								
At 31 March 2016	12,731	-	-	-	188,479	52,748	-	253,958
At 31 March 2015	13,062	-	-	-	179,128	34,539	-	226,729

Additions to properties during the year include capitalised interest and finance costs of £0.2 million (2015: £0.3 million) and development administration costs/ project management fees of £1.8 million (2015: £1.3 million). The Association reviewed its properties for impairment and there was a charge of £nil to Statement of Comprehensive Income for 2016 (2015: £Nil).

11. Housing Properties (continued)

	Group 2016 £000	Group 2015 £000	Association 2016 £000	Association 2015 £000
The Net Book Value of Housing and Other Properties (Note 14) comprises:				
Freehold Land and Buildings	2,044,439	1,874,428	253,480	226,562
Long Leasehold Land and Buildings	13,090	13,540	8,506	8,944
Short Leasehold Land and Buildings	2	2	-	-
	2,057,531	1,887,970	261,986	235,506

12. Investments

	Group 2016 £000	Group 2015 £000	Association 2016 £000	Association 2015 £000
Monies deposited with Funding for Homes Ltd	**800**	800	**-**	-
Investment in Preference Shares of Orbit Homes (2020) Limited	**-**	-	**34,000**	34,000
Investment in Ordinary Shares of Orbit Capital plc	**-**	-	**13**	13
Total	**800**	800	**34,013**	34,013

In October 1993, the Group raised loans totalling £16 million through the financial intermediary, Funding for Homes Limited. It is a condition of the funding that all members raising monies through this means must deposit 5% of the proceeds, which in the Orbit Group's case amounts to £800k as a common guarantee against default.

During the year ended 31 March 2016, Orbit Group Limited made no further investment (2015: £12.0m) in 5% Redeemable Preference Shares in Orbit Homes (2020) Limited, a wholly owned subsidiary company.

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

13. HomeBuy and Other Equity Loans

Group and Association	2016 HomeBuy Loans £000	2016 Other Equity Loans £000	2016 Total £000	2015 HomeBuy Loans £000	2015 Other Equity Loans £000	2015 Total £000
Loan Advanced to borrowers at April	**13,066**	**3,363**	**16,429**	14,300	3,146	17,446
New loans issued	**-**	**-**	**-**	-	417	417
Interest receivable	**-**	**58**	**58**	-	60	60
Repaid during the year	**(1,281)**	**(133)**	**(1,414)**	(1,234)	(260)	(1,494)
Loan Advanced to borrower at 31 March	**11,785**	**3,288**	**15,073**	13,066	3,363	16,428

14. Other Fixed Assets

Group	Freehold Offices £000	Leasehold Offices £000	Commercial Premises £000	Motor Vehicles £000	Furniture, Fixtures & Equipment £000	Total £000
Cost						
At 1 April 2015	3,280	10,488	543	19	15,866	30,196
Additions	13	178	-	-	1,918	2,109
Disposals	-	(190)	-	-	(30)	(220)
Write offs	-	-	-	-	(624)	(624)
At 31 March 2016	3,293	10,476	543	19	17,130	31,461
Less: Accumulated Depreciation						
At 1 April 2015	(973)	(3,825)	(164)	(19)	(11,629)	(16,610)
Charge for Year	(82)	(433)	(16)	-	(1,730)	(2,261)
Write offs	-	-	-	-	68	68
Eliminated on Disposal	-	72	-	-	30	102
At 31 March 2016	(1,055)	(4,186)	(180)	(19)	(13,261)	(18,701)
Less: Provisions for impairment						
At 1 April 2015	(1)	(521)	-	-	-	(522)
Charge/(credit) for year	-	(647)	-	-	-	(647)
At 31 March 2016	(1)	(1,168)	-	-	-	(1,169)
NET BOOK AMOUNT						
At 31 March 2016	2,237	5,122	363	-	3,869	11,591
At 31 March 2015	2,306	6,142	379	-	4,238	13,065

Certain of the Orbit Group Limited offices were revalued in February 1997 on the basis of their Open Market Value for existing use. The valuations were carried out by Messrs Shortland Horne, Chartered Surveyors. On adoption of Financial Reporting Standard 15 "Tangible Fixed Assets", the Association has followed the transitional provisions to retain the book value of the offices which were revalued in 1997, but not to adopt a policy of revaluation in the future.

These modified historical cost values are retained subject to the requirement to test assets for impairment. If the offices had not been revalued they would have been included in Orbit Group Limited balance sheet at £Nil (2015: £Nil). With the adoption of FRS 102, this policy has been retained. The difference between the revalued amounts of the offices and their depreciated costs are as follows:

14. Other Fixed Assets (continued)

	Freehold Offices £000	Leasehold Offices £000	Total £000
Depreciated Historical Cost	-	-	-
Revalued Amount	**226**	-	**226**
Difference as at 31 March 2016	**226**	-	**226**
Difference as at 31 March 2015	356	-	356

Association	Freehold Offices £000	Leasehold Offices £000	Commercial Premises £000	Motor Vehicles £000	Furniture, Fixtures & Equipment £000	Total £000
Cost or valuation						
At 1 April 2015	758	7,092	-	-	10,845	18,695
Additions	13	5	-	-	1,783	1,801
Write offs	-	-	-	-	(624)	(624)
Disposals	-	(190)	-	-	(14)	(204)
At 31 March 2016	771	6,907	-	-	11,990	19,668
Less: Accumulated Depreciation						
At 1 April 2015	(332)	(1,942)	-	-	(7,123)	(9,397)
Charge for Year	(11)	(325)	-	-	(1,540)	(1,876)
Write offs	-	-	-	-	68	68
Eliminated on Disposal	-	72	-	-	14	86
At 31 March 2016	(343)	(2,195)	-	-	(8,581)	(11,119)
Less: Provisions for impairment						
At 1 April 2015	-	(521)	-	-	-	(521)
Charge/(credit) for Year	-	-	-	-	-	-
At 31 March 2016	-	(521)	-	-	-	(521)
NET BOOK AMOUNT						
At 31 March 2016	428	4,191	-	-	3,409	8,028
At 31 March 2015	426	4,629	-	-	3,722	8,777

15. Properties For Sale

	Group 2016 £000	Group 2015 £000	Association 2016 £000	Association 2015 £000
Housing properties for sale	**1,981**	3,735	**1,981**	3,735
Shared Ownership - completed properties	**10,064**	3,339	**9,416**	3,339
Shared Ownership - under construction	**23,889**	23,952	**23,989**	23,952
Consumable stock	**67,723**	73,775	**-**	-
	103,657	104,801	**35,286**	31,026

The above figures include capitalised interest of £244k (2015: £311k) for the Group and the Association.

16. Debtors

	Group 2016 £000	Group 2015 £000	Association 2016 £000	Association 2015 £000
Due within one year:				
Rental Debtors	**9,620**	9,459	**441**	480
Less: provision for doubtful debts	**(2,805)**	(2,741)	**(52)**	(66)
	6,815	6,718	**389**	414
Amounts due from Subsidiaries	**-**	-	**47,093**	36,960
Prepayments and Accrued Income	**3,548**	4,693	**1,678**	2,729
SHG Receivable	**1,689**	5,767	**618**	1,188
Other Debtors	**12,941**	9,194	**1,538**	1,402
	24,993	26,372	**51,316**	42,693
Due after more than one year:				
Other Debtors	**1,910**	1,920	**646**	997
Amounts due from Subsidiaries	**-**	-	**31,850**	37,200
	1,910	1,920	**32,496**	38,197

17. Current Asset Investments

	Group 2016 £000	Group 2015 £000	Association 2016 £000	Association 2015 £000
Other Investments and Cash - Short Term Deposits comprise:				
- Maturing in excess of 7 days	**6,041**	7,254	**5,230**	1,925
	6,041	7,254	**5,230**	1,925

18. Creditors: Amounts Falling Due Within One Year

	Group 2016 £000	Group 2015 £000	Association 2016 £000	Association 2015 £000
Housing loans	**9,742**	12,320	**2,932**	3,075
Trade creditors	**23,749**	20,659	**4,630**	3,046
Amounts due to Group undertakings	**-**	-	**64,221**	34,610
Other creditors including taxation and social security	**13,716**	7,947	**4,440**	4,351
Accruals & deferred income	**18,192**	20,087	**101**	212
Deposits Received in Advance	**460**	635	**460**	635
Rents Received in Advance	**3,841**	4,519	**218**	225
Grants Received in Advance	**917**	2,951	**576**	1,696
RCGF and DPF Within One Year (Note 22)	**4,661**	3,735	**2,212**	1,259
HomeBuy and other equity grants	**1,281**	1,234	**1,281**	1,234
Deferred capital grant	**8,568**	7,183	**786**	721
Total	**85,127**	81,270	**81,857**	51,064

19. Other Creditors: Amounts Falling Due After More Than One Year

	Group 2016 £000	Group 2015 £000	Association 2016 £000	Association 2015 £000
Housing loans	**824,285**	691,085	**112,392**	115,862
Derivatives financial liabilities	**110,564**	102,115	**-**	-
Deferred capital grant	**646,608**	641,173	**58,900**	57,178
Deferred income for renewals and maintenance contributions	**14,547**	13,255	**2,644**	2,038
HomeBuy and other equity grants	**12,882**	14,242	**12,882**	14,242
Bond finance	**194,605**	194,456	**-**	-
Deferred income credit	**221**	336	**-**	-
Other creditors	**1,780**	1,228	**-**	-
RCGF &DPF more than one year (Note 22)	**10,751**	10,322	**5,658**	4,987
Total	**1,816,243**	1,668,212	**192,476**	194,307

Housing loans shown above are net of £3,536k loan arrangement fees carried forward (2015: £2,498k) and Swap buy-out cancellation fees of £5,812k (2015: £6,119k).

Bond finance shown above is net of £1,588k arrangement fees carried forward (2015: £1,606k) and discount costs of £3,807k (2015: £3,938k).

20. Deferred Capital Grant

	Group		Association	
	2016 £000	2015 £000	2016 £000	2015 £000
Opening SHG at transition	-	740,133	-	69,061
Opening accumulated SHG amortised	-	(115,135)	-	(9,411)
At 1 April	**648,356**	624,998	**57,899**	59,650
Grant received in the year	**19,416**	34,777	**2,598**	1,046
Transfer (from)/to RCGF and DPF	**(3,631)**	(1,309)	**(1,532)**	(2,076)
Transfer (from)/to intercompany	-	-	**1,374**	-
Elimination on the disposal of assets	**(397)**	(2,331)	**133**	-
Trf to Stock	-	(596)	-	-
Released to income in the year	**(8,568)**	(7,183)	**(786)**	(721)
At 31 March	**655,176**	648,356	**59,686**	57,899

Analysed as:

	Group 2016 £000	Group 2015 £000	Association 2016 £000	Association 2015 £000
Amounts to be released within 1 year	**8,568**	7,183	**786**	721
Amounts to be released in more than 1 year	**646,608**	641,173	**58,900**	57,178
Total	**655,176**	648,356	**59,686**	57,899

21. Provisions for Liabilities

Group	At beginning of the year £000	Transfer to / (from) I&E account £000	Release of provision during the year £000	At end of year £000
Restructuring	286	(101)	(146)	39
Stratford Sound Insulation	1,783	-	(185)	1,598
Thames water rates	-	712	-	712
	2,069	611	(331)	2,349

Analysed as:

	Group		Association	
	2016 £000	2015 £000	2016 £000	2015 £000
Amounts to be released within 1 year	**530**	657	-	-
Amounts to be released in more than 1 year	**1,819**	1,412	-	-
Total	**2,349**	2,069	-	-

There were no provisions held within the association.

22. Disposal Proceeds and Recycled Capital Grant Funds

Group	RCGF £000	DPF £000	Total £000
At 1 April 2015	13,115	942	14,057
Grants recycled	4,836	178	5,014
Interest accrued	74	5	79
Utilised in the year	(3,560)	(178)	(3,738)
At 31 March 2016	14,465	947	15,412

Amount due for repayment to the Homes & Communities Agency

Group	RCGF £000	DPF £000	Total £000
Within one year	4,370	291	4,661
After more than one year	10,095	656	10,751
At 31 March 2016	14,465	947	15,412

Disposal Proceeds and Recycled Capital Grant Funds

Association	RCGF £000	DPF £000	Total £000
At 1 April 2015	6,246	-	6,246
Grants recycled	2,845	-	2,845
Interest accrued	38	-	38
Utilised in the year	(1,259)	-	(1,259)
At 31 March 2016	7,870	-	7,870

Amount due for repayment to the Homes & Communities Agency

Association	RCGF £000	DPF £000	Total £000
Within one year	2,212	-	2,212
After more than one year	5,658	-	5,658
At 31 March 2016	7,870	-	7,870

The amount utilised in the year related to new developments and one off purchase of housing assets.

23. Housing Loans and Bond Finance

	Group		Association	
	2016 £000	2015 £000	2016 £000	2015 £000
Due within one year				
Orbit Treasury Limited	**-**	-	**2,932**	3,075
Greenwich NatWest	**542**	483	**-**	-
Bank/Building Society Loans	**9,200**	9,200	**-**	-
Homes & Community Agency	**-**	2,637	**-**	-
	9,742	12,320	**2,932**	3,075
Due after more than one year				
Orbit Treasury Limited	**-**	-	**85,015**	89,173
Orbit Capital plc	**-**	-	**27,377**	26,689
Bond finance	**200,000**	200,000	**-**	-
Bank/Building society loans	**800,644**	669,150	**-**	-
Homes and Community Agency	**-**	-	**-**	-
Greenwich NatWest	**10,690**	11,232	**-**	-
Debenture stock	**16,000**	16,000	**-**	-
	1,027,334	896,382	**112,392**	115,862
	1,037,076	908,702	**115,324**	118,937

All loans are in sterling. The majority of loans in the Group are routed through a separate treasury vehicle, Orbit Treasury Limited. All members of the Group have entered into a fully cross-collateralised structure. Orbit Treasury Limited borrows money on behalf of the Group and on-lends these to the individual Operating Associations as required. The benefits of setting up the treasury vehicle include streamlined and efficient treasury procedures and strategy.

Orbit Capital plc was set up during 2014-15 as a funding vehicle for the issue of £250m bond financing, of which £200m has been drawn, and on-lends to the individual Operating Associations as required.

Note (a)

Housing loans are secured by fixed charges on the Association's housing properties and are repayable at varying rates of interest in instalments due as follows:

	Group		Association	
	2016 £000	2015 £000	2016 £000	2015 £000
In one year or less, on demand	**9,742**	12,320	**2,932**	3,075
Repayable by instalments:				
- In more than one year but not more than two years	**16,888**	13,282	**2,932**	3,075
- In more than two years but not more than five years	**96,477**	81,176	**8,795**	9,225
- In more than 5 years	**535,725**	455,174	**100,665**	103,562
	649,090	549,632	**112,392**	115,862
Repayable other than by instalments:				
- In more than one year but not more than two years	**28,244**	-	**-**	-
- In more than two years but not more than five years	**40,000**	31,750	**-**	-
- In more than 5 years	**310,000**	315,000	**-**	-
	378,244	346,750	**-**	-
	1,037,076	908,702	**115,324**	118,937

The Greenwich NatWest (formerly Orchardbrook Ltd), bank and certain other loans were secured by fixed charges on individual properties. The Funding for Homes Ltd bond is now secured by a fixed charge over certain assets of the Group and a cash deposit. The loans from Greenwich NatWest are paid in half yearly instalments. The interest rates are 10.7% and 11.9% and the final instalments fall to be repaid in 2026 and 2032. These loans were originally made to Orbit Group Limited, but were assigned to other Group members as part of the Group restructure.

The bank and other loans are repaid in instalments at fixed and variable rates of interest ranging from 0.94% to 11.9%. The final instalments fall to be repaid in the period 2017 to 2038.

Note (b)

As a result of raising loans totalling £16 million through the financial intermediary Funding for Homes Ltd, the Association received an additional sum of £2.8 million, representing a net discount on the market price of the stock on issue. The Funding for Homes Ltd loan was assigned to another Group member as part of the Group restructure, and the deferred income credit will be released to the Statement of Comprehensive Income to offset against loan interest charges over the life of the loans (25 years from October 1993).

23. Housing Loans and Bond Finance (continued)

The interest rate profile at 31 March 2016 was:

	Total £m	Variable Rate £m	Fixed Rate £m	Weighted Average Rate %	Weighted Average Term until Maturity Years
Group					
Instalment loans	**896.1**	**121.1**	**775.0**	**4.07**	**23.0**
Non instalment loans	**141.0**	**30.0**	**111.0**	**4.14**	**13.0**
	1,037.1	**151.1**	**886.0**	**4.08**	**22.0**
Association	**115.3**	**58.2**	**57.1**	**4.28%**	**25**
Instalment loans	**-**	**-**	**-**	**-**	**-**

The Group has various undrawn committed borrowing facilities. The facilities available at 31 March were as follows:

	Group 2016 £m
Expiring in more than one year but not more than two years	**18**
Expiring in more than two years	**325**
Undrawn committed facilities	**343**

Hedge Accounting

The following table indicates the periods in which the cash flows associated with cash flow hedging instruments are expected to occur as required by FRS 102.29(a) for the cash flow hedge accounting models:

	2016					
	Carrying amount £'000	**Expected cash flows £'000**	**1 year or less £'000**	**1 to < 2 years £'000**	**2 to < 5 years £'000**	**5 years and over £'000**
Interest rate swaps:						
Assets	-	62,705	1,813	2,060	8,785	50,047
Liabilities	62,108	(154,381)	(10,414)	(10,359)	(30,724)	(102,884)
	62,108	(91,676)	(8,601)	(8,299)	(21,939)	(52,837)

	2015					
	Carrying amount £'000	**Expected cash flows £'000**	**1 year or less £'000**	**1 to < 2 years £'000**	**2 to < 5 years £'000**	**5 years and over £'000**
Interest rate swaps:						
Assets	-	64,375	1,670	1,813	7,555	53,337
Liabilities	55,621	(164,760)	(10,379)	(10,414)	(31,100)	(112,867)
	55,621	(100,385)	(8,709)	(8,601)	(23,545)	(59,530)

The following table indicates the periods in which the cash flows associated with cash flow hedging instruments are expected to affect profit or loss:

	2016					
	Carrying amount £'000	**Expected cash flows £'000**	**1 year or less £'000**	**1 to < 2 years £'000**	**2 to < 5 years £'000**	**5 years and over £'000**
Interest rate swaps:						
Assets	-	15,096	286	325	1,410	13,075
Liabilities	48,456	(37,806)	(1,824)	(1,818)	(5,458)	(28,706)
	48,456	(22,710)	(1,538)	(1,493)	(4,048)	(15,631)

	2015					
	Carrying amount £'000	**Expected cash flows £'000**	**1 year or less £'000**	**1 to < 2 years £'000**	**2 to < 5 years £'000**	**5 years and over £'000**
Interest rate swaps:						
Assets	-	15,359	262	286	1,192	13,619
Liabilities	46,494	(39,628)	(1,823)	(1,824)	(5,454)	(30,527)
	46,494	(24,269)	(1,561)	(1,538)	(4,262)	(16,908)

Fair Values

The fair values of all financial assets and financial liabilities by category together with their carrying amounts shown in the balance sheet are as follows:

	2016		**2015**	
	Carrying amount £'000	**Fair Value £'000**	**Carrying amount £'000**	**Fair Value £'000**
Loan	464,219	683,018	335,204	492,678
Bond	322,232	371,091	322,715	345,036
Embedded Swap	250,625	96,510	250,625	84,892
	1,037,076	**1,150,619**	**908,544**	**922,606**

Financial risk management

The Company's operations expose it to a variety of financial risks. The Group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Company and Group by monitoring levels of debt finance and related finance costs. The key risks are as follows:

Interest rate risk
At 31 March 2016, 85% of the Company's debt was fixed or hedged. There is no intention to repay any term debt other than in accordance with the terms of each agreement. The Group has £151m of variable debt funding which could be exposed to rises in LIBOR rates. If LIBOR was to increase by 0.50%, then the impact would be additional interest costs of £0.8m to the Statement of Comprehensive Income. Any such costs can be recovered from the associations.

Liquidity risk
The Company actively lends the full amount of the loans it has itself borrowed, thus the entity has assets to fully offset its liabilities and interest receivable to offset its interest payable.

Credit risk
The liabilities to funders are secured by a legal charge over property assets owned by the associations with a value in excess of total borrowings. The associations have entered into a guarantee with the Company over future interest payments and the property security. The carrying amount of the funding liabilities represents the maximum value exposed to credit risk. At the end of the financial year the credit rating of A1 from Moody's remained in place.

As a result of referendum vote, on 29 June 2016, Moody's revised their outlook on the bond from stable to negative.

24. Called up Share Capital

	Group		Association	
	2016 £000	2015 £000	2016 £000	2015 £000
Issued and Fully Paid Shares of £1 each				
At 1 April 2015	**8**	8	**8**	8
Issued	**-**	-	**-**	-
Surrendered	**-**	-	**-**	-
At 31 March 2016	**8**	8	**-**	8

The share capital of Orbit Group Limited, which was formed in 1997, is raised by the issue of shares with a nominal value of £1 each. The Association's Co-operative and Community Benefit Society status means the maximum shareholding permitted per member is 1 share. There is no Authorised Share Capital and the Orbit Board may issue as many £1 shares as it wishes. However, the Board operates a restricted shareholding policy with all shares currently held by serving, or former Orbit Board Members only. The Association's shares carry no right to interest, dividend or bonus. Shares are not capable of being withdrawn or transferred and cannot be held jointly. Shareholders have the right to attend (or to vote by proxy) at any general, special general or extraordinary general meeting of the Association.

25. Revaluation reserve

Association	At beginning of the year £000	Transfer to I&E account £000	At end of year £000
Revaluation of Offices	356	(130)	**226**

26. Capital commitments

	Group		Association	
	2016 £000	2015 £000	2016 £000	2015 £000
Capital Expenditure which has been contracted for but has not been provided for in the financial statements	**478,015**	307,444	**115,718**	72,254
Capital Expenditure which has been authorised under authority from the Orbit Board but has yet to be contracted for	**451,955**	504,730	**76,897**	91,439
	929,970	812,174	**192,615**	163,693

The company expects these commitments to be financed with:

	Group		Association	
	2016 £000	2015 £000	2016 £000	2015 £000
Social Housing Grant	**35,668**	59,258	**1,579**	5,319
Committed loan facilities and reserves	**412,386**	383,727	**22,253**	24,560
Proceeds from sale of properties	**481,916**	369,189	**168,783**	133,814
	929,970	812,174	**192,615**	163,693

27. Contingent liabilities

As at 31 March 2016, there were £32,962k contingent liabilities within either the Group or the Association (2015: £33m).

Liabilities

Stock acquisitions previously undertaken include original government grant funding of £33m which has an obligation to be recycled in accordance with the original grant funding terms and conditions.

Orbit Group Ltd is responsible for the recycling of the grant in the event of the housing properties being disposed.

28. Cash flow from operating activities

	Group		Association	
	2016 £000	2015 £000	2016 £000	2015 £000
Total Comprehensive income for the year	**32,361**	(15,117)	**19,680**	27,416
Sale of other tangible assets	**503**	353	**503**	21
Interest payable	**48,363**	36,051	**5,505**	3,815
Interest receivable	**(749)**	(528)	**(1,770)**	(1,157)
Movement in fair value of financial instruments	**1,806**	16,871	**4**	4
Other financing cost	**4,128**	574	**-**	-
Donations paid	**-**	-	**(13,867)**	(19,031)
	86,412	38,204	**10,055**	11,068
Depreciation charge on other fixed assets	**2,261**	2,478	**1,876**	2,002
Depreciation charge on housing properties	**21,103**	23,248	**1,741**	1,554
Add back cost of sale for housing properties	**20,907**	11,546	**5,501**	3,226
Amortisation of grant on housing properties	**(8,568)**	(7,992)	**(786)**	(721)
Provision for impairment on housing properties	**-**	(42)	**-**	(42)
Provision for impairment on other fixed assets	**647**	(517)	**-**	(517)
Provision for impairment on stocks	**-**	-	**-**	-
Tax	**836**	108	**-**	15
Movement in other provisions	**279**	1,669	**10**	7
(Increase)decrease in bad debt provision	**64**	105	**(14)**	44
Decrease in stocks	**1**	13	**-**	2
Change in fair value of hedged financial instrument	**6,487**	44,414	**-**	-
Release of revaluation reserves	**-**	-	**(130)**	(195)
Adjustment for pension funding	**5,951**	1,819	**4,832**	(571)
(Increase)/Decrease in Debtors	**(2,753)**	(5,593)	**1,803**	(12,446)
Increase/(Decrease) in Creditors	**(2,267)**	3,577	**32,055**	28,876
Net Cash Inflow from Operating Activities	**131,360**	113,037	**56,943**	32,302

29. Reconciliation of net cash flow to movement in net debt

	Group		Association	
	2016 £000	2015 £000	2016 £000	2015 £000
Increase in Cash in the year	**24,353**	14,520	**17,732**	13,388
Increase/(Decrease) in Bank Deposits (with a maturity in excess of 24 hours)	**(1,213)**	7,254	**3,305**	1,925
Other changes	**-**	(199)	**(143)**	(462)
Loans and Bond finance received	**(131,083)**	(196,062)	**(229,284)**	(258,239)
Loans repaid	**2,578**	50,476	**233,040**	218,129
Loan arrangement fees	**1,151**	1,080	**-**	-
Change in Net Debt	**(104,214)**	(122,931)	**24,650**	(25,259)
Net Debt at 1 April	**(844,340)**	(721,409)	**(78,484)**	(53,225)
Net Debt at 31 March	**(948,554)**	(844,340)	**(53,834)**	(78,484)

30. Analysis of changes in net debt

Group	At beginning of the year £000	Cash Flows £000	Other Changes £000	At end of year £000
Cash at Bank and in Hand	7,385	20,353	-	**27,738**
Bank deposits - less than 24 hours	36,000	4,000	-	**40,000**
	43,385	24,353	-	**67,738**
Bank deposits - in excess of 7 days	7,254	(1,213)	-	**6,041**
Housing Loans due within one year	(12,320)	2,578	-	**(9,742)**
Housing Loans due after one year	(696,382)	(130,952)	-	**(827,334)**
Bond finance	(196,062)	(131)	-	**(196,193)**
Loan & Bond arrangement fees	9,785	1,151	-	**(10,936)**
	(844,340)	(104,214)	-	**(948,554)**

Association	At beginning of the year £000	Cash Flows £000	Other Changes £000	At end of year £000
Cash at Bank and in Hand	2,528	13,732	-	**16,260**
Bank deposits - less than 24 hours	36,000	4,000	-	**40,000**
	38,528	17,732	-	**56,260**
Bank deposits - in excess of 7 days	1,925	3,305	-	**5,230**
Housing Loans due within one year	(3,075)	-	143	**(2,932)**
Housing Loans due after one year	(115,862)	3,613	(143)	**(112,392)**
	(78,484)	24,650	-	**53,834**

31. Financial commitments

Operating Leases

At 31 March 2016 the Group was committed to making total minimum future repayments of leases in respect of operating leases other than land and buildings:

	Group		Association	
	2016 £000	2015 £000	2016 £000	2015 £000
Leases which Expire				
Within 1 year	**1,337**	1,128	**200**	173
Within 2 - 5 years	**1,576**	2,249	**68**	221
After 5 years	**163**	345	**-**	-
Total	**3,076**	3,722	**268**	394

32. Number of units under development at end of year

2016	OHL	OGL	OHE	OSHA	Total
General Needs	-	-	447	726	**1,173**
Low Cost Home Ownership	-	400	-	-	**400**
Properties for Market Sale	317	-	-	-	**317**
Total Social Housing Units	**317**	**400**	**447**	**726**	**1,890**

2015	OHL	OGL	OHE	OSHA	Total
General Needs	-	-	733	507	1,240
Low Cost Home Ownership	-	253	-	-	253
Properties for Market Sale	447	-	-	-	447
Total Social Housing Units	447	253	733	507	1,940

33. Property portfolio

	OHL	OGL	OHE	OSHA	Total
General needs	-	-	12,378	12,097	24,475
Affordable Rent	-	-	912	2,180	3,092
Intermediate Rent	-	119	33	184	336
Supported Housing	-	-	1,920	1,675	3,595
Total Owned by Orbit	-	119	15,243	16,136	31,498
Low Cost Home Ownership	-	3,481	18	30	3,529
Leasehold	-	665	785	1,434	2,884
Private Retirement Schemes	-	-	458	653	1,111
Owned	-	-	5	-	5
Managed on behalf of others	-	155	-	2	157
Leasehold and Other Managed	-	820	1,248	2,089	4,157
Total Social Housing Units	-	4,420	16,509	18,255	39,184
Market Rent	-	-	10	-	10
Commercial Units	-	-	20	17	37
Total Non Social Housing Units	-	-	30	17	47
Total Units	-	4,420	16,539	18,272	39,231

34. Subsidiary organisations and related party transactions

The following comprise the subsidiary organisations for incorporation into consolidated financial statements for the Group in accordance with the Co-operative and Community Benefit Societies Act 2014 and Financial Reporting Standard 2 - Accounting for Subsidiary Undertakings:

Organisation	Status	Principal Activity	Country of Incorporation	Basis of Control by Parent Undertaking
Registered under the Co-operative and Community Benefit Societies Act 2014				
Orbit South Housing Association Limited (trading as Orbit East & South)	Registered Housing Association and a Registered Society under the Co-operative and Community Benefit Societies Act 2014	Provision of rented housing	England & Wales	Control of membership of the Board plus nominal shareholding.
Heart of England Housing Association Limited (trading as Orbit Heart of England)	Registered Housing Association and a Registered Society under the Co-operative and Community Benefit Societies Act 2014	Provision of rented and special needs housing	England & Wales	Control of membership of the Board plus nominal shareholding.
Incorporated under the Companies Act 2006				
Orbit Treasury Limited	Private Limited Company	Group Treasury Vehicle	England & Wales	Ownership of all issued share capital.
Orbit New Homes Limited	Private Limited Company	Development of housing for sale	England & Wales	Ownership of all issued share capital.
Orbit Homes (2020) Limited	Private Limited Company	Design and build company and development of housing for sale	England & Wales	Ownership of all issued share capital.
Orbit Capital plc	Public Limited Company	Group Bond Finance Vehicle	England & Wales	Ownership of all issued share capital

Transactions with non regulated Group members

During the year the Association has transacted with three fellow Group subsidiaries not regulated by the HCA, Orbit Homes (2020) Ltd, Orbit Treasury Ltd and Orbit Capital plc. Orbit Homes (2020) Ltd provides design and build services to the Group. During the year the Association made payments totalling £22.6m to Orbit Homes (2020) Ltd for the purchase of Housing Property assets and has an outstanding creditor balance with Orbit Homes (2020) Ltd of £4.6m and outstanding debtors of £35.2m.

34. Subsidiary organisations and related party transactions (continued)

Orbit Treasury Ltd and Orbit Capital plc provide a funding on-lending service to Group members. During the year the Association paid interest costs to Orbit Treasury plc totalling £4.3m (2015: £3.8m) and fees of £0.4m (2015: £0.2m). The Association also paid interest costs of £1.0m and had an outstanding debtor balance of £27.3m to Orbit Capital plc. The allocation of these costs is based upon the level of debt required and secured by the Housing Properties held by the Association.

Related Party Transactions

The Orbit Heart of England & Orbit South Boards also include a member who is an elected representative of Nuneaton & Bedworth Borough Council. During the year Orbit made payments of £1k to the Council (2015: £nil) and received payments from the council of £nil (2015: £34k).

A number of the board members are tenants/ leaseholders of the Association or Group. Their tenancies/leases are on normal commercial terms and the members cannot use their position to their advantage. In the current year payments in aggregate to Orbit totalled £10k (2015: £10k). The outstanding amount owed at 31 March 2016 was less than £1k which is due to a timing difference in charges and payment collection.

The Association is exempt from the requirements of Financial Reporting Standard FRS102 'Related Party Disclosures' to disclose transactions between Group undertakings as all companies are under the control of the Board of the Parent Company. Included with Debtors (note 16) and Creditors (note 18) are the amounts owed to and owed by other Group members.

35. Pension costs

Social Housing Pension Scheme - Defined Benefit Scheme

The association participates in the scheme, a multi-employer scheme which provides benefits to some 500 non-associated employers. The scheme is a defined benefit scheme in the UK. It is not possible for the company to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme. Therefore it accounts for the scheme as a defined contribution scheme.

The scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator and Technical Actuarial Standards issued by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension schemes in the UK.

The scheme is classified as a 'last-man standing arrangement'. Therefore the company is potentially liable for other participating employers' obligations if those employers are unable to meet their share of the scheme deficit following withdrawal from the scheme. Participating employers are legally required to meet their share of the scheme deficit on an annuity purchase basis on withdrawal from the scheme.

A full actuarial valuation for the scheme was carried out with an effective date of 30 September 2014. This actuarial valuation was certified on 23 November 2015 and showed assets of £3,123m, liabilities of £4,446m and a deficit of £1,323m. To eliminate this funding shortfall, the trustees and the participating employers have agreed that additional contributions will be paid, in combination from all employers, to the scheme as follows:

35. Pension costs (continued)

Deficit contributions

Tier 1 From 1 April 2016 to 30 September 2020:	£40.6m per annum (payable monthly and increasing by 4.7% each year on 1st April)
Tier 2 From 1 April 2016 to 30 September 2023:	£28.6m per annum (payable monthly and increasing by 4.7% each year on 1st April)
Tier 3 From 1 April 2016 to 30 September 2026:	£32.7m per annum (payable monthly and increasing by 3.0% each year on 1st April)
Tier 4 From 1 April 2016 to 30 September 2026:	£31.7m per annum (payable monthly and increasing by 3.0% each year on 1st April)

Note that the scheme's previous valuation was carried out with an effective date of 30 September 2011; this valuation was certified on 17 December 2012 and showed assets of £2,062m, liabilities of £3,097m and a deficit of £1,035m. To eliminate this funding shortfall, payments consisted of the Tier 1, 2 & 3 deficit contributions.

Where the scheme is in deficit and where the company has agreed to a deficit funding arrangement, the company recognises a liability for this obligation. The amount recognised is the net present value of the deficit reduction contributions payable under the agreement that relates to the deficit. The present value is calculated using the discount rate detailed in these disclosures. The unwinding of the discount rate is recognised as a finance cost.

Present Values Of Provision (Group and Association)

	31 March 2016 (£000s)	31 March 2015 (£000s)	31 March 2014 (£000s)
Present value of provision	22,738	17,906	18,447

Reconciliation Of Opening And Closing Provisions

	Period Ending 31 March 2016 (£000s)	Period Ending 31 March 2015 (£000s)
Provision at start of period	17,906	18,477
Unwinding of the discount factor (interest expense)	324	527
Deficit contribution paid	(2,031)	(1,951)
Remeasurements - impact of any change in assumptions	(140)	853
Remeasurements - amendments to the contribution schedule	6,678	-
Provision at end of period	22,738	17,906

35. Pension costs (continued)

Income And Expenditure Impact

	Period Ending 31 March 2016 (£000s)	Period Ending 31 March 2015 (£000s)
Interest expense	324	526
Remeasurements – impact of any change in assumptions	(140)	853
Remeasurements – amendments to the contribution schedule	6,678	-
Contributions paid in respect of future service*	*	*
Costs recognised in income and expenditure account	*	*

*includes defined contribution schemes and future service contributions (i.e. excluding any deficit reduction payments) to defined benefit schemes which are treated as defined contribution schemes.

Assumptions

	31 March 2016 % per annum	31 March 2015 % per annum	31 March 2014 % per annum
Rate of discount	2.06	1.92	3.02

The discount rates shown above are the equivalent single discount rates which, when used to discount the future recovery plan contributions due, would give the same results as using a full AA corporate bond yield curve to discount the same recovery plan contributions.

The following schedule details the deficit contributions agreed between the company and the scheme at each year end period:

35. Pension costs (continued)

Deficit Contributions Schedule

Year ending	31 March 2016 (£000s)	31 March 2015 (£000s)	31 March 2014 (£000s)
Year 1	2,726	2,031	1,951
Year 2	2,832	2,116	2,031
Year 3	2,942	2,204	2,116
Year 4	3,057	2,295	2,204
Year 5	2,664	2,391	2,295
Year 6	2,240	1,978	2,391
Year 7	2,320	1,533	1,978
Year 8	1,988	1,592	1,533
Year 9	1,630	1,238	1,592
Year 10	1,679	858	1,238
Year 11	865	883	858
Year 12	-	455	883
Year 13	-	-	455
Year 14	-	-	-
Year 15	-	-	-
Year 16	-	-	-
Year 17	-	-	-
Year 18	-	-	-
Year 19	-	-	-
Year 20	-	-	-

The association must recognise a liability measured as the present value of the contributions payable that arise from the deficit recovery agreement and the resulting expense in the income and expenditure account i.e. the unwinding of the discount rate as a finance cost in the period in which it arises.

It is these contributions that have been used to derive the company's balance sheet liability.

35. Pension costs (continued)

Other Pension Schemes Operated by Orbit Group Members

Movement in pension cost liabilities during the year

	Group	
	2016 £000	**2015 £000**
Net deficit at 01 April	**(3,117)**	(2,174)
Service costs	**(44)**	(46)
Contributions	**109**	114
Unfunded pensions payments	**-**	2
Net Return on Assets less interest on pension scheme liabilities	**(77)**	(67)
Actuarial Gain / (Loss)	**588**	(966)
Past service costs	**-**	-
Other finance costs	**(28)**	20
Gain arising on settlement of liabilities	**-**	-
Settlement of liabilities	**-**	-
(Deficit) in pension scheme at 31 March	**(2,569)**	(3,117)

Other Pension Schemes Operated by Orbit South Housing Association Limited

(a) Local Government Pension Scheme – Kent County Council

The Association participates in The Local Government Pension Scheme (LGPS defined benefit statutory scheme) which is administered by Kent County Council (KCC). These figures have been prepared in accordance with Financial Reporting Standard 102 (FRS102).

The difference between the fair value of the assets held in the Association's defined benefit pension scheme and the scheme's liabilities measured on an actuarial basis using the projected unit method are recognised in the Association's Statement of Financial Position as a pension scheme asset or liability as appropriate. Changes in the defined benefit pension scheme asset or liability arising from factors other than cash contribution by the Association are charged to the Statement of Comprehensive Income.

Total employer contributions paid to the scheme for the year were £54k (2015: £52k).

Triennial actuarial valuation

Triennial actuarial valuations of the LGPS are performed by an independent, professionally qualified actuary. The most recent valuation of KCC's scheme was completed as at 31 March 2016 using financial assumptions that comply with FRS102.

The major financial assumptions used by the actuary in the FRS102 valuation are:

	2016	**2015**	**2014**
Rate of increase in salaries	4.20%	4.20%	4.60%
Rate of increase in pensions in payment and deferred pensions	2.40%	2.40%	2.80%
Discount rate applied to scheme liabilities	3.70%	3.30%	4.50%
Inflation assumption – CPI	2.40%	2.40%	2.80%
Inflation assumption – RPI	3.30%	3.20%	3.60%

The estimate of the duration of the Employer liabilities is 19 years.

The discount rate is the annualised yield at the 19 year point on the Merrill Lynch AA rated corporate bond yield curve which has been chosen to meet the requirements of FRS102 and with consideration of the duration of the Employer liabilities. This is consistent with the approach used at the last accounting date.

The Retail Prices Index (RPI) increase assumption is set based on the difference between conventional gilt yields and index-linked gilt yields at the accounting date using data published by the Bank of England (BoE), specifically the 19 year point on the BoE market implied inflation curve. The RPI assumption is therefore 3.3% p.a. (2015: 3.2%). This is consistent with the approach used at the last accounting date.

As future pension increases are expected to be based on the Consumer Prices Index (CPI) rather than RPI, we have made a further assumption about CPI which is that it will be 0.9% p.a. below RPI i.e. 2.4% p.a. (2015 2.4%). This is a slightly higher differential than last year. We believe that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods and recent independent forecasts.

Salaries are then assumed to increase at 1.8% p.a. above CPI in addition to a promotional scale.

Life Expectancy from age 65 (years)

		2016 Number	**2015 Number**
Retiring today	Males	22.9	22.8
	Females	25.3	25.2
Retiring in 20 years	Males	25.2	25.1
	Females	27.7	27.6

Statement of financial position as at 31 March 2016

	Value at 31 March 2016 £000	Value at 31 March 2015 £000	Value at 31 March 2014 £000
Present value of the defined benefit obligation	**9,048**	9,575	8,207
Fair value if Fund assets (bid value)	**7,141**	7,238	6,734
Deficit / (Surplus)	**1,907**	2,337	1,473
Present value of unfunded obligation	**32**	32	30
Unrecognised past service cost	**-**	-	-
Impact of asset ceiling	**-**	-	-
Net defined benefit liability / (asset)	**1,939**	2,369	1,503

Scheme Liabilities

	2016 £000	2015 £000
Opening defined benefit obligation	**9,607**	8,237
Service cost	**44**	45
Interest cost	**313**	365
Actuarial loss / (gain)	**(661)**	1,241
Loss on curtailments	**-**	-
Estimated benefits paid net of transfers in	**(233)**	(288)
Past service cost	**-**	1
Contributions by scheme participants	**11**	8
Unfunded pension payments	**(2)**	(2)
Closing defined benefit obligation	**9,079**	9,607

Reconciliation of opening and closing balances of fair value scheme assets

	2016 £000	2015 £000
Opening fair value of Scheme assets	**7,238**	6,734
Interest on assets	**236**	298
Return on assets less interest	**(159)**	441
Administration expenses	**(5)**	(5)
Contributions by employer including unfunded	**55**	52
Contributions by scheme participants	**11**	8
Estimated benefits paid net of transfers in and including unfunded	**(235)**	(290)
Fair value of Scheme assets at the end of the year	**7,141**	7,238

35. Pension costs (continued)

Analysis of amounts charged to Income and Expenditure

	2016 £000	2015 £000
Amounts charged to operating costs		
Service costs	**44**	46
Net interest on the defined liability (asset)	**77**	67
Administration expenses	**5**	5
	126	118

Movement in surplus during the year

	2016 £000	2015 £000
(Deficit) in pension scheme at 1 April 2015	**(2,369)**	(1,503)
Service Costs	**(44)**	(46)
Contributions	**54**	50
Unfunded pension payments	**-**	2
Other finance costs	**(5)**	(5)
Past Service Costs	**-**	-
Net Return on Assets less interest on pension scheme liabilities	**(77)**	(67)
Actuarial Gains/(Losses)	**502**	(800)
(Deficit) in pension scheme at 31 March 2016	**(1,939)**	(2,369)

b) Local Government Pension Scheme - Bexley London Borough

Orbit South Housing Association Limited also participates in the Bexley London Borough Pension Fund, which is a defined benefit scheme.

	2016	2015	2014
Rate of increase in salaries	3.50%	3.50%	3.90%
Rate of increase in pensions payment and deferred pensions	2.00%	2.00%	2.40%
Discount rate applied to scheme liabilities	3.40%	3.10%	4.30%
Inflation assumption - CPI	2.00%	2.00%	2.40%

Life Expectancy from age 65 (years)

		2016 Number	2015 Number
Retiring today	Males	23.2	23.1
	Females	25.6	25.5
Retiring in 20 years	Males	25.5	25.4
	Females	28.5	28.4

35. Pension costs (continued)

Scheme assets

	Value at 31 March 2016 £000	Value at 31 March 2015 £000	Value at 31 March 2014 £000
Equities	**1,762**	1,879	1,826
Government Bonds	**-**	-	-
Other Bonds	**249**	276	270
Property	**367**	352	278
Other – Cash	**73**	47	43
Other	**583**	588	453
Total fair value of assets	**3,034**	3,142	2,870
Present Value of Scheme Liabilities	**(3,664)**	(3,890)	(3,541)
Net pension liability	**(630)**	(748)	(671)

Scheme Liabilities

	2016 £000	2015 £000
Opening defined benefit obligation	**3,890**	3,541
Service cost	**-**	-
Interest cost	**118**	148
Actuarial (gain)/loss	**(146)**	384
Member contributions	**-**	-
Estimated benefits paid net of transfers in	**(198)**	(183)
Past service cost	**-**	-
Government bonds	**-**	-
Closing defined benefit obligation	**3,664**	3,890

35. Pension costs (continued)

Expected Return on Assets

Reconciliation of opening and closing balances of fair value scheme assets

	2016 £000	2015 £000
Opening fair value of Scheme assets	**3,142**	2,870
Interest on Scheme assets	**95**	173
Actuarial (losses)/gains	**(60)**	218
Contributions by employer	**55**	64
Contributions by members	**-**	-
Benefits / transfers paid	**(198)**	(183)
Fair value of Scheme assets as at 31 March 2016	**3,034**	3,142

	2016 £000	2015 £000
(Deficit) in pension scheme at 1 April 2015	**(748)**	(671)
Service Costs	**-**	-
Contributions	**55**	64
Other finance costs	**(23)**	25
Actuarial Gains/(Losses)	**86**	(166)
(Deficit) in pension scheme at 31 March 2016	**(630)**	(748)

36. Explanation of Transition to FRS 102

Presentational amendments to prior periods

Sales and Marketing Costs

Sales and Marketing costs for developments for sale were previously taken to the Statement of Financial Position and held within work in progress for stock. These were released as and when properties were sold into the Statement of Comprehensive Income as cost of sales. This is now being recognised immediately through the Statement of Comprehensive Income when it is incurred and classified as operating costs.

Deferral of Income for Future Renewals and Maintenance

Previously, income received via service charges for future works were taken to the Statement of Financial Position through designated reserves. As section 18 of the Housing SORP 2014 now removes any designated reserves for reporting purposes, the accounting treatment for this income has now been amended to reflect this income as being deferred until the relevant expenditure has been incurred and is held as part of creditors.

Changes for FRS 102 Adoptions

Holiday Pay Accrual

An accrual is now made for the entitlement to holiday at the year end which has not been taken by employees up to a maximum of five days. This has been calculated based on payroll records as being an adjustment to opening reserves of £82k within the association and £300k for the Group.

SHPS Pension

Under section 28 of FRS 102, the Group is now required to recognise the net present value of any contractual agreements to make additional payments for a past deficit. Using a discount rate of 3.02%, this has resulted in a liability of £18.5m as at 1 April 2014.

Agreements to Pay and Associated Adjustment to Bad Debt Provision

For formal agreements to pay with tenants rent and service charge arrears, this is now being treated as a financial instrument and therefore is discounted back to the present value of future cash flows. As a result any bad debt provision relating to them has also now been restated. This resulted in an adjustment to the opening liabilities of £90k.

Amortisation of Grant

Previously grant was allocated between structure and land. However, per section 13 of Housing SORP 2014, all grant is now recognised against structure. Therefore, any grant previously allocated to land has been appropriately amortised with an additional release to the Statement of Comprehensive Income of £1,894k for 2014-15.

Movement in Fair Value of Financial Instruments

Hedge Accounting

The principle of hedge accounting applies only to standalone swaps, which have to be fair valued at each period end. However, RPI swaps and swaps with cancellable options do not meet the criteria of hedging instruments (S12.17C). The movement in fair value is therefore taken directly to the Statement of Comprehensive Income.

For the remaining vanilla interest rate swaps an assessment must be made of the hedge effectiveness. The MTM movement during the accounting period on each vanilla swap is analysed between effective and ineffective, with the effective element posted to the cash flow hedge reserve and the ineffective element charged/credited to the Statement of Comprehensive Income.

Debt Instruments (Loan Portfolio)

External loans also need to be categorised either as basic or other. The basic approach results in a requirement to report interest costs using the EIR (Effective Interest Rate) method. This necessitates modelling on a loan by loan basis averaging (via an EIR calculation) all elements of income and expenditure relating to the loan (margin, including future step ups, arrangement fees).

The EIR for fixed rate instruments will be calculated as the rate which exactly discounts the instrument's future cash flows to the carrying amount (section 11.15). Arrangement fee amortisation will be calculated separately and netted off against the carrying value of the debt liability.

Due to the short term of our floating rate instruments the carrying amount will be set equal to the nominal loan amount less unamortised fee.

Restated Consolidated Statement of Financial Position

	Group £000	Association £000
Original reserves as at 1 April 2014	382,772	164,725
Holiday pay accrual	(300)	(82)
SHPS pension	(18,477)	(18,477)
Accumulated amortisation of grant previously allocated to land	20,078	1,652
Transfer of I&E reserves to deferred income for renewals	(6,896)	-
Movement in the fair value of financial instruments	(32,942)	-
Change in fair value of hedged financial instruments	(11,207)	-
Adjustment WIP	(1,555)	-
Restated reserves as at 1 April 2014	331,473	147,818
Actuarial loss on pension liability	(1,819)	(853)
Cash flow hedge reserves	(44,414)	-
Restated surplus after tax	31,116	28,074
Reserves as at 31 March 2015	316,356	175,039

36. Explanation of Transition to FRS 102 (continued)

Restated Surplus for the year ended 31 March 2015

	Group £000	Association £000
Original surplus for the year	45,404	26,559
Holiday pay accrual	19	(2)
SHPS pension unwinding of discount	(527)	(527)
Kent County Council Pension adjustment	(129)	-
SHPS Pension adjustment-deficit contribution paid	1,951	1,951
Movement in fair value of Agreements to pay & bad debts	(210)	(50)
Increase in depreciation charge	(6,097)	(563)
Grant amortisation	7,991	721
Deferral of income to other creditors for renewals	(580)	-
Movement in fair value of loan arrangement fee	438	-
Movement in fair value of financial instruments	75	-
Movement in fair value of hedged financial instruments	(16,947)	-
Adjustment to stock work in progress for sales and marketing costs	(283)	-
Restated surplus for the year	31,105	28,089

37. Non-consolidated management arrangements

Across the Group, Associations have entered into arrangements with a number of other organisations in connection with the management of some of the property. The financial transactions affecting those managing agents are not consolidated where the risk rests with these agents.

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