

**Heart of England Housing Association Limited (trading as Orbit Heart of England)**

**Financial statements**

**For the year ended 31 March 2017**

**Co-operative and Community Benefit Society number 30446R**

**Homes and Communities Agency number L4526**

# Heart of England Housing Association Limited (trading as Orbit Heart of England)

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# Heart of England Housing Association Limited (trading as Orbit Heart of England)

## Strategic report

### Celebrating 50 years of building communities

Orbit Heart of England is part of the Orbit Group; founded in 1967, we have been investing in the provision of quality homes and services for over fifty years. Today we provide services to over 100,000 customers, ensuring all generations can live in a home they can afford. Proud of the journey we have taken, it is our people who have helped to shape our organisation to become what it is today. We are one of the largest developing housing associations in the UK delivering around 1,700 homes a year and recently celebrated ownership of our 40,000<sup>th</sup> home.

### Purpose

Our purpose of 'Building Communities' remains unchanged; to improve the social, economic and environmental prospects of people and communities.



In 2013 we launched our 2020 Vision with nine ambitious targets to provide the best homes and services possible for customers. This vision guides our transformation journey to 2020, enables us to accelerate our growth and enables us to respond to a changing external environment.

Over the last four years we have built 6,000 new homes whilst expanding our offer of home rental and ownership options and cemented our position as a key influencer across the housing sector. As we celebrate 50 years as a successful organisation we look to the next phase of transformation to ensure our mission of building communities remains relevant to a changing customer base, builds capacity for accelerating growth and ensures we are exploiting maximum value from technology.

### 2016-17 Group highlights

2016-17 was another successful year as we progress towards achieving our 2020 Vision. Our performance against our nine key targets is highlighted below:

	2020 target	Progress: 2016-17
Housing	Deliver 12,000 homes	6,000 homes delivered - 1,788 homes were built in 2016-17 (1,073 affordable rent, 505 shared ownership and 210 market sale)
	Provide customers a full range of home rental and ownership	Private rent and aspire to buy offers in place

## Heart of England Housing Association Limited (trading as Orbit Heart of England)

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	options	
	Provide a flexible housing journey	Marketing of both rental and home ownership options
Communities	Provide 10,000 training and job opportunities	5,897 customers supported into training - 1,480 in 2016-17 1,018 people supported into jobs - 324 in 2016-17
	Invest £30m in communities	£11.8m invested in our communities - £3.8m invested in 2016-17
	Upgrade homes to EPC Band C	68% of our properties are at EPC band C or above
Customer	90% customer satisfaction	78.6% customer satisfaction (STAR survey 2016)
	Support 20,000 customers with financial and energy advice	15,665 people have benefitted from financial and energy advice - 6,183 in 2016-17
	75% customer transactions online	24% of customer transactions taking place online

There have been a number of successes from across the business in the year including taking ownership of our 40,000th home. In the last financial year, we achieved record year-end sales results for shared ownership having sold 529 homes, up 55 per cent on the previous year.

Our shared ownership sales demonstrate this homeownership option is now widely recognised as an affordable product for people who are struggling to get on the housing ladder. This year we also piloted a project with existing shared ownership customers, generating additional revenues and providing more flexible options into home ownership.

Our pioneering digital tenancy sign-up tool, Orbit Move, was recognised for innovation in the housing sector, winning both a Housing Innovation award and regional Chartered Institute of Housing (CIH) award for 'Excellence in the use of Technology' as well as making the shortlist in the National Housing Awards.

We were also shortlisted in the Community Impact, the European Contact Centre Customer Service Awards, TPAS and UK Customer Experience awards for a number of projects and services which support our customers.

We have improved customer satisfaction around repairs, with a significant reduction in the number of calls received by 28% year on year. We continue to invest in and develop our Customer Service Centre, providing additional training for advisors, creating a new Customer Relations team to improve first time resolution of issues and revamped our approach to handling complaints, resulting in a 30% improvement in resolution at this first point of contact.

Our focus on compliance remains strong with 100% gas safety compliance achieved at the end of the year.

We have outsourced the management of a portfolio of our garages, and sold some sites to fund investment in the remaining portfolio. Our fees for service charges have also been reviewed providing consistency and ensuring cost recovery.

# Heart of England Housing Association Limited (trading as Orbit Heart of England)

## Strategic report

### 2016-17 financial performance

#### Financial summary

Statement of comprehensive income	2016-17 £m	Restated 2015-16 £m	2014-15 £m	2013-14 £m	2012-13 £m
Turnover	90	88	86	76	73
Operating costs and cost of sale	(63)	(63)	(61)	(49)	(50)
Surplus on sale of housing	10	7	7	-	-
<b>Operating surplus</b>	<b>37</b>	<b>32</b>	<b>32</b>	<b>27</b>	<b>23</b>
Surplus on sale of housing	-	-	-	6	14
Net interest and other financing costs	(20)	(20)	(17)	(16)	(15)
Donations	-	-	(6)	(5)	(5)
<b>Surplus for the year</b>	<b>17</b>	<b>12</b>	<b>9</b>	<b>12</b>	<b>17</b>

Statement of financial position	2016-17 £m	2015-16 £m	2014-15 £m	2013-14 £m	2012-13 £m
Tangible fixed assets/investments	846	775	689	400	363
Net current assets/(liabilities)	(38)	(34)	(38)	(32)	(16)
<b>Total assets less current liabilities</b>	<b>808</b>	<b>741</b>	<b>651</b>	<b>368</b>	<b>347</b>
Creditors due after >1 year	727	669	585	317	302
Provisions	1	1	1	-	-
Pension liability	-	-	-	-	6
Revenue reserves	80	71	65	51	39
	<b>808</b>	<b>741</b>	<b>651</b>	<b>368</b>	<b>347</b>

Key indicators (Group)	2016-17	2015-16	2014-15	2013-14	2012-13
Debt per unit (£k)	33.1	31.0	27.9	24.2	23.8
Months cash/secured loans available	36	14	18	30	24
Months approved loans available	36	20	24	30	36
Interest cover	2.4	1.99	2.19	2.46	1.86

2016-17 saw continuing strong financial performance, with overall surplus for the year increasing to £16.6m (2016: £11.8m) whilst turnover grew by 1.5% to £89.7m. Surplus on the sale of housing has increased to £10.6m. Our key financial indicators have all been achieved for the year and exceeded target levels.

The statement of financial position has also increased in strength, with fixed assets increasing to £846m (2016: £775m, 9% increase) and reserves to £80m (2016: £71m, 13% increase.) We now have 17,030 units, an increase of 491 from 2016.

Operating costs were static year on year at £63m. Our largest area of expenditure is the maintenance of our properties, which was £30.8m of which £8.5m was spent on the replacement of components (including kitchens, bathrooms and boiler replacements) and work to improve the energy efficiency of our properties. Management costs have increased to £10m (2016: £9m).

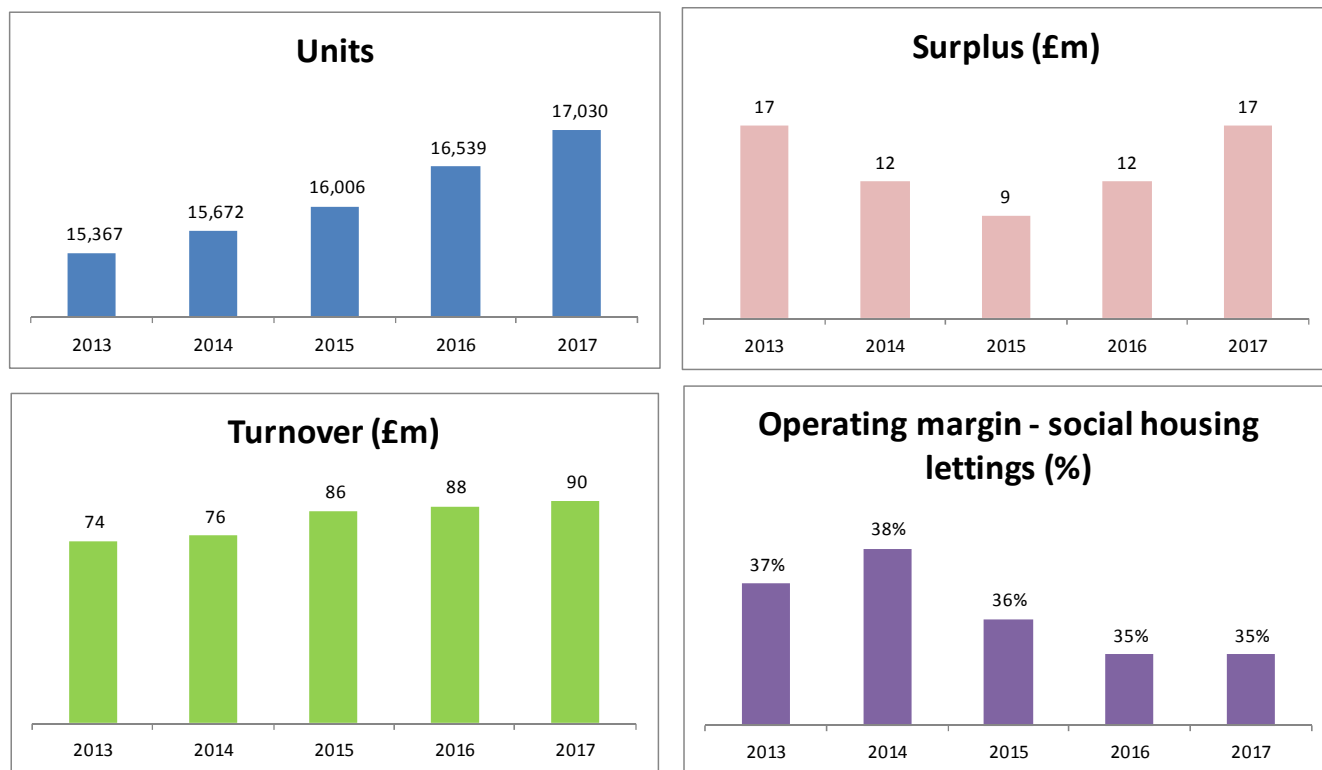
Operating margin (overall) has reduced to 38% (2016: 44%) whilst operating margin on social housing lettings has similarly reduced from 42% to 35%. This reflects the increased investment in our properties and impairment costs (£1.4m) as part of a regeneration project.

Donations from 2015-16 are accounted for as a distribution from reserves and are now shown in the statement of changes in reserves.

## Heart of England Housing Association Limited (trading as Orbit Heart of England)

### Strategic report

The profits generated will continue to be reinvested, firstly in improving our existing properties through our investment programmes, in improving services to customers, in our communities and in the development of new homes.



### 2017-18 Group priorities

Our environment continues to change at pace and can often reflect a challenging political, economic and regulatory landscape. Now more than ever, we see the importance of delivering our 2020 Vision for our customers.

Analysis of the external environment shows social and economic challenges are making life harder for our customers and communities. In light of our departure from the European Union, we know Brexit could exacerbate the skills shortage in the construction sector, affecting supply. It is also likely to occupy much of the national policy agenda, with possible delays in the development of key housing and welfare-related policy. Living costs are set to rise over the coming years, and the cumulative impact of tax and welfare policies will lead to further reduction in income for many people living in the communities where we work.

We expect the new government to continue to drive housing growth, which supports and provides homes for all families. Developing housing associations like us have been recognised as a key delivery partners offering greater flexibility in tenure. Devolving powers and funding to combined authorities will provide new opportunities for us, as new delivery partners are shaped. In the coming years we will need to be agile in our working and approach and so turn our attention to 'improvement and evolution'.

#### Improve and evolve

Building on work from 2016-17, our focus remains on four core business plan areas; service, property, profit, underpinned by continued improvement of our compliance and risk infrastructure.

## Actions



### SERVICE

Building on the delivery of our stability plans we now focus on driving improvement in our core operations. A clear **customer offer** based on what matters most to our customers will be the basis for an efficient and good quality service model. This will see Orbit make progress on our road to **multi-channel delivery models**. A continued focus on **improving the reliability of core services** to drive up customer satisfaction and productivity is imperative. This will be underpinned by greater management focus on the quality of customer experiences. During the year we will also **invest £3.5m in our communities**, funding activities that achieve customer, community and business benefits, with targeted initiatives that sustain tenancies and reduce service costs.



### PROPERTY

During 2017-18 we will deliver over **1,900 new homes** for private and social rent, market sale and shared ownership, also improving the customer experience as people move into their new homes. We will also invest c£32m in the maintenance of our existing stock to **ensure homes are warm and of good quality** for our 100,000 existing customers. A new **Asset Management strategy** will support the rationalisation of our portfolio and maximise returns to support reinvestment into the business.



### PROFIT

To deliver our objectives we will continue to **drive efficiencies** and increase profits as we seek to demonstrate value for money across our business operations. A new **income strategy** will align our rent and service charge functions and seek to mitigate the ongoing impact of welfare reform. During the year our operating margin will remain at or above **25%, generating a profit** in 2017-18 of **£59m**. We aim to secure funding of **£75m** to enable us to deliver new homes.



### PEOPLE

Orbit is committed to supporting the **professional development** of our employees – we're passionate about ensuring our people have the skills and tools to deliver excellence. We will continue to invest in **coaching, training and talent management**, whilst rolling out a new **pay and reward strategy** to ensure we can attract and retain the best people.

We will deliver a values led, performance driven culture that will take a 'one Orbit' approach to delivery, improving engagement at all levels. We have moved to a **single Orbit brand** that will simplify our offer and maximise our impact and influence. We will also **clarify roles and responsibilities** as we seek to simplify systems and structures.



### COMPLIANCE AND RISK

We will continue to develop a stronger internal control environment through key compliance work streams. This includes **embedding the new health and safety compliance team**, as well as supporting a disciplined culture of responsibility and **accountability for data, policy, and procedural compliance** throughout the organisation. Close scrutiny of performance to ensure Orbit delivers all of the health and safety compliance requirements will remain a key priority.

# Heart of England Housing Association Limited (trading as Orbit Heart of England)

## Strategic report

### Value for money (VFM)

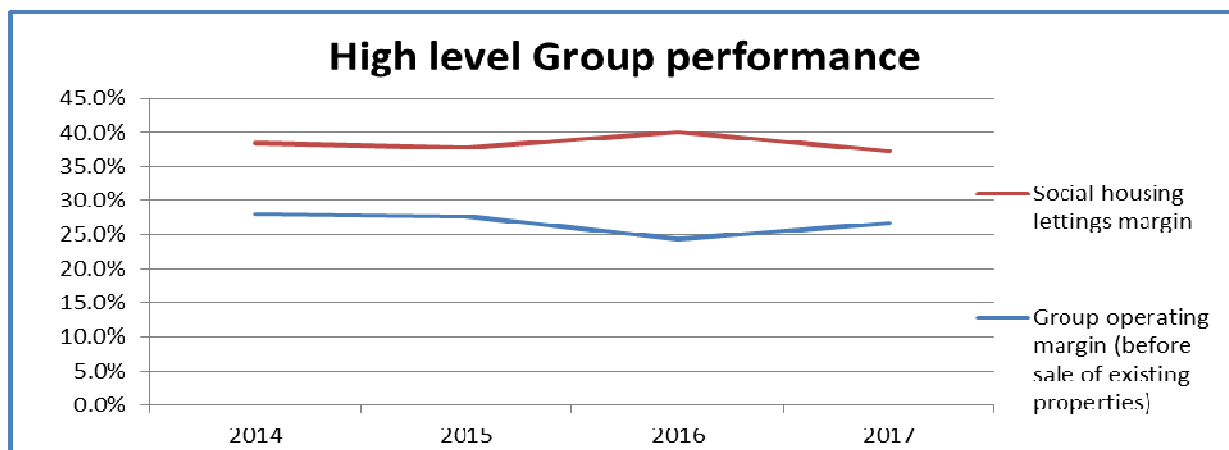
#### VFM gains

We targeted £3.1m of efficiency savings in our 2016-17 budgets. A total of £5.2m has been achieved as shown in the table below.

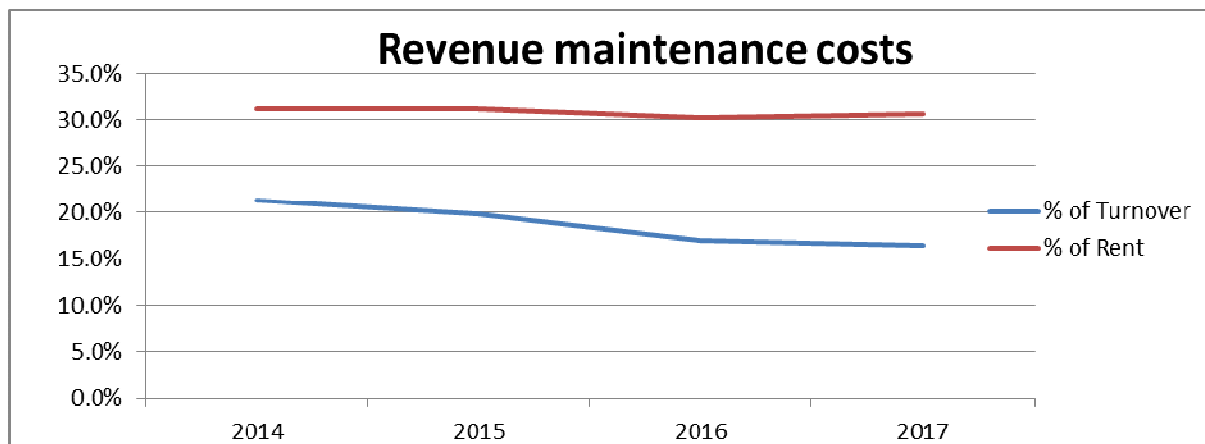
Efficiency achieved	£000
Operational and cash efficiencies	1,809
Treasury management	1,250
Development	920
Operational transactional efficiencies	784
Savings passed onto residents	416
<b>Total</b>	<b>5,179</b>

These savings have been made through some specific process improvement projects, procurement of new contracts and maximising opportunities as they have arisen.

These graphs show high level financial trends and are generally positive.



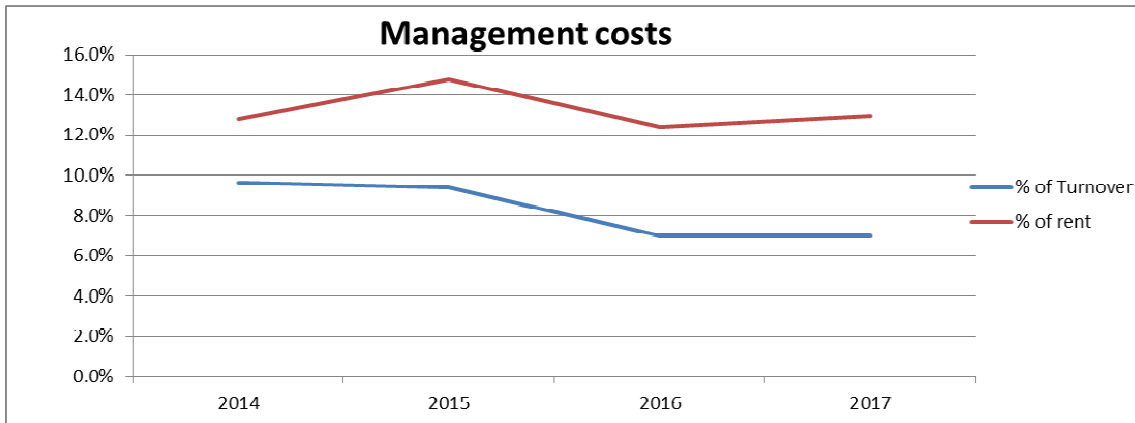
The high level performance shows an improvement in the headline operating margin, reflecting the improving efficiency of the business. This is a despite a small downturn on operating performance of social housing caused by increased investment in planned maintenance and some one-off impairment charges in the accounts this year.



Maintenance spend as a percentage of turnover has continued to reduce. As a percentage of rent, there is a small increase reflecting additional planned investment.



Strategic report



Management costs have increased slightly as a percentage of rental income as a product of investing in the management team.

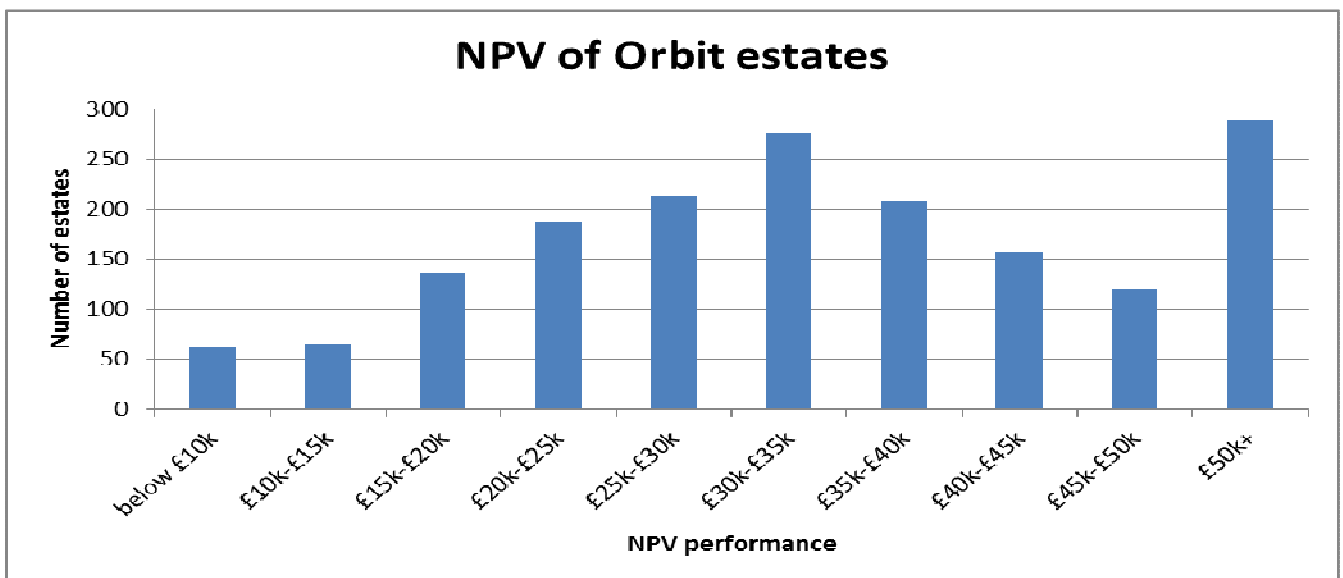
Asset management

Housing assets, how they are utilised and their financial value are the prime source of our strength, independence and self-determination. In this environment, asset management becomes central to making best use of our financial capacity.

Traditionally, asset management for housing associations and local authorities has focused on maintaining existing stock through repairs and maintenance, cyclical and planned programmes. The changing regulatory and operating environments require a more sophisticated and intelligence led approach.

We are investing in the relevant skills; IT infrastructure and data capture to enable a better level of decision making for our existing stock.

The graph below shows the result of assessing the net present values (NPVs) of the 32,286 rented properties we own, split into 1,713 estates. This is a key factor in asset performance. Our policy is to focus on the bottom 10% in terms of NPV performance, running these worst performing estates through an option appraisal and making suggestions for future use. Aligning this financial information with the views of housing management and maintenance experts will lead to recommendations around future use and investment decisions.



# Heart of England Housing Association Limited (trading as Orbit Heart of England)

## Strategic report

### Success to date

#### Shared ownership

We ran a pilot in 2016-17 to actively target shared ownership customers who may wish to buy further shares in their properties. To date the project has succeeded with 18 customers taking the option to staircase ownership in their property. This has brought in £1.5m of sales income, releasing financial capacity from our existing stock.

#### Garages

We have a significant garage portfolio which, over the years, has not been managed to its potential. The commercial team has worked to review each site and assess suitability for development, improve the profitability of managed sites and make sure health and safety factors are addressed. The project has delivered a better garage management function and sales receipts of £2.1m. A number of sites have also been earmarked for potential residential development.

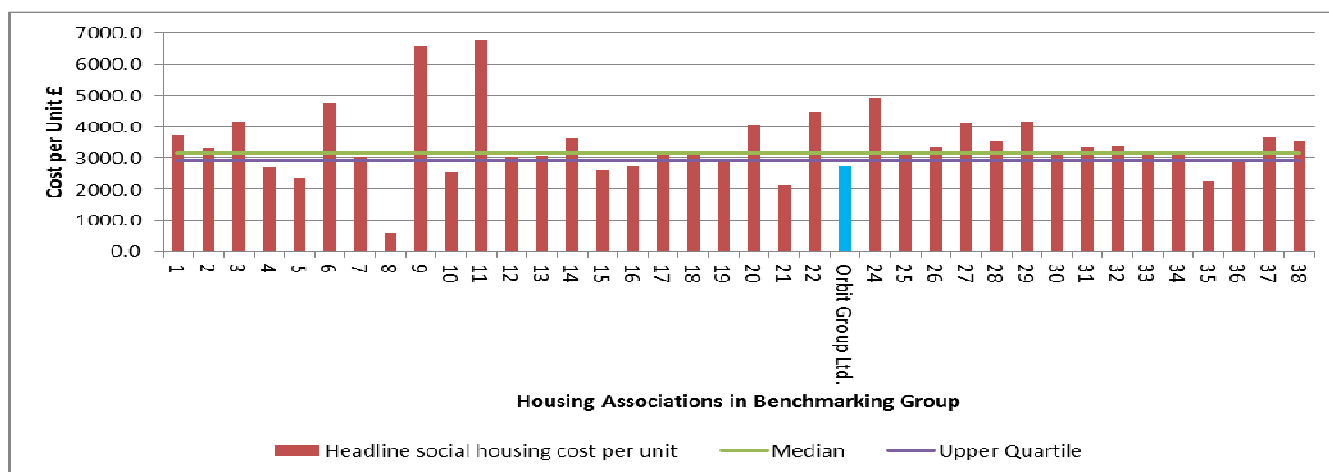
#### Social impact

Community investment at Orbit delivers tangible results for our communities and to Orbit. HACT have measured the social value generated by our programme at £11.36 for every £1 invested. During 2016-17 the Orbit community investment programme helped:

- 324 customers in to jobs
- 1,480 customers to undertake employment related training and skills
- 2,682 customer with wellbeing programmes to help manage mental health and anti social behavior
- 3,035 customers with financial advice
- 3,148 customers with energy advice

#### Benchmarking

Orbit uses benchmarking against a relevant set of peers to help understand our costs, inform cost and performance targets and identify areas for potential improvement. We take part in a number of user groups to discuss best practice and understand results. Our benchmarking group compares financial and non-financial statistics. The graph here shows a social lettings operating cost per unit against all associations with 20,000+ properties. Orbit is a top quartile performer.



The full VFM statement will be available on Orbit's website in September 2017.

## Heart of England Housing Association Limited (trading as Orbit Heart of England)

### Strategic report

#### Board members, executives, officers and auditors

##### Board members

Name	Role	Appointed Orbit Heart of England	Appointed Orbit South	Resigned
Fran Beckett	Chair	1 April 2013	1 April 2011	
Kerry Bolister	I	1 March 2015	1 March 2015	
Jake Boomhauer	R		26 July 2016	
Andy Hobart	I	14 September 2016	14 September 2016	
Julie Hopes	I	16 April 2013	18 April 2012	
Glyn Kyle MBE	I	30 March 2016	11 February 2009	31 March 2017
Sam Margrave	R	9 July 2013	-	
Grant Richardson	I	1 February 2013	-	
Kathy Strong	R	-	9 July 2013	18 April 2016
Shubhankar Sumar	R	-	15 July 2014	27 March 2017
Bill Yardley	I	15 July 2014	15 July 2014	
Symon Sentain	I	-	9 September 2015	

##### Key

I = Independent Member

R = Resident Member

## Heart of England Housing Association Limited (trading as Orbit Heart of England)

### Strategic report

#### Orbit Living Senior Management team

Executive Director	Role
Paul Richards	Executive Director – Customer Services (appointed August 2016)
Adam Cooper	Director of Commercial Services
Caroline Davies	Director of Property Services (appointed July 2016)
Kate Farley	Director of Operations (Interim)
Vicky Harwood	Director of Orbit Independent Living (left March 2017)
Elaine Johnston	Director of Operations, Orbit Heart of England (left October 2016)
Louise Palese	Director of Customer Services (appointed December 2016)

	Independent Auditors	Principal Solicitors
Address	KPMG LLP One Snowhill Snow Hill Queensway Birmingham B4 6GH	Trowers and Hamblins 3 Bunhill Row London EC1Y 8YZ

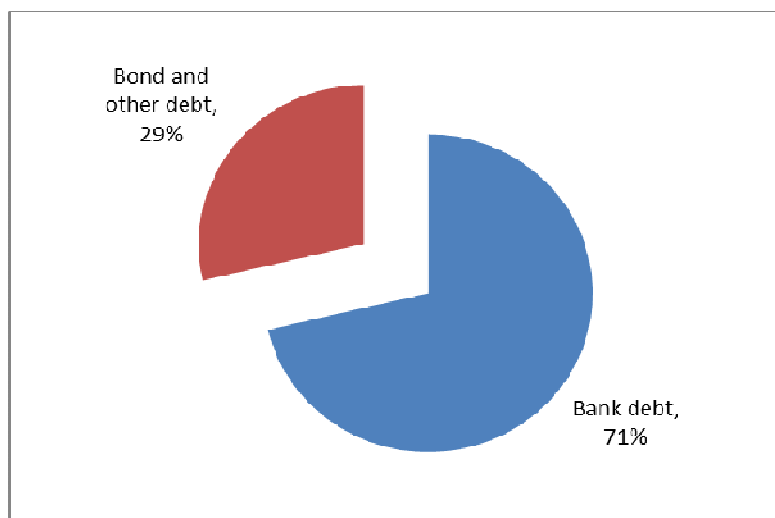
	Registered Office
Address	Garden Court Binley Business Park Harry Weston Road Binley Coventry CV3 2SU

#### Capital structure and treasury policy

As at 31 March, we had £1,470 million of committed debt funding. Drawn funding totalled £1,139 million, an increase from 2016 (£1,037 million). We seek to maintain diversification in funding sources with 71% coming from eight banks and building societies and 29% from capital markets.

Strategic report

Bank vs other debt



Our re-financing risk over the next five years is £414 million, (28% of loan facilities) with over 72% of our debt maturing after five years.

Debt repayment profile

As at 31 March, we maintained £331 million of committed undrawn facilities available for immediate drawing and £28.4 million of cash in hand, representing total available liquidity of £359.4 million. These resources are considered sufficient to fund three years' 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
- 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 2016-17	Actual 2016-17
Immediately available cash and loans against budget	100%	243%

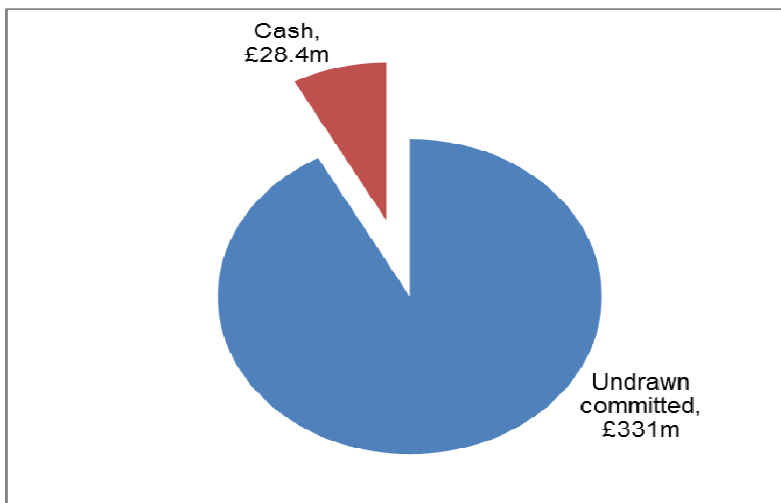
	2016-17	2015-16
Months cash/secured loans available	36	19
Months approved loans available	36	20

All committed facilities are secured by fixed charges. At year-end we held approximately 9,600 unencumbered properties available for use for new loans. These properties are conservatively estimated to provide potential security for a further £692 million of new loans. This ability to raise new loans may enable us to develop a significant number of new homes in the future.

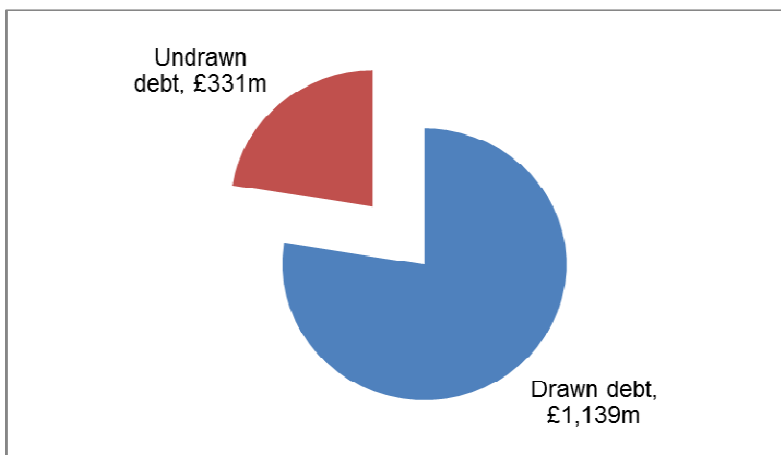
# Heart of England Housing Association Limited (trading as Orbit Heart of England)

## Strategic report

### Available liquidity



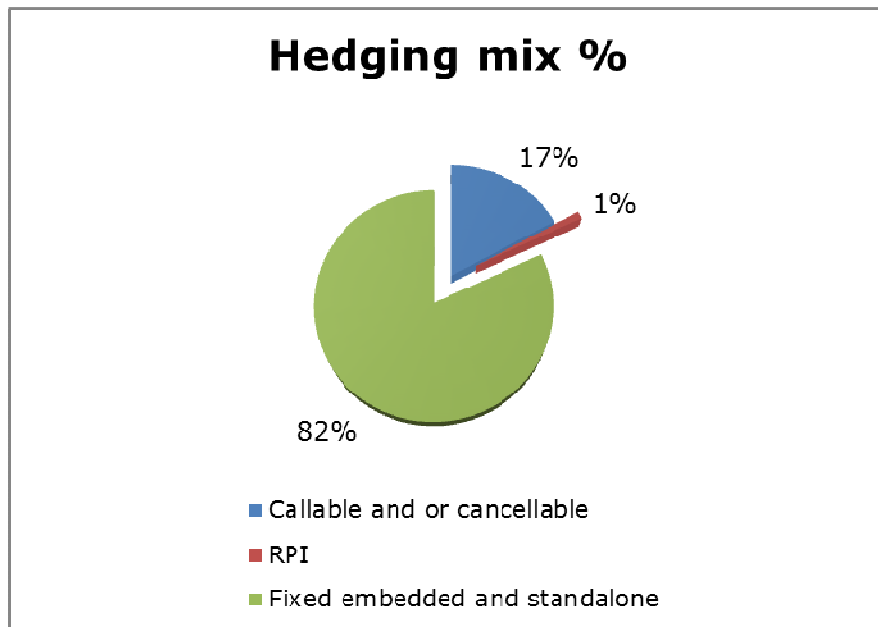
### Total committed funding



We continue to carefully manage interest rate risk. Borrowing related to cash in hand is held at floating rates of interest. We target a flexible policy of hedging 65% to 90% of our debt accessing fixed rate instruments predominantly and a small proportion of index linked instruments, with flexibility to depart from these parameters if circumstances make this appropriate. At the year-end this resulted in a portfolio that was 86% fixed.

Our average interest cost for the year is 4.28% reflecting the fixed rate hedging noted above. We do not have any non-sterling or exchange rate exposures.

Strategic report



We maintain 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 year-end, 79% of our hedged activities were undertaken through embedded instruments and stand-alone swaps.

Our weighted average duration of standalone swaps is just over 14 years. This limits the impact of an increase in interest rates.

All of our swap transactions allow social housing assets to be used as collateral to cover mark to market positions.

We maintain a formal counterparty policy in respect of those organisations from which we borrow or with which we enter into other finance arrangements and derivative transactions. Similarly, on investments, we regard the primary objective of our treasury management activity to be the security of the principal sums invested.

Our 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**

Our Group net cash inflow from operating activities during the year was £137.4 million (2016: £131.4 million). The principal sources of cash inflow remain rental income and proceeds from sale of housing properties. The principal sources of cash outflow 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 Heart of England as an individual association, the net cash inflow from operating activities in 2017 was £20 million (2016: £28.7million) primarily due to movements in debtors and creditor balances. The principal sources of both cash inflow and outflow were that of income from the provision of housing accommodation and associated operating costs and the proceeds from the sale of properties under void sale programmes.

# Heart of England Housing Association Limited (trading as Orbit Heart of England)

## Housing association governance

### Organisational structure, governance and risk management

The Group structure is illustrated below; Orbit Group Limited is the parent organisation of the. 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 (2020) Ltd is our development and sales organisation, building new homes. Orbit Treasury is our main funding vehicle, whilst Orbit Capital plc was set up for the issue of our first bond. Other entities in the Group structure (not shown below) are two dormant companies, Orbit New Homes and Orbit Gateway.



### Orbit Group board and its subsidiaries

The board members during the year 2016-17 are listed on page 9.

The board can comprise up to twelve non-executive members but currently has eight 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 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.

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). These two legal entities are governed under a single shared board (the Orbit Living board) which oversees 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.



## Heart of England Housing Association Limited (trading as Orbit Heart of England)

### Housing association governance

All members of the Group remunerate their board members for undertaking their duties and responsibilities. The boards delegate the day-to-day management to the Group chief executive and the executive directors who form the Executive team. The Executive team met at least monthly throughout 2016-17 and the directors attend meetings of the Group board and subsidiary boards.

#### Code of governance

We have adopted the National Housing Federation's (NHF) 2015 Code of Governance as the Code of Governance for our 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. We comply with the Code of Governance in all material aspects and the HCA's Governance and Financial Viability Standard. We have developed our own probity and severance policy, which picks up the key principles of the NHF's Code of Conduct. In addition to this policy, we have our 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 we 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 our 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 our 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 our 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 our 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.

#### Risk management

The Group 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 and Risk Assurance Committee on behalf of the Orbit board. All subsidiaries are required to implement our risk management framework and provide reports to their respective boards.

As part of our risk management strategy, a set of early warning indicators (EWI) and risk triggers are monitored by senior management and the board alongside our 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.

## Heart of England Housing Association Limited (trading as Orbit Heart of England)

### Housing association governance

We have identified seven strategic risks, of which three are deemed to be business critical risks. These are:

Risk	Mitigation
<p>Material change in the economic forecast adversely impacting on the key assumptions within the financial plan:</p> <ul style="list-style-type: none"> <li>• Reliance on market sales</li> <li>• Interest rate and inflation</li> <li>• Maintenance and development costs</li> <li>• Efficiency gains</li> </ul>	<p>There are a number of strategies and processes in place to mitigate the risk. These include stress testing, scenario analysis and management action plans, a welfare reform strategy, a VFM strategy and continuous budgeting.</p> <p>There has been strong financial performance during 2016-17, with scenario testing leading to a restatement of growth targets.</p>
<p>Poor delivery of service leading to low customer satisfaction, cost inefficiencies and regulatory intervention.</p>	<p>There have been a number of actions delivered as part of the stability plan within customer services, focussed on delivery of the responsive and property investment plan, implementation of the property compliance system and a review of the Estates Services team</p> <p>We have seen improved repairs satisfaction during 2016-17 and more intensive contract management processes are now in place.</p>
<p>Condition of existing stock in a poor state leading to a material impact on the financial plan and growth aspiration.</p>	<p>We have created a new Strategic Asset Management team to focus on the development and delivery of our asset management strategy.</p> <p>The financial investments required to deliver the strategy have been modelled within the financial plan to ensure these are deliverable.</p>

The remaining strategic risks are:

Risk	Mitigation
<p>Negligence / poor working practices leading to an unsafe working environment.</p>	<p>We have created a robust Health &amp; Safety strategy, using external expertise, and have a dedicated Compliance team within Property Services. We are also investing in Health &amp; Safety tools e.g. lone worker devices and vehicle management.</p> <p>The above have been audited internally and we have achieved a positive (green) report on Health &amp; Safety management.</p> <p>In the light of the Grenfell fire incident, it is important to note this risk incorporates a review of fire safety management. This takes into account the appropriateness of policies/procedures, the competency of key staff including fire assessors (who are third party experts) and Health &amp; Safety Assurance advisors (two of which are ex fire officers), the management systems in place to identify, record and implement fire risk assessments and subsequent actions. Finally the monitoring of compliance by senior management, executive management and the board is considered. Moving forward the outcomes from the Incident Management team will further feed into our assessment of risk relating to fire safety.</p>
<p>Poor standard of management and leadership unable to adapt to a changing financial and regulatory operating environment.</p>	<p>We have created a staff engagement strategy and people plans specifically focussing on culture. Talent management reviews are also underway.</p> <p>Monitoring is undertaken monthly within teams and coaching qualifications are being completed by senior managers to improve the standard.</p>
<p>Unable to respond to a cyber attack in an effective manner.</p>	<p>The disaster recovery plan has been updated to include this risk and we have third party support with this.</p> <p>Specific cyber security insurance is to be purchased to cover any future issues.</p>

## Heart of England Housing Association Limited (trading as Orbit Heart of England)

### Housing association governance

	After an ISO 27001 inspection we retained our accreditation and DRP testing has been undertaken achieving satisfactory outcomes.
Poor quality of data leading to a failure on governance in terms of performance monitoring and decision making.	We have a data strategy project in place in order to review this risk.  We have implemented a new performance management framework and are continuously reviewing and improving the reporting under this.

There is continuing focus on these risks and the impact on the business plan, particularly as the external environment changes to ensure that mitigations in place remain robust.

#### Customer involvement

We are committed to involving customers in decisions affecting their homes. There is representation from customers on the Orbit Living Board, and a range of involvement opportunities for customers to scrutinise, hold us to account for our performance and have input into shaping service delivery have been developed as part of the co-regulation agenda. This ensures we meet 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, our 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 value for money. 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.

The health and safety of our customers is paramount and a constant focus of our work. The Grenfell Tower block fire highlighted the importance of health and safety as an ongoing programme of assessment and review. All of Orbit's blocks have valid and up to date fire risk assessments in place, and subject to a robust assessment programme carried out by an independent body. Following the Grenfell Tower, Orbit reassessed each block with a particular focus on cladding and also to give reassurance to customers that their homes were safe. We will of course monitor and take forward any recommendations made as a result of the Grenfell Tower inquiry.

#### 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 Heart of England Housing Association board



**Fran Beckett**  
Chair

20 July 2017

## Heart of England Housing Association Limited (trading as Orbit Heart of England)

### Housing association governance

#### Statement of internal control

##### 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 control environment (ICE) 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
- ✓ Insurance
- ✓ Information governance
- ✓ Treasury advisors
- ✓ Risk management strategy
- ✓ Health and safety management system
- ✓ External specialist reviews

##### Outcomes

During the 2016-17 the outcomes from key areas of assurance have been positive and management continue to recognise that continuous improvement is fundamental, particularly as the operating environment for the sector evolves. It is important to note that:

1. The outcomes from internal audit reviews have provided insight an improving control and compliance culture. The significant majority of reports provide a positive opinion and weaknesses identified have either been addressed or management are in the process of addressing these.
2. External audit opinion is unqualified.
3. Risk management strategy continues to provide key insight into Orbits 7 business critical risks. Stress mitigations have been tested and are effective if key scenarios materialise.
4. The annual health and safety report confirmed that there is a robust H&S management system and there is continuous focus on bedding is a strong culture by management.
5. Insurance risks continue to be managed effectively with no increase in premiums for 2017-18 due to a weakening profile.
6. Orbit's governance arrangements have been externally assessed as positive and all actions identified in the report have been addressed.
7. Effective management of personal data, with weaknesses addressed promptly and no enforcement action.

##### **Overall opinion – Executive team**

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

'Based on the risk and assurance work undertaken in 2016-17 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.

## Heart of England Housing Association Limited (trading as Orbit Heart of England)

### Report of the board

#### 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 7 September 2017.

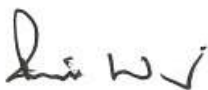
#### Disclosure of information to auditor

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 our 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 our independent auditors are aware of that information.

#### Independent auditor

KPMG LLP was appointed as external auditors for the year ended 31 March 2017. 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 20 July 2017 and signed on its behalf by:



**Richard Wright**  
Secretary

## **Independent auditors' report to the members of Heart of England Housing Association Limited for the year ended 31 March 2017**

We have audited the financial statements of Heart of England Housing Association Limited for the year ended 31 March 2017 set out on pages 21 to 50. 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 the board and auditor**

As more fully explained in the statement of board's responsibilities set out on page 19, the association's board is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's 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](http://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 association as at 31 March 2017 and of its surplus 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.



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

25<sup>th</sup> July 2017

# Heart of England Housing Association Limited (trading as Orbit Heart of England)

## Statement of comprehensive income

For the year ended 31 March 2017

	Note	2017 £000	2016 £000 Restated
Turnover	2	89,713	88,381
Operating costs	2	(63,169)	(63,275)
Gain on sale of property, plant and equipment – housing properties	7	10,611	7,162
<b>Operating surplus</b>	2	<b>37,155</b>	32,268
Interest receivable	8	28	5
Interest payable	9	(20,565)	(18,862)
Other financing (costs)/income	9	-	(1,584)
Movement in fair value of financial instruments		(8)	(72)
<b>Surplus on ordinary activities before taxation</b>		<b>16,610</b>	11,755
Tax on surplus on ordinary activities	10	(15)	-
<b>Surplus for the year</b>		<b>16,595</b>	11,755

All amounts derive from continuing operations. There is no material difference between the surplus on ordinary activities before taxation and the retained surplus for the year stated above and their historical cost equivalent.

The financial statements on pages 21 to 50 were approved by the board and signed on its behalf by:



**Fran Beckett**  
Chair



**Andy Hebert**  
Board Member



**Richard Wright**  
Secretary

20 July 2017

**Heart of England Housing Association Limited (trading as Orbit Heart of England)**

**Statement of changes in reserves**

**For the year ended 31 March 2017**

	<b>Income &amp; expenditure reserve £000</b>	<b>Total reserves £000</b>
<b>Balance as at 31 March 2016</b>	<b>70,869</b>	70,869
Surplus for the year	<b>16,595</b>	16,595
Donations paid to Orbit Group Ltd	<b>(7,063)</b>	(7,063)
<b>Balance as at 31 March 2017</b>	<b>80,401</b>	80,401



Heart of England Housing Association Limited (trading as Orbit Heart of England)

Statement of financial position

As at 31 March 2017

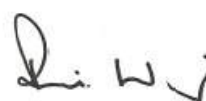
	Note	2017 £000	2016 £000
<b>Tangible fixed assets</b>	11 & 12	<b>845,756</b>	774,603
<b>Investments fixed assets</b>	13	<b>783</b>	800
<b>Debtors: amounts falling due after more than one year</b>	14	<b>635</b>	484
<b>Current assets</b>			
Trade and other debtors	14	<b>41,015</b>	18,792
Investments	15	<b>800</b>	811
Cash and cash equivalents		<b>2,259</b>	1,990
		<b>44,709</b>	22,077
Less: creditors: amounts falling due within one year	16	<b>(82,689)</b>	(55,654)
<b>Net current liabilities</b>		<b>(37,980)</b>	(34,607)
<b>Total assets less current liabilities</b>		<b>808,559</b>	741,826
<b>Creditors: amounts falling due after more than one year</b>	17	<b>(727,141)</b>	(669,336)
<b>Provisions for liabilities</b>	19	<b>(1,017)</b>	(1,621)
<b>Total net assets</b>		<b>80,401</b>	70,869
<b>Reserves</b>			
Income and expenditure reserve		<b>80,401</b>	70,869
		<b>80,401</b>	70,869

The financial statements on pages 21 to 50 were approved by the board and signed on its behalf by:



Fran Beckett  
Chair

Andy Hobart  
Board Member



Richard Wright  
Secretary

20 July 2017

# Heart of England Housing Association Limited (trading as Orbit Heart of England)

## Statement of cash flows

For the year ended 31 March 2017

	Note	2017 £000	2016 £000 Restated
<b>Net cash generated from operating activities</b>	25	<b>12,946</b>	23,026
<b>Cash flows from investing activities</b>			
Purchase of tangible fixed assets		<b>(85,564)</b>	(101,966)
Proceeds from sale of tangible fixed assets		<b>13,769</b>	10,511
Grants received		<b>2,750</b>	7,319
Interest received		<b>28</b>	5
<b>Cash flow from financing activities</b>		<b>(69,017)</b>	(84,131)
Interest paid		<b>(19,803)</b>	(19,606)
Other net financing costs received/(paid)		<b>4,254</b>	(1,584)
New secured loans		<b>152,698</b>	119,837
Repayments of borrowings		<b>(80,837)</b>	(36,137)
Increase/(decrease) in deposits		<b>28</b>	(393)
		<b>56,340</b>	62,117
<b>Net change in cash and cash equivalents</b>		269	1,012
Cash and cash equivalents at beginning of the year		1,990	978
<b>Cash and cash equivalents at the end of the year</b>	27	<b>2,259</b>	1,990

The restated comparatives reflect presentation changes

The accompanying notes form part of these financial statements

# Heart of England Housing Association Limited (trading as Orbit Heart of England)

## Notes to the financial statements

### For the year ended 31 March 2017

#### 1. Principal accounting policies

##### **Legal status**

Heart of England Housing Association Limited is incorporated under the Co-operative and Community Benefit Societies Act 2014 and is registered with the Homes and Communities Agency (HCA) as a not for profit Registered Provider of social housing as defined by the Housing and Regeneration Act 2008. The parent body from the beginning of the year was Orbit Group Limited.

##### **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 Heart of England Housing Association Limited has applied all paragraphs of FRS 102 which relate to public benefit entities in preparing the financial statements. The principal accounting policies, which have been consistently applied unless otherwise stated throughout the year, are set out below.

##### **Going concern**

The Association's key activities are set out in the strategic report along with an assessment of the risks to the current operating environment. The Association 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.

##### **Group services**

The Association has taken advantage of the exemptions available in FRS 102 and has not disclosed transactions with the Parent undertaking as consolidated financial statements are available from the registered office.

A range of services are provided to the Association by the parent body Orbit Group Limited, as set out in the intra-group agreement between the two Associations. The Association also has service agreements with other Associations within Orbit particularly in respect of receipt and delivery of housing management services.

With the exception of costs capitalised as development costs, all costs incurred through this agreement are written off to the statement of comprehensive income account in the year in which they are incurred.

##### **Turnover**

Turnover represents rental and service charge income receivable, grants from local authorities and the Homes and 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.

##### **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.

# Heart of England Housing Association Limited (trading as Orbit Heart of England)

## Notes to the financial statements

### For the year ended 31 March 2017

#### 1 Principal accounting policies (continued)

##### Housing properties

Housing properties are stated at cost, less accumulated depreciation and impairment. 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 and 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.

Housing properties are shown at cost less 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.

##### Social housing and other grants

Where developments have been financed wholly or partly by social housing and other grants, the cost of those developments has been reduced by the amount of the grant received. Social housing grant (SHG) received for items of cost written off in the statement of comprehensive income are matched against those costs as part of turnover.

SHG can be recycled by the Association under certain conditions, if a property is sold, or if another relevant event takes place. In these cases, the SHG can be used for projects approved by the Homes and Communities Agency. However, SHG may have to be repaid if certain conditions are not met and, in that event, is a subordinated unsecured repayable debt. The net SHG received and not spent is included in current liabilities, taking into account all properties under construction.

##### Financial Assistance and other government grant receivable under section 19 of the Act or section 333 ZE of the Greater London Authority Act 1999

The total accumulated amount of financial assistance and other government grant received or receivable at the date of the statement of financial position is based upon properties owned at that date. These are disclosed in note 18 of the financial statements which shows the extent to which amounts have been recognised in the statement of comprehensive income or are held as deferred income.

# Heart of England Housing Association Limited (trading as Orbit Heart of England)

## Notes to the financial statements

### For the year ended 31 March 2017

#### 1 Principal accounting policies (continued)

##### Capitalisation of interest and administration costs

Interest on loans financing 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.

##### Other tangible fixed assets and depreciation

Tangible fixed assets are stated at cost, less accumulated depreciation. 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%

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

##### 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 account using the annuity method. Rentals paid under operating leases are charged to the statement of comprehensive income account as incurred.

##### Pension costs

The Parent Body participates in the Social Housing Pension Scheme further details can be found in the Orbit Group Limited financial statements. The cost of providing retirement pensions and related benefits is charged to management expenses. The disclosures in the financial statements follow the requirements of FRS17.

##### 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 account. 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 Heart of England 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 a full impairment test upon all rented social housing properties. Policy guides impairment test assumptions, this year's assumptions on undertaking a full impairment were on cash generating units. These are defined as:

- Orbit Heart of England recognises both scheme and local authority as cash generating units.
- The principle 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.

# Heart of England Housing Association Limited (trading as Orbit Heart of England)

## Notes to the financial statements

### For the year ended 31 March 2017

#### 1 Principal accounting policies (continued)

- 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 cashflow (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 the SORP (para 14.20). The key assumptions used were:

- A discount rate of 4.8% was used within the discounted cash flow calculation. This represents adequate costs of capital and associated risk but also incorporates marginal increased management costs for each additional CGU.
- Rent, major repairs and maintenance are the three largest cash flow 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.

#### Disposals of housing properties

Proceeds from sales are shown net of discounts given under the provisions of the right to buy and the right to acquire. The cost of properties sold is written off to the statement of comprehensive income and an adjustment is made to write back depreciation charged in prior years.

Under the terms of the original transfer agreement, between Stratford on Avon District Council and South Warwickshire Housing Association (now Orbit Heart of England) proceeds from right to buy sales within those originally transferred properties are shared with Stratford on Avon District Council. The share payable to the Council is treated as a cost of sale. Proceeds from other sales are retained by Orbit Heart of England.

#### 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 and can be used to fund projects approved by the Homes and Communities Agency. However, SHG may have to be repaid if certain conditions are not met and, in that event, is a subordinated unsecured repayable debt.

#### Value added tax

The Association is party to a Group registration for VAT. All amounts disclosed in the financial statements are inclusive of VAT.

# Heart of England Housing Association Limited (trading as Orbit Heart of England)

## Notes to the financial statements

### For the year ended 31 March 2017

#### 1 Principal Accounting Policies (continued)

##### **Taxation**

The Association has adopted Charitable Rules and it is therefore believed there will be no liability to taxation.

##### **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.

##### **Derivative financial instruments**

Orbit uses derivative financial instruments to reduce exposure to interest rate movements. Orbit 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. If an instrument ceases to be accounted for as a hedge, for example because the underlying hedged position is eliminated, the instrument is marked to market and any resulting profit or loss recognised at that time.

##### **Loan interest costs**

The full costs of deferred interest rate and indexation loans are shown in the statement of comprehensive income.

##### **Property managed by agents**

Where the 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.

##### **Investments**

These are carried at the lower of cost and net realisable value.

##### **Supporting people income and costs**

Supporting People charges are levied as a separate charge and not as part of rent. The income and related costs are therefore shown within other social housing activities.

##### **Service charge sinking funds**

Service charge sinking funds are dealt with as creditors.

##### **Liquid resources**

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

##### **Stocks**

Stocks are stated at value.

##### **Deferred income**

Revenue received for a specific activity which is to be delivered in the following financial year and rent income receivable for the following year is deferred and shown as deferred income.

##### **Accrued income**

Where goods or services are provided but not yet invoiced, that income is accrued for and shown as accrued income.

# Heart of England Housing Association Limited (trading as Orbit Heart of England)

## Notes to the financial statements

For the year ended 31 March 2017

### 1 Principal Accounting Policies (continued)

#### **Provisions**

Provisions are made for liabilities, the timing and amount of which is uncertain. The provision reflects costs to be incurred in respect of the Orbit Living committed restructuring programmes and the Stratford Sound Insulation works. The amounts and timing of cash flows relating to these liabilities are based on management estimates.



# Heart of England Housing Association Limited (trading as Orbit Heart of England)

## Notes to the financial statements

For the year ended 31 March 2017

### 2. Turnover, operating costs and operating surplus by class of business

#### Current year

	Turnover £000	Operating costs £000	Surplus £000	Operating surplus/ (deficit) £000
<b>Social housing lettings</b>	86,180	(55,735)	-	30,445
<b>Other social housing activities</b>				
Services to group members	287	(842)	-	(555)
Home ownership services	1,126	(1,501)	-	(375)
Charges for support services	601	(1,540)	-	(939)
Impairment of non housing properties	-	(355)	-	(355)
Other	1,081	(2,698)	-	(1,617)
	<b>3,095</b>	<b>(6,936)</b>	-	<b>(3,841)</b>
	<b>89,275</b>	<b>(62,671)</b>	-	<b>26,604</b>
Non-social housing activities	438	(498)	-	(60)
Gain on sale of property, plant and equipment – housing properties (note 7)	-	-	10,611	10,611
	<b>89,713</b>	<b>(63,169)</b>	<b>10,611</b>	<b>37,155</b>

#### Prior year

	Turnover £000	Operating costs £000	Surplus £000	Operating surplus/ (deficit) £000
<b>Social housing lettings</b>	83,645	(54,983)	-	28,662
<b>Other social housing activities</b>				
Services to group members	288	(834)	-	(546)
Home ownership services	1,233	(1,347)	-	(114)
Charges for support services	1,344	(2,228)	-	(884)
Impairment of non housing properties	-	(647)	-	(647)
Other	1,367	(2,516)	-	(1,149)
	<b>4,232</b>	<b>(7,572)</b>	-	<b>(3,340)</b>
	<b>87,877</b>	<b>(62,555)</b>	-	<b>25,322</b>
Non-social housing activities	504	(720)	-	(216)
Gain on sale of property, plant and equipment – housing properties (note 7)	-	-	7,162	7,162
	<b>88,381</b>	<b>(63,275)</b>	<b>7,162</b>	<b>32,268</b>

Heart of England Housing Association Limited (trading as Orbit Heart of England)

Notes to the financial statements

For the year ended 31 March 2017

3 Income and expenditure from social housing lettings

	General needs housing £000	Supported housing and housing for older people £000	2017 £000	2016 £000
Rent receivable net of voids	70,445	7,868	<b>78,313</b>	<b>75,549</b>
Service charge Income	2,180	2,615	<b>4,795</b>	<b>4,964</b>
Amortisation of social housing and other capital grants	2,532	540	<b>3,072</b>	<b>3,132</b>
<b>Turnover from social housing lettings</b>	<b>75,157</b>	<b>11,023</b>	<b>86,180</b>	<b>83,645</b>
<b>Expenditure</b>				
Services	(3,291)	(2,286)	<b>(5,577)</b>	<b>(5,255)</b>
Management	(8,614)	(1,584)	<b>(10,198)</b>	<b>(9,026)</b>
Routine maintenance	(13,685)	(1,092)	<b>(14,777)</b>	<b>(15,613)</b>
Planned maintenance	(10,142)	(1,528)	<b>(11,670)</b>	<b>(12,459)</b>
Bad debts	(637)	(47)	<b>(684)</b>	<b>(497)</b>
Depreciation of housing properties	(10,821)	(1,557)	<b>(12,378)</b>	<b>(12,133)</b>
Other costs	-	(451)	<b>(451)</b>	-
<b>Operating costs on social housing lettings</b>	<b>(47,190)</b>	<b>(8,545)</b>	<b>(55,735)</b>	<b>(54,983)</b>
<b>Operating surplus on social housing lettings</b>	<b>27,967</b>	<b>2,478</b>	<b>30,445</b>	<b>28,662</b>
Void losses	(985)	(654)	<b>(1,639)</b>	<b>(1,636)</b>

Depreciation on housing properties includes £551k written off due to components being replaced earlier than the expected life of those components (2016: £1,048k).

# Heart of England Housing Association Limited (trading as Orbit Heart of England)

## Notes to the financial statements

### For the year ended 31 March 2017

#### 4 Staff costs

Members of staff that work for Orbit Heart of England are contractually employed by either Orbit Heart of England or Orbit Group Limited. These financial statements show the emoluments of persons directly employed by the Association. Emoluments of other senior executives (including the managing executive director) and staff are disclosed in Orbit Group Limited financial statements.

The average monthly number of persons employed during the year was:

	2017 Number	2016 Number
<b>Average number employed</b>		
Office staff	13	13
Scheme staff	5	6
	<b>18</b>	19
Full-time	12	12
Part-time	6	7
	<b>18</b>	19

The number of employees reduced during 2016-17 in line with Orbit Heart of England's aim that all employees will be employed by Orbit Group Limited.

	2017 Number	2016 Number
<b>Full-time equivalents *</b>		
Office staff	12	12
Scheme staff	3	4
	<b>15</b>	16

\*A full time equivalent would be 35 hours per week

	2017 £'000	2016 £'000
<b>Staff costs for the above</b>		
Wages and salaries	485	483
Social security costs	44	42
Other pension costs	40	42
	<b>569</b>	567

#### Senior staff emoluments

The full time equivalent number of staff whose remuneration in the year was in excess of £60k.

	2017 Number	2016 Number
Over £60k	-	-

# Heart of England Housing Association Limited (trading as Orbit Heart of England)

## Notes to the financial statements

For the year ended 31 March 2017

### 5 Operating surplus

	2017	2016
	£000	£000
<b>Operating surplus is arrived at after charging/(crediting)</b>		
<b>Housing properties:</b>		
- Depreciation charge	12,378	12,133
- Impairment	-	(219)
- Amortisation of social housing grant	(3,072)	(3,132)
<b>Other fixed assets:</b>		
- Depreciation of other tangible fixed assets	192	177
- Impairment	355	647
<b>Operating lease rentals</b>		
- Land and buildings	162	156
- Office equipment and computers	160	160
- Vehicles	42	43
- White goods	6	11
<b>Auditor's remuneration:</b>		
- In their capacity as auditors'	22	23
- In respect of other services	8	-

A donation of £7,063k (2016: £5,682k) was made to Orbit Group Limited in accordance with the Orbit wide agreement to support development funding. Previously donations made to Orbit Group Limited to support development funding were accounted for in the SOCI. The 2015-16 comparative has been restated to reflect the corrected treatment of this as a distribution from reserves, which is shown in the statement of changes in reserves.

## Heart of England Housing Association Limited (trading as Orbit Heart of England)

### Notes to the financial statements

#### For the year ended 31 March 2017

#### 6 Directors emoluments

The directors of the Association are its board members. Certain of the board members are tenants/leaseholders of the Association or the Group. Their tenancies/leases are on normal commercial terms and the members cannot use their position to their advantage. Payments made to board members are shown below. Expenses paid during the year to board members amounted to £12k (2016: £7k). Payments made to the chair of Heart of England Housing Association Limited in her role as an Orbit board member are disclosed in the financial statements of Orbit Group Limited. No compensation was paid to directors for loss of office (2016: £nil).

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

	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Jane Ball	-	1
K Bolister	2	3
Jacqui Dickinson	-	1
Julie Hopes	2	2
Glyn Kyle	2	2
Grant Richardson	5	2
S Margrave	5	2
Kathy Strong	-	2
William Yardley	2	2
Sumar Shubhankar	-	2
Tandooran-Sentain	-	2
<b>Total</b>	<b>18</b>	<b>21</b>

	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Aggregate emoluments (including pension contributions) paid to or received by directors including salaries, honoraria and other benefits	<b>26</b>	<b>22</b>

Aggregate emoluments of the highest paid director excluding pension contributions included in aggregate emoluments of directors who are executive staff members	<b>52</b>	<b>62</b>
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Expenses paid during the year to board members amounted to £13k (2016: £7k).

	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Travel costs	7	3
Meeting costs	5	4
	<b>12</b>	<b>7</b>

## Heart of England Housing Association Limited (trading as Orbit Heart of England)

### Notes to the financial statements

For the year ended 31 March 2017

#### 7 Surplus on sale of fixed assets – housing properties

	2017	2016
	£000	£000
<b>Sale of housing properties</b>		
Disposal proceeds	14,795	10,693
Carrying value of assets	(3,813)	(4,123)
Grant recycled (note 20)	855	1,116
RTB clawback	(1,226)	(346)
Transfer to disposal proceeds fund (note 20)	-	(178)
<b>Profit on sale of housing properties</b>	<b>10,611</b>	<b>7,162</b>

Right to buy claw back relates to arrangements between Stratford-on-Avon District Council and Orbit Heart of England, whereby the proceeds from sales of the original housing properties and garages made under the preserved right to buy legislation are shared. The method of sharing is set out in a pre-agreed formula. There were 11 property sales and 97 garage sales under this agreement in the year ended 31 March 2017 (2016: 10 sales).

#### 8 Interest receivable and other income

	2017	2016
	£000	£000
Interest receivable from unlisted investments	28	5

#### 9 Interest payable and similar charges

	2017	2016
	£000	£000
Loans and bank overdrafts	21,590	19,498
Interest payable capitalised on housing properties under construction	(790)	(522)
Deferred income credit	(114)	(114)
Premium write off	(121)	-
<b>Total</b>	<b>20,565</b>	<b>18,862</b>
Capitalisation rate used to determine the finance costs capitalised during the period	0.75%	0.75%
<b>Other financing costs</b>		
Early redemption fee for Dexia loan	-	1,584

## Heart of England Housing Association Limited (trading as Orbit Heart of England)

### Notes to the financial statements

#### For the year ended 31 March 2017

#### 10 Tax on surplus on ordinary activities

The Association was accepted as a charity for tax purposes by HMRC with effect from 1 April 2008. The charge for the year is based on the surpluses/deficits arising on activities that are liable to tax.

	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
<b>(a) Analysis of charge in year:</b>		
<b>Current tax:</b>		
UK corporation tax on profits of the year	-	-
Adjustment in respect of previous year	15	-
	<b>15</b>	<b>-</b>

The board is not aware of any circumstances which will affect the future taxation status of the Association.

Heart of England Housing Association Limited (trading as Orbit Heart of England)

Notes to the financial statements

For the year ended 31 March 2017

11 Housing properties at cost

	Housing properties for letting		Supported housing	Low cost home ownership	Non-social housing	Total £000
	Complete £000	In development £000	Complete £000	Complete £000	Complete £000	
<b>Cost</b>						
At 1 April 2016	746,843	87,796	35,829	2,351	1,318	874,137
Additions	8,197	77,994	811	-	-	87,002
Reclassification	(190)	-	190	-	-	-
Transfer on completion	40,616	(40,616)	-	-	-	-
Transfer to other group members	-	(917)	-	-	-	(917)
Disposals	(4,343)	-	(437)	-	-	(4,780)
<b>At 31 March 2017</b>	<b>791,123</b>	<b>124,257</b>	<b>36,393</b>	<b>2,351</b>	<b>1,318</b>	<b>955,442</b>
<b>Less accumulated depreciation</b>						
At 1 April 2016	(91,615)	-	(8,344)	(62)	(141)	(100,162)
Reclassification	11	-	(11)	-	-	-
Eliminated on disposals	1,622	-	158	-	-	1,780
Depreciation	(11,302)	-	(475)	(40)	(20)	(11,837)
<b>At 31 March 2017</b>	<b>(101,284)</b>	<b>-</b>	<b>(8,672)</b>	<b>(102)</b>	<b>(161)</b>	<b>(110,219)</b>
<b>Less: Provisions for impairment</b>						
At 1 April 2016	(465)	-	-	-	-	(465)
Reclassification	-	-	-	-	-	-
<b>At 31 March 2017</b>	<b>(465)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(465)</b>
<b>Net book amount</b>						
<b>At 31 March 2017</b>	<b>689,374</b>	<b>124,257</b>	<b>27,721</b>	<b>2,249</b>	<b>1,157</b>	<b>844,758</b>
<b>At 31 March 2016</b>	<b>654,763</b>	<b>87,796</b>	<b>27,485</b>	<b>2,289</b>	<b>1,177</b>	<b>773,510</b>



## **Heart of England Housing Association Limited (trading as Orbit Heart of England)**

### **Notes to the financial statements**

#### **For the year ended 31 March 2017**

##### **11 Housing properties at cost (continued)**

During the year total expenditure on works to existing properties was £30.8m (2016: £33.1m) of this £8.5m (2016: £9.3m) has been capitalised.

Additions to properties during the year include capitalised interest and finance costs of £790k (2016: £522k) and development administration costs/project management fees of £2,896k (2016: £2,746k).

The loan from Funding for Homes Limited was transferred to Orbit Heart of England on 1 April 2008. The £16m loan is secured by fixed charges on 531 assets with carrying amount of £31m.

Heart of England Housing Association Limited (trading as Orbit Heart of England)

Notes to the financial statements

For the year ended 31 March 2017

11 Housing properties at cost (continued)

	2017 £000	2016 £000
<b>The net book value of housing and other properties (note 11&amp;12) comprises:</b>		
Freehold land and buildings	843,120	771,405
Long leasehold land and buildings	2,402	2,998
Short leasehold land and buildings	2	2
	<b>845,524</b>	<b>774,405</b>

12 Other fixed assets

	Freehold offices £000	Leasehold offices £000	Commercial premises £000	Furniture, fixtures & equipment £000	Total £000
<b>Cost</b>					
At 1 April 2016	17	2,811	402	2,249	5,479
Additions	-	347	-	105	452
Disposal	-	-	-	(45)	(45)
<b>At 31 March 2017</b>	<b>17</b>	<b>3,158</b>	<b>402</b>	<b>2,309</b>	<b>5,886</b>
<b>Less: accumulated depreciation</b>					
At 1 April 2016	(17)	(1,537)	(134)	(2,051)	(3,739)
Charge for year	-	(108)	(13)	(71)	(192)
Disposal	-	-	-	45	45
Eliminated on disposal	-	-	-	-	-
<b>At 31 March 2017</b>	<b>(17)</b>	<b>(1,645)</b>	<b>(147)</b>	<b>(2,077)</b>	<b>(3,886)</b>
<b>Less impairment</b>					
At 1 April 2016	-	(647)	-	-	(647)
Charge for the year	-	(355)	-	-	(355)
<b>At 31 March 2017</b>	<b>-</b>	<b>(1,002)</b>	<b>-</b>	<b>-</b>	<b>(1,002)</b>
<b>Net book amount</b>					
<b>At 31 March 2017</b>	<b>-</b>	<b>511</b>	<b>255</b>	<b>232</b>	<b>998</b>
At 31 March 2016	-	627	268	198	1,093

## Heart of England Housing Association Limited (trading as Orbit Heart of England)

### Notes to the financial statements

#### For the year ended 31 March 2017

##### 13 Fixed asset investments

	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Monies deposited with Funding for Homes Ltd	-	800
Monies deposited for Affordable Housing Finance Plc	<b>783</b>	-
	<b>783</b>	800

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 Orbit Group's case amounts to £nil as a common guarantee against default.

In July 2016, Orbit Heart of England raised a £25m fixed rate bond with Affordable Housing Finance Plc via The Housing Finance Corporation. It is a condition of the funding that the borrower shall enter into a Liquidity Reserve Fund Trust deed with the Liquidity Fund Trustee (AHF). An amount equal to twelve months interest be held with AHF in a Liquidity Reserve Fund, which in this case amounts to £723k. The AHF Bond is secured by a first fixed charge on properties, however following a property sale in the year £58k is held in a cash security deposit account to cover the amount below the required security threshold.

##### 14 Debtors

	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Rental debtors	<b>3,927</b>	3,804
Less: provision for doubtful debts	<b>(1,254)</b>	(1,250)
	<b>2,673</b>	2,554
Prepayments and accrued Income	<b>968</b>	647
Amounts due from other Group members	<b>34,632</b>	14,259
SHG receivable	<b>1,819</b>	790
Other debtors	<b>925</b>	591
Provision for bad debts	<b>(2)</b>	(49)
	<b>41,015</b>	18,792
Debtors after one year	<b>635</b>	484

## Heart of England Housing Association Limited (trading as Orbit Heart of England)

### Notes to the financial statements

#### For the year ended 31 March 2017

##### 15 Current asset investments

	2017 £000	2016 £000
Maturing in excess of 7 days	-	811
Monies deposited with Funding for Homes Ltd	800	-
	<b>800</b>	811

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 (2016: £Nil).

##### 16 Creditors: amounts falling due within one year

	2017 £000	2016 £000
Housing loans (Note 21)	28,423	11,571
Amounts due to Group members	38,883	31,775
Other creditors	2,080	1,579
Grants received in advance	567	-
Accruals and deferred income	4,914	4,782
Rents received in advance	1,770	1,675
Disposals proceeds and recycled capital grant fund (note 20)	2,873	1,140
Deferred capital grant (note 18)	3,072	3,132
Deferred income credit	107	-
<b>Total</b>	<b>82,689</b>	55,654

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

	2017 £000	2016 £000
Housing loans (net of loan arrangement fees) (note 21)	24,566	16,000
Loans inter-company (note 21)	459,972	413,964
Deferred income credit (note 21b)	-	221
Deferred capital grant (note 18)	230,029	231,562
Leaseholder maintenance provision	4,507	4,300
Disposal proceeds and recycled capital grant funds (note 20)	2,178	2,639
Loan premium Affordable Homes Plc	4,585	-
Other creditors	1,304	650
<b>Total</b>	<b>727,141</b>	669,336

Housing loans shown above are net of £434k (2016: £nil) loan arrangement fees carried forward.

# Heart of England Housing Association Limited (trading as Orbit Heart of England)

## Notes to the financial statements

### For the year ended 31 March 2017

#### 18 Deferred capital grant

	2017 £000	2016 £000
At 1 April	234,694	231,315
Grant received in the year	3,123	6,139
Released to income in the year	(3,072)	(3,132)
Elimination on disposal	253	199
Transfer to RCGF	(1,447)	(1,227)
Transfer from other group members	(450)	1,400
<b>At 31 March</b>	<b>233,101</b>	<b>234,694</b>
Amounts to be released within 1 year	3,072	3,132
Amounts to be released in more than 1 year	230,029	231,562
<b>At 31 March</b>	<b>233,101</b>	<b>234,694</b>

#### 19 Provisions for liabilities and charges

	2017 £000	2016 £000
Restructuring	-	20
Home Improvement Agency hardship	4	4
Stratford Sound Insulation	1,013	1,597
	<b>1,017</b>	<b>1,621</b>

#### Analysed as

Amounts to be released in more than 1 year	1,017	1,621
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The HIA hardship fund relates to grants payable to customers and will be utilised in the next financial year and the Stratford sound insulation provision relates to major works costs associated with a dispute in connection with properties transferred to the Group in 1996, which was settled in 2014. This will be utilised as works are completed.

#### 20 Disposal proceeds and recycled capital grant funds

	RCGF £000	DPF £000	Total £000
<b>At 1 April 2016</b>	<b>2,972</b>	<b>807</b>	<b>3,779</b>
Grants recycled	855	-	855
Other	227	178	405
Interest accrued	10	2	12
<b>At 31 March 2017</b>	<b>4,064</b>	<b>987</b>	<b>5,051</b>

# Heart of England Housing Association Limited (trading as Orbit Heart of England)

## Notes to the financial statements

### For the year ended 31 March 2017

#### 20 Disposal proceeds and recycled capital grant funds (continued)

##### Amount due for repayment to the Homes and Communities Agency

	RCGF £000	DPF £000	Total £000
Within one year	2,069	804	2,873
After more than one year	1,995	183	2,178
<b>At 31 March 2017</b>	<b>4,064</b>	<b>987</b>	<b>5,051</b>

#### 21 Housing loans and finance lease obligations

##### Note (a)

	2017 £000	2016 £000
<b>Due within one year</b>		
Orbit Treasury Limited	12,423	11,571
Debenture stock	16,000	-
	<b>28,423</b>	<b>11,571</b>
<b>Due after more than one year</b>		
Orbit Treasury Limited	360,260	335,562
Orbit Capital plc	99,712	78,402
Debenture stock	-	16,000
Affordable Housing Finance Plc	25,000	-
	<b>484,972</b>	<b>429,964</b>
	<b>513,395</b>	<b>441,535</b>

On 28 September 2007 the majority of the loans of the Orbit Group were re-routed through a separate treasury vehicle, Orbit Treasury Limited (OTL). OTL is a trading company limited by shares and is a subsidiary of Orbit Group Limited. All members of the Orbit Group entered into a fully cross-collateralised structure at that time. OTL borrows monies on behalf of Orbit and on-lends to individual operating associations as required. The loan is repayable half yearly in instalments.

Orbit Capital plc (OC) is a public limited company incorporated on 22 January. OC is a wholly owned subsidiary of Orbit Group and was established for the purpose of issuing publicly listed bonds. OC issued its first bond on 24 March 2015, the remaining £50m of the £250m 30 year sterling bond (maturity date 24 March 2045) priced at 3.50% was issued to investors on 3 August 2016. The three operating associations entered into guarantees requiring sufficient property assets to be held as security for the bond and guaranteeing future interest payments due on the bond. The proceeds of the bond were loaned by OC to the three associations and were used by the associations to repay in part loans previously received from Orbit Treasury Limited. Interest on the loan from OC is due half yearly. The loan is repayable on 24 March 2045.

On joining Orbit in April 2008, existing Heart of England Group loans were transferred into OTL and Orbit Heart of England entered into the cross-collateralised structure. The loan from OTL is secured by fixed charges on individual properties.

The loan from Funding for Homes Limited was transferred to Orbit Heart of England on 1 April 2008. The loan is secured by fixed charges on individual properties. The loan is repayable in 2018. The interest rate is 10.12%

# Heart of England Housing Association Limited (trading as Orbit Heart of England)

## Notes to the financial statements

### For the year ended 31 March 2017

#### 21 Housing loans and finance lease obligations (continued)

On the 28 July 2016 the company raised a £25m fixed rate bond with Affordable Housing Finance Plc (AHF) via The Housing Finance Corporation. The fixed rate bond issued is repayable on 30 July 2043, with interest payable at a fixed rate of 2.893%. The fixed rate bond issued was paid at a premium resulting in an effective interest rate of 1.989%.

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:

	2017 £000	2016 £000
In one year or less, on demand	28,423	11,571
<b>Repayable by instalments:</b>		
- more than one year but not more than two years	28,423	11,571
- In more than two years but not more than five years	85,268	34,713
- In more than 5 years	355,281	367,680
	<b>468,972</b>	<b>413,964</b>
<b>Repayable other than by instalments:</b>		
- In one year or less	16,000	-
- Between one and two years	-	16,000
- In more than two years but not more than five years	-	-
- In more than 5 years	-	-
<b>Total</b>	<b>513,395</b>	<b>441,535</b>

#### 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. This is shown as deferred income credit and is being released to the statement of comprehensive income Account to offset loan interest charges over the life of the loan (25 years from October 1993). The balance shown as deferred income credit is £107k (2016: £221k.)

The interest rate profile at 31 March 2017 was:

	Total £m	Variable rate £m	Fixed rate £m	Weighted average rate %	Weighted average term of fixing in years
Instalment loans	472.4	212.8	259.6	4.13	24
Non-instalment loans	41.0	-	41.0	5.71	17
	<b>513.4</b>	212.8	300.6	4.26	23

## Heart of England Housing Association Limited (trading as Orbit Heart of England)

### Notes to the financial statements

For the year ended 31 March 2017

#### 22 Called up share capital

	2017	2016
	£	£
<b>Issued and fully paid shares of £1 each</b>		
<b>At 1 April 2016</b>	3	4
Issued	-	1
Surrendered	-	(2)
<b>At 31 March 2017</b>	3	3

The issued and cancelled shares shown above reflect changes in membership of the Board.

The share capital of Heart of England Housing Association Limited is raised by the issue of shares with a nominal value of £1 each. Because of the Association's Co-operative and Community Benefit Society status, the maximum shareholding permitted per member is 1 share. There is no authorised share capital and the Orbit Living Board may issue as many £1 shares as it wishes. However, the Board operate a restricted shareholding policy with all shares currently held by serving board members and the parent body. 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 meeting of Orbit Living.

#### 23 Capital commitments

	2017	2016
	£000	£000
Capital expenditure which has been contracted for but has not been provided for in the financial statements	79,249	118,706
Capital expenditure which has been authorised under authority from the Orbit board but has yet to be contracted for	71,711	127,646
	<b>150,960</b>	<b>246,352</b>

The Association expects these commitments to be financed with:

	2017	2016
	£000	£000
Social housing grant	10,495	23,109
Committed loan facilities (Orbit Treasury Limited)	97,353	207,911
Proceeds from the sale of properties	43,112	15,332
	<b>150,960</b>	<b>246,352</b>

#### 24 Contingent liabilities

Stock acquisitions previously undertaken include original government grant funding of £14.9m which has an obligation to be recycled in accordance with the original grant funding terms and conditions. Orbit Heart of England is responsible for the recycling of the grant in the event of the housing properties being disposed.



# Heart of England Housing Association Limited (trading as Orbit Heart of England)

## Notes to the financial statements

### For the year ended 31 March 2017

#### 25 Cash flow from operating activities

	2017 £000	2016 £000 Restated
Surplus for the year	16,595	11,755
Adjustments for non-cash items:		
Cost of sales housing properties and other fixed assets	(10,611)	(7,162)
Depreciation of tangible fixed assets	12,570	12,311
Impairment of tangible fixed assets	355	647
Other fixed assets written off	-	-
Increase/(decrease) in bad debt provision	4	266
(Decrease)/increase in other provisions	(650)	(450)
Release of deferred income	207	410
Decrease/(increase) in stocks	-	1
Increase in debtors	(21,295)	(10,797)
Increase in creditors	5,360	4,346
Government grants utilised in the year	(3,072)	(3,132)
Interest payable	20,565	18,862
Interest receivable	(28)	(5)
Other financing costs	-	1,584
Movement in reserves	(7,063)	(5,682)
Movement in fair value of financial instruments	9	72
<b>Net cash generated from operating activities</b>	<b>12,946</b>	<b>23,026</b>

The restated comparative reflects presentation changes

#### 26 Reconciliation of net cash flow to movement in net debt

	2017 £000	2016 £000
Increase in cash in the year	269	1,012
(Increase)/decrease in bank deposits (with a maturity in excess of 24 hours)	(28)	393
Other changes	218	-
Loans received	(152,697)	(119,837)
Loans repaid	80,837	36,137
Loan arrangement fees	451	115
Loan premium	(4,706)	-
<b>Change in net debt</b>	<b>(75,656)</b>	<b>(82,180)</b>
Net debt at 1 April	(438,955)	(356,775)
<b>Net debt at 31 March</b>	<b>(514,611)</b>	<b>(438,955)</b>

## Heart of England Housing Association Limited (trading as Orbit Heart of England)

### Notes to the financial statements

For the year ended 31 March 2017

#### 27 Analysis of changes in net debt

	At beginning of the year £000	Cash flows £000	Other changes £000	At end of year £000
Cash at bank and in hand	1,990	269	-	2,259
Bank deposits – more than 24 hours	811	(28)	-	783
Housing loans due within one year	(11,571)	-	(16,852)	(28,423)
Housing loans due after one year	(429,964)	(71,860)	16,852	(484,972)
Loan pool premium reserve FFH	(221)	-	114	(107)
Loan arrangement fees	-	451	(17)	434
Loan premium affordable homes	-	(4,706)	121	(4,585)
	(438,955)	(75,874)	218	(514,611)

#### 28 Financial commitments

##### Operating leases

At 31 March 2017 Association was committed to making the following minimum future payments in respect of operating leases other than land and buildings:

	2017 £000	2016 £000
<b>Leases which expire</b>		
Within 1 year	326	270
Within 2 - 5 years	110	98
After 5 years	-	10
<b>Total</b>	<b>436</b>	<b>378</b>

#### 29 Ultimate parent entity

The immediate parent undertaking and ultimate parent entity and controlling entity of Heart of England Housing Association Limited is Orbit Group Limited, a Co-operative and Community Benefit Society incorporated in the United Kingdom.

Orbit Group Limited is the parent undertaking of the only group of undertakings to consolidate these financial statements at 31 March 2017.

A list of the members of Orbit Group ("Orbit") is contained within the consolidated financial statements of Orbit Group Limited.

The results of Heart of England Housing Association Limited are included in the Group financial statements. The consolidated financial statements of Orbit Group Limited are published on the Orbit website [www.orbit.org.uk](http://www.orbit.org.uk).

## Heart of England Housing Association Limited (trading as Orbit Heart of England)

### Notes to the financial statements

For the year ended 31 March 2017

#### 30 Property portfolio

	<b>2017</b>	<b>2016</b>
	<b>No.</b>	<b>No.</b>
General needs	<b>12,694</b>	12,378
Affordable rent	<b>1,132</b>	912
Intermediate rent	<b>12</b>	33
Low cost home ownership	<b>18</b>	18
Supported housing	<b>1,879</b>	1,920
<b>Total owned by Orbit Heart of England</b>	<b>15,735</b>	15,261
Leasehold	<b>801</b>	785
Private retirement schemes	<b>458</b>	458
Owned	<b>5</b>	5
Managed on behalf of others	<b>-</b>	-
<b>Leasehold and other managed</b>	<b>1,264</b>	1,248
<b>Total social housing units</b>	<b>16,999</b>	16,509
Market rent	<b>11</b>	10
Commercial units	<b>20</b>	20
<b>Total non-social housing units</b>	<b>31</b>	30
<b>Total units</b>	<b>17,030</b>	16,539
	<b>2017</b>	<b>2016</b>
	<b>No.</b>	<b>No.</b>
Stock in development at 31 March		
General needs	<b>632</b>	726
	<b>632</b>	726

#### 31 Related party transactions

The Orbit Heart of England and Orbit South Boards also include a member who is an elected representative of Nuneaton and Bedworth Borough Council. During the year Orbit made payments of £2k to the council (2016: £1k) and received payments from the council of £Nil (2016: £nil).

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 £11k (2016: £10k). The outstanding amount owed at 31 March 2017 was less than £1k.

Heart of England Housing Association is a subsidiary of Orbit Group Limited (the parent). Shares are held by serving board members and the parent. Under the Associations rules the parent has the right at any time to appoint or remove any or all of the Members of the Board. On this basis the Association considers itself to be wholly owned and has chosen to take advantage of the exemption not to disclose transactions with group entities as defined by Section 33.1A FRS 102.

Further detail of non-consolidated management arrangements and transactions with non HCA regulated group entities are shown in note 24.

## Heart of England Housing Association Limited (trading as Orbit Heart of England)

### Notes to the financial statements

#### For the year ended 31 March 2017

#### 32 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.

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 £43.8m to Orbit Homes (2020) Ltd (2016: £49.1m) for the purchase of housing property assets and has an outstanding creditor balance with Orbit Homes (2020) Ltd of £5.8m (2016: £5.3m).

Orbit Treasury Ltd provides a funding on-lending service to the Group. During the year the Association paid interest costs totalling £15m (2016: £15.3m) and fees of £1.2m (2016: £1.3m) and has an outstanding debtor balance with Orbit Treasury Ltd of £0.9m (2016: £nil). The allocation of these costs is based upon the level of debt required and secured by the housing property held in the Association.

Orbit Capital plc (OC) is a public limited company established for the purpose of issuing publicly listed bonds and provides a funding on-lending service to the group. During the year the Association paid interest costs totalling £3.2m (2016: £2.8m) and fees of £0.1m (2016: £0.1m). The allocation of these costs is based upon the level of debt required and secured by the housing property held in the Association.