

Orbit South Housing Association Limited

Financial statements

For the year ended 31 March 2020

Orbit South Housing Association Limited

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Orbit South Housing Association Limited

The Board, Executives and Advisors

Board Members

Name	Role	Appointed	Resigned/ Retired
Stephen Howlett	Chair I	1 November 2018 Chair 1 April 2019	
Kerry Bolister	I	1 March 2015	
David Butler	I	1 August 2018	
Helen Gillett	I	1 February 2019	
Symon Tandooran-Sentain	I	9 September 2015	
Jake Boomhauer	I	26 July 2016	
Tonia Mihill	R	1 November 2017	
Eileen Stent	R	25 September 2019	

R = Resident member

I = Independent member

Senior Management Team

Director	Role
Paul Richards	Group Customer Services Director (Executive Director)
Simon Cosson	Finance Director – Customer and Communities
David Boden	Director of Property Services
Anthony Clark	Director of Independent Living
Louise Palese	Director of Customer Services
Martin Chuter	Director of Property Management
Ted Pearce	Director Strategic Asset Management

Advisors

Independent Auditors	Registered office
KPMG LLP One Snowhill Snow Hill Queensway Birmingham B4 6GH	Garden Court Binley Business Park Harry Weston Road Binley Coventry CV3 2SU

Co-operative and Community Benefit Society Number 27802R

Regulator of Social Housing Number L4060

Orbit South Housing Association Limited

Report of the Board

Orbit South Housing Association Limited is part of the Orbit Group ("Orbit"); founded in 1967, we have been investing in the provision of quality homes and services for over fifty years. This report gives some highlights about our work. More detail about the activities of the Group, including our value for money statement, is included in the Orbit Group Annual Report and Financial Statements at www.orbit.org.uk.

Financial Performance

Orbit South Housing Association Limited has had another strong performance this year, generating a total comprehensive income of £22.9 million (2019: £15.1 million).

Turnover has reduced by £1.6 million to £112.4 million (2019: £114.0 million) compared with the previous year because of a decrease in first tranche sales revenue year on year. Rental income has increased by £0.6 million due to the increase in the number of units let during the year more than offsetting a £1.0 million decrease in rent resulting from the 1% rent reduction to the majority of tenants in line with current legislation. Amortisation of social housing and other government grants increased by £2.2 million to £7.1 million (2019: £4.8 million).

Property disposals have continued as Orbit reviews its housing stock and disposes of older, uneconomical properties, generating profits of £7.7 million (2019: £7.8 million).

Overall operating costs are £75.3 million, a similar level to the prior year (2019: £76.2 million).

The current year operational performance has improved on prior year giving rise to an operating surplus of £45.0 million (2019: £43.3 million) with an operating margin of 40.0% (2019: 37.9%). The operating surplus before fixed asset sales increased by £1.9 million as a result of our ongoing focus on delivering value for money. We achieved an operating margin before fixed asset sales of 33.0% (2019: 30.9%).

Net surplus increased year on year by £8.5 million with an increase in interest costs of £6.7 million on borrowings to fund new properties, being more than offset by the absence this year of last year's one off loan break costs of £13.5 million.

Tangible fixed assets rose by £77.5 million (2019: £50.7 million) with an increase of 301 properties to 19,622. Total net assets rose by £22.9 million (2019: £15.2 million).

We will continue to invest profits earned this year into improving our existing properties through our investment programmes, in providing better services to customers, investing in our communities and in the development of new homes.

Strategy

In 2013 we embarked on Orbit 2020, a business planning and transformation project, designed to shape the organisation and its future products and services. As our 2020 strategy comes to fruition, below is a summary of performance since it was launched:

- Delivery of 10,743 new homes
- Improvement in customer satisfaction from 76% to 87%
- Provision of a full range of home ownership and rental options
- Investment of £28.5 million in local communities
- Increased digital transactions from 5% to 63%
- Growth in turnover from £193 million to £323 million
- Sunday Times Top 100 Best Company (not for profit)

Orbit South Housing Association Limited

Report of the Board

Corporate Social Responsibility

Commitment to our social purpose is central to our mission and vision and improving the communities where we work is at the forefront of everything we do. Operating responsibly is key to our ethos, as is ensuring our contractors and suppliers operate responsibly too.

Customer Satisfaction

Customer satisfaction across the Group increased to 87% (2019: 86%). The service that our customers receive is just as important as the quality of the homes we provide and underpins our ability to deliver on our commitment to build thriving communities. We have continued to invest heavily in the resources and facilities necessary to deliver the best possible customer experience and the single location Customer Hub is now operational, following a £1 million investment. The Hub employs over 160 staff to provide a frontline service to all our customers. By bringing together all the customer service functions into one location we are able to deliver a fully coordinated and efficient solution to our customers.

Orbit's Tenancy Sustainment team offer a full range of support services specifically designed to assist customers who may need additional assistance with their tenancy. This includes help with setting up utilities, claiming benefits, going back to work, getting involved in the local community or improving their wellbeing. Our tenancy coaches also provide access to our Better Days programme which delivers specialist support in relation to employment, digital technology, money, and wellbeing. We are also very proud to have been awarded a Leaders in Safeguarding accreditation, acknowledging our work in ensuring the safety and welfare of children and vulnerable adults in our communities.

The **Property Management** team provide a physical presence in all our communities to make each neighbourhood look and feel better. They engage with customers on a daily basis and have had a positive impact on our customers' lives through improving many of our estates.

Project Apollo, our IT enabled transformation programme, is the largest all-encompassing investment in our digital infrastructure that we have ever undertaken. Apollo will promote easier access to online self-service channels, giving our customers more choice in how they interact with us and greater levels of engagement. Apollo will allow the majority of customer transactions to take place online. In the last year, 62% of our contact with customers was online and the Apollo programme will further support our ambition to meet the needs of our customers in ensuring we offer the right channel to the right customer.

Investment in our Communities

Through our Better Days programme we invest money, services and support into the communities we serve by way of grants to counselling services, community groups and for one to one support.

By working closely with the key support networks in our communities we have been able to help over 70 different groups and organisations who in turn have helped over 3,000 people. Orbit's Better Days programme was set up to provide targeted support to the customers in most need. In total we have helped our customers secure over £6 million of the benefits and financial support they are entitled to. With help from the Orbit job coaches we are delighted to report that almost 300 of our customers have been able to secure employment and a further 1,200 people have successfully completed skills and employment training

In 2018 Orbit announced its involvement in the Community Impact Partnership. The first of its kind, this brand new initiative between four housing groups (Orbit, Clarion, L&Q and Peabody) was set up to provide grants and loans to charities and social enterprises operating within their respective communities.

The first award was made to The Work People, Hastings – a social enterprise which provides career advice and job placements to over 1,600 candidates each year. Since that first award, the partnership has committed a further nine investments totalling £717,000 to eight separate organisations. Of that commitment a total of £342,000 has been disbursed and £52,000 has been given as additional grant funding to help organisations develop their proposals and business plans so they can secure further investment.

Orbit South Housing Association Limited

Report of the Board

Warmer Homes

The high standards of design and quality that we demand for the homes we build are a vital part of our commitment to creating thriving communities. Our 12-point approach to design pinpoints the obstacles to building successful communities and, from the layout of homes, to the use of environmentally-friendly and energy-efficient materials, Orbit is committed to setting new and higher standards for efficient, cost effective and successful design.

The evidence of this commitment can be seen with 76% of our homes now having an EPC rating of C or better. As further recognition of our commitment to quality and customer care our Erith Park development won “Regeneration Property of the Year” at the Royal Institute of Chartered Surveyors (RICS) awards in May 2019.

Strategic Asset Management

We have a robust strategic asset management plan and invest heavily in the properties we own, to ensure they meet our own high maintenance standards. In the last 12 months we have invested £82.2 million to improve and upgrade our existing stock, including fitting new boilers, general external property maintenance, upgrading kitchens and bathrooms and refurbishing interior décor.

Customer Involvement

We are committed to involving customers in decisions affecting their homes. Customers are represented on the Customer and Communities 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 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 this leads to better services and improving value for money. The annual report to customers summarises performance against the key regulatory standards.

Compliance and Risk

Orbit has a robust Governance framework in place and our compliance and risk policies inform our values and underpin everything we do. By constantly monitoring our activities in this way we can manage all commercial risks and ensure that we comply with key legislation. We continue to stress test at group level the frameworks we have in place including the potential impact on our business caused by external policies and challenges.

Value for Money

Ensuring Value for Money for our customers and our business is at the heart of our culture and enables us to meet our key strategic targets as set by the Group Board and create operating profits to build thriving communities. Our value for money statement is published within our Group Annual Report and Financial Statements.

Our People

Having been included in the Sunday Times 100 Best Companies to Work For, Not for Profit listing, for the first time in 2018 we are delighted to be listed at 46th in 2019. To have achieved such recognition, in only our second year of

Orbit South Housing Association Limited

Report of the Board

inclusion in the list, reflects on Orbit as an employer of choice and as a values-based business with a strong employee focussed culture.

The Future- Orbit Strategy 2020-2025

The Orbit vision we lead in building thriving communities is the constant driving force of all our actions and planning. The Orbit 2025 plan will continue to build on the four strategic pillars of the organisation: Service, Property, Profit and People all underpinned by an ongoing commitment to best practice with regard to compliance and the environment. Drive, innovation, responsible investment and achieving together are the values that epitomise Orbit and will ensure that the strategic targets are delivered.

Our 2025 strategy will:

- Deliver our best customer experience
- Provide significant further investment into our homes and communities
- Maintain our position as a leading UK developer of affordable homes
- Respond to the needs of a diverse and changing population
- Attract, retain and develop the very best people
- Reduce our impact on the environment.

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. We comply with the Code of Governance in all material aspects and with the Regulator of Social Housing'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.

Governance and Viability Standard

Orbit complies with the Governance and Viability Standard of the Regulator of Social Housing (RSI). Our governance rating is G1 and our financial viability rating is V2.

Our V2 rating reflects our commitment to leverage our asset base to build new homes.

Our G1 rating, demonstrates our strong ability to manage our risks.

Subsequent events

On 11 March 2020 the World Health Organisation declared the COVID-19 outbreak a global pandemic. Management recognise that this represents a current-period event that has required ongoing evaluation to determine the extent to which developments after the reporting date should be recognised in these financial statements.

Management have not identified any subsequent events to report.

Going concern

After making enquiries, the Board has a reasonable expectation the Association has 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.

Orbit South Housing Association Limited

Report of the Board

Risk management

Our overall approach to risk management is based on good practice and our internal control environment is continually reviewed and monitored by the Orbit Audit and Risk Assurance Committee on behalf of the Board. Risk Management is a fundamental element of our Internal Control Environment and Assurance strategy, which feeds into our annual statement of internal controls.

On behalf of the Orbit South Housing Association Limited Board

A handwritten signature in black ink, appearing to read "Stephen Howlett".

Stephen Howlett
Chair

16 July 2020

Orbit South Housing Association Limited

Report of the Board

Internal control

The members of the Orbit Group have in place an internal control environment (ICE) framework, which pulls together assurance from a number of sources on a quarterly basis, which feed into the annual statement of internal controls. Orbit's standard assurance providers include the following:

- ✓ Internal audit including externally commissioned reviews
- ✓ Health and safety management system
- ✓ Insurance performance
- ✓ Management of personal data
- ✓ Business Continuity Planning and Incident Management System
- ✓ Corporate risk management and stress testing
- ✓ Policy / Procedure Management
- ✓ Governance / legal / regulatory compliance
- ✓ People Management

The outcome of the assurance review is as follows:

'Based on the risk and assurance work undertaken 2019-20, 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 Executive Management, the Audit and Risk Assurance Committee and the board of Orbit South Housing Association Limited.'

Orbit South Housing Association Limited

Report of the Board

Statement of Board's responsibilities in respect of 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
- assess the association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless it either intends to liquidate the association or to cease operations, or has no realistic alternative but to do so.

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 2019. It is responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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.

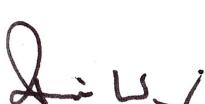
Annual general meeting

The annual general meeting will be held on 23 September 2020.

Independent auditors

KPMG LLP was appointed as the external auditors for the year ended 31 March 2020. A resolution to re-appoint the group's auditors for external audit services will be proposed at the annual general meeting.

The report of the Board was approved on 16 July 2020 and signed on its behalf by:



**Richard Wright
Secretary**

Orbit South Housing Association Limited

Independent Auditor's report to Orbit South Housing Association Limited

For the year ended 31 March 2020

Opinion

We have audited the financial statements of Orbit South Housing Association Limited ("the association") for the year ended 31 March 2020 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Reserves and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view, in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, of the state of affairs of the association as at 31 March 2020 and of its income and expenditure 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 2019.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the association in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The association's Board has prepared the financial statements on the going concern basis as they do not intend to liquidate the association or to cease its operations, and as they have concluded that the association's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the Board's conclusions, we considered the inherent risks to the association's business model and analysed how those risks might affect the association's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the association will continue in operation.

Other information

The association's Board is responsible for the other information, which comprises Orbit in Numbers, The Board, Executives and Advisors, the Strategic Report and Operating and Financial Review, Governance (including the Statement of Internal Control) and Report of the Board. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work, we have not identified material misstatements in the other information.

Matters on which we are required to report by exception

Under the Co-operative and Community Benefit Societies Act 2014 we are required 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.

We have nothing to report in these respects.

Orbit South Housing Association Limited

Independent Auditor's report to Orbit South Housing Association Limited

For the year ended 31 March 2020

Board's responsibilities

As more fully explained in their statement set out on page 8, the association's Board is responsible for the preparation of financial statements which give a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it either intends to liquidate the association or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the association 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.



Sarah Brown

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

KPMG LLP

One Snowhill, Snow Hill Queensway

Birmingham B4 6GH

12 August 2020

Orbit South Housing Association Limited

Statement of Comprehensive Income

For the year ended 31 March 2020

	Note	2020 £000	As restated 2019 £000
Turnover	2	112,438	114,014
Cost of sales	2	(57)	(2,644)
Operating costs	2	(75,285)	(76,179)
Surplus on sale of housing properties	7	7,666	7,821
Gains on disposal of other fixed assets	2	202	248
Operating surplus	2	44,964	43,260
Interest receivable	8	12	11
Interest payable	9	(21,895)	(15,238)
Loan break costs		-	(13,480)
Other financing costs	9	(51)	(76)
Movement in fair value of financial instruments		-	86
Surplus before taxation		23,030	14,563
Taxation	10	-	-
Surplus for the year		23,030	14,563
Actuarial (loss)/gain in respect of pension schemes	29	(82)	590
Total comprehensive income		22,948	15,153

All amounts derive from continuing operations.

The accompanying notes form part of these financial statements.

The financial statements on pages 11 to 38 were approved by the Board and signed on its behalf by:

Stephen Howlett
Chair

16 July 2020

Helen Gillett
Board Member

Richard Wright
Secretary

Orbit South Housing Association Limited

Statement of Changes in Reserves

For the year ended 31 March 2020

	Income and expenditure reserve £000	Total reserves £000
Balance as at 31 March 2018	159,519	159,519
Surplus for the year	14,563	14,563
Actuarial gain on pension liability	590	590
Balance as at 31 March 2019	174,672	174,672

	Income and expenditure reserve £000	Total reserves £000
Balance as at 1 April 2019	174,672	174,672
Surplus for the year	23,030	23,030
Actuarial loss on pension liability	(82)	(82)
Balance as at 31 March 2020	197,620	197,620

Orbit South Housing Association Limited

Statement of Financial Position

For the year ended 31 March 2020

	Note	2020 £000	2019 £000
Fixed assets			
Tangible fixed assets	11&12	1,228,944	1,151,431
Fixed assets investments	13	1,359	1,351
		1,230,303	1,152,782
Debtors: amounts falling due after more than one year	14	1,930	1,100
Current assets			
Trade and other debtors	14	37,785	70,864
Cash and cash equivalents		1,114	2,154
		38,899	73,018
Less: creditors: amounts falling due within one year	15	(75,596)	(88,600)
Net current liabilities		(36,697)	(15,582)
Total assets less current liabilities		1,195,536	1,138,300
Creditors: amounts falling due after more than one year	16	(994,941)	(960,482)
Provisions for liabilities			
Other provisions	18	(712)	(712)
Pension liabilities	29	(2,263)	(2,434)
Total net assets		197,620	174,672
Reserves			
Income and expenditure reserve		197,620	174,672

The financial statements on pages 11 to 38 were approved by the Board and signed on its behalf by:

Stephen Howlett
Chair

16 July 2020

Helen Gillett
Board Member

Richard Wright
Secretary

Orbit South Housing Association Limited

Notes to the Financial Statements

For the year ended 31 March 2020

1. Principal accounting policies

Legal status

Orbit South Housing Association Limited is incorporated under the Co-operative and Community Benefit Societies Act 2014 and is registered with the Regulator of Social Housing 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 in accordance with the Housing SORP 2019, Statement of Recommended Practice for Registered Social Housing Providers, and comply with the Accounting Direction for Private Registered Providers of Social Housing 2019. As a public benefit entity Orbit South 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.

Prior period restatement

In the prior year financial statements, the gain on disposal of other fixed assets and the movement in fair value of investment property was not recognised within the operating surplus of the Statement of Comprehensive Income, but instead, was disclosed in separate lines below it. This has been restated in the current year within the Statement of Comprehensive Income and in note 2 to reflect the application of the Housing SORP 2018. There is no effect on the total comprehensive income of the prior year financial statements as a result of this restatement.

Going concern

The Board, after reviewing the Association budgets for 2020/21 and the group's medium term financial position as detailed the 30-year business plan including changes arising from the coronavirus pandemic, is of the opinion that, taking account of severe but plausible downsides, the Group and Association have adequate resources to continue in business for the foreseeable future. The Board therefore continues to adopt the going concern basis in preparing the annual financial statements.

Judgements and key sources of estimation uncertainty

In the process of applying the Association's accounting policies, management has made certain judgements that have a significant impact on the financial statements. These are detailed below.

Pension liabilities

In determining the valuation of the pension schemes assets and liabilities a number of assumptions are made around factors that are uncertain. These include life expectancy, inflation rate, discount rates and salary and pension inflation rates. The Association is exposed to risk if the actuarial assumptions differ from actual experience and through volatility in the plan assets. More detail is disclosed in note 29.

Orbit South Housing Association Limited

Notes to the Financial Statements

For the year ended 31 March 2020

1. Principal accounting policies (continued)

Judgements and key sources of estimation uncertainty(continued)

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 change to the statement of comprehensive income. Impairment is recognised where the carrying value of an income generating unit exceeds the higher of its net realisable value or its value in use.

Where there is evidence of impairment, the fixed assets are written down to the recoverable amount and any impairment losses are charged to operating surplus.

Impairment reviews are carried out in accordance with section 14.6 of the statement of recommended practice (SORP), with consideration of the following indicators of impairment:

- Development issues
- Change in legislation
- Average void time
- Proportion of properties vacant
- Loss made on property of sales
- Schemes being re-developed/demolished

Estimation uncertainty

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

Useful lives of depreciable assets

Management reviews its estimates of the useful lives of depreciated assets at each reporting date based on its expected utility of assets including any components. Uncertainties in these estimates relate to technological obsolescence that may change the utility of certain software and IT equipment, and changes to Decent Homes Standards which may require more frequent replacement of key components.

Grant amortisation

Grant received for the development of social housing, predominantly Social Housing Grant which is receivable from Homes England, is recognised in the statement of comprehensive income through amortisation over the weighted average estimated useful life of the property's structure and components.

Fair value measurement

Management uses valuation techniques to determine the fair value of financial instruments (when active market quotes are not available) and non-financial assets including investment properties. This involves developing estimates and assumptions consistent with how market participants would price the instruments or assets, Management bases its assumption on observational data as far as possible, but this is not always available, in this case management uses the best information available. Estimated fair values may vary from actual prices.

Arrears

Judgement is made around the recoverability of debt and a provision is made based on the age and type of debt, Former arrears are provided in full. Current arrears are provided for based on age.

Orbit South Housing Association Limited

Notes to the Financial Statements

For the year ended 31 March 2020

1. Principal accounting policies (continued)

Group services

The Association has taken advantage of the exemptions available in FRS 102 and has not disclosed transactions with the parent undertaking, Orbit Group Limited 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 Homes England, income from shared ownership first tranche sales, income from properties developed for sale, grant amortisation and other income, all of which arise in the UK.

Properties for sale

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

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable 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.

Housing properties

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

Housing property components	Depreciation life
Kitchens	20 years
Bathrooms	30 years
Windows 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 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.

Orbit South Housing Association Limited

Notes to the Financial Statements

For the year ended 31 March 2020

1. Principal accounting policies (continued)

Housing properties (continued)

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 Social Housing Grant 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.

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.

Social housing and other grants

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

Social Housing Grant due from Homes England or received in advance is included as a current asset or liability within the statement of financial position.

Social Housing Grant 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, Social Housing Grant may have to be repaid if certain conditions are not met and, in that event, is a subordinated unsecured repayable debt. The net Social Housing Grant 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, based upon properties owned at that date. These are disclosed in note 17 of the accounts which shows the extent to which amounts have been recognised in the statement of comprehensive income or are held as deferred income.

Capitalisation of interest and administration costs

Interest on loans financing development is capitalised at the group weighted average cost of capital. 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.

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.

Orbit South Housing Association Limited

Notes to the Financial Statements

For the year ended 31 March 2020

1. Principal accounting policies (continued)

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 and when incurred.

Pension costs

Orbit Group Limited exited from the Social Housing Pensions Scheme on 30 September 2019. It now participates in two defined contribution schemes, the Flexible Retirement Plan administered by The Pensions Trust Retirement Solutions and the Orbit Group Retirement Plan administered by Aviva. It also participates in a defined benefit scheme, the Orbit Group Defined Benefit Pension Scheme, administered by The Pensions Trust Retirement Solutions. Further details can be found in the Orbit Group Limited financial statements.

Orbit South Housing Association Limited participated in two defined benefit local government pension schemes operated by the London Borough of Bexley and Kent County Council. On 31 March 2019 Orbit South Housing Association exited the Bexley scheme and settled all outstanding liabilities. The assets of the Kent scheme are held separately from those of the Association in an independently administered fund. The requirements of FRS 102 are fully reflected in the financial statements and associated notes. Note 29 provides a summary of the pension valuation report, together with prior year statements which state last year's revenue and reserves. For funding purposes, surpluses or deficiencies are dealt with as advised by the actuary.

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

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

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

Impairment

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

Impairment reviews are carried out in accordance with section 14.6 of SORP 2018, with consideration of the following potential indicators of impairment:

- Development issues
- Change in legislation or equivalent
- Average void time
- Proportion of properties vacant
- Loss made on property sales
- Schemes being redeveloped/demolished

Orbit South Housing Association Limited

Notes to the Financial Statements

For the year ended 31 March 2020

1. Principal accounting policies (continued)

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.

Disposal proceeds fund

Voluntary purchase grant net of disposal proceeds is with effect from April 2017 no longer credited to this fund. The existing fund balance will appear as a creditor until such time as it is repaid or recycled.

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 Homes England. 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

Orbit South Housing Association Limited is party to a Group registration for VAT. All amounts disclosed in the financial statements are inclusive of VAT as appropriate where it is not recoverable.

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.

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

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 properties.

Stock and work in progress

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

Orbit South Housing Association Limited

Notes to the Financial Statements

For the year ended 31 March 2020

1. Principal accounting policies (continued)

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.

Provisions

Provisions are made for liabilities where the timing and amount is uncertain. The amounts and timing of cash flows relating to these liabilities are based on management estimates.

Statement of Cash Flows

The Association has taken advantage of the exemptions available in FRS102 in preparing these financial statements, and has not prepared, per the requirements of Section 7, a Statement of Cash Flows. This information is included in the consolidated financial statements of Orbit Group Limited as at 31 March 2020 as published on the Orbit website www.orbit.org.uk.

Orbit South Housing Association Limited

Notes to the Financial Statements

For the year ended 31 March 2020

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

2020

	Turnover £000	Cost of sales £000	Operating costs £000	Surplus £000	Operating surplus/ (deficit) £000
Social housing lettings (Note 3)	107,176	-	(66,847)	-	40,329
Other social housing activities					
Services to Group members	1,317	-	(1,317)	-	-
Home ownership services	1,809	-	(1,920)	-	(111)
Charges for support services	71	-	(91)	-	(20)
Other	442	-	(3,636)	-	(3,194)
First Tranche Sales	59	(57)	-	-	2
Total	3,698	(57)	(6,964)	-	(3,323)
Surplus on sale of housing properties (note 7)	-	-	-	7,666	7,666
Gains on disposal of other fixed assets	-	-	-	202	202
Total social housing activities	110,874	(57)	(73,811)	7,868	44,874
Non-social housing activities	1,564	-	(1,474)	-	90
Total social and non-social housing	112,438	(57)	(75,285)	7,868	44,964

2019 (As restated)

	Turnover £000	Cost of sales £000	Operating costs £000	Surplus £000	Operating surplus/ (deficit) £000
Social housing lettings (Note 3)	106,392	-	(66,180)	-	40,212
Other social housing activities					
Managed on behalf of others	2	-	-	-	2
Services to Group members	688	-	(1,208)	-	(520)
Home ownership services	2,054	-	(2,533)	-	(479)
Charges for support service	84	-	(1,087)	-	(1,003)
Other	536	-	(3,868)	-	(3,332)
First Tranche sales	2,644	(2,644)	-	-	-
Total	6,008	(2,644)	(8,696)	-	(5,332)
Surplus on sale of housing properties (note 7)	-	-	-	7,821	7,821
Gain on disposal of other fixed assets	-	-	-	248	248
Total social housing activities	112,400	(2,644)	(74,876)	8,069	42,949
Non-social housing activities	1,614	-	(1,303)	-	311
Total	114,014	(2,644)	(76,179)	8,069	43,260

Orbit South Housing Association Limited

Notes to the Financial Statements

For the year ended 31 March 2020

3. Income and expenditure from social housing lettings

	General needs housing £000	Supported housing and housing for older people £000	2020 £000	2019 £000
Rent receivable net of service charges	82,322	6,695	89,017	88,493
Service charge income	6,597	4,495	11,092	13,078
Amortisation of social housing and other capital grants	6,332	735	7,067	4,821
	95,251	11,925	107,176	106,392
Expenditure				
Management	(9,101)	(1,871)	(10,972)	(9,401)
Service charge costs	(6,731)	(4,387)	(11,118)	(14,653)
Routine maintenance	(15,361)	(1,311)	(16,672)	(14,681)
Planned maintenance	(9,116)	(841)	(9,957)	(9,866)
Bad debts	(530)	(23)	(553)	(834)
Depreciation and Impairment of Housing Properties	(16,194)	(1,381)	(17,575)	(16,745)
Operating costs on social housing lettings	(57,033)	(9,814)	(66,847)	(66,180)
Surplus on social housing lettings	38,218	2,111	40,329	40,212
Void losses	(1,141)	(257)	(1,398)	(2,308)

4. Staff costs

Members of staff and directors that work for Orbit South Housing Association Limited are contractually employed by the parent undertaking Orbit Group Limited. Their emoluments are disclosed in the financial statements of that undertaking.

Orbit South Housing Association Limited

Notes to the Financial Statements

For the year ended 31 March 2020

5. Operating surplus

	2020	2019
	£000	£000
Operating surplus is arrived at after charging/(crediting)		
Housing properties:		
- Depreciation charge	17,575	16,822
- Impairment reversal	-	(77)
- Amortisation of social housing grant	(7,067)	(4,821)
Other fixed assets:		
- Depreciation of other tangible fixed assets	57	59
- Impairment release	(107)	-
Operating lease rentals		
- Land and buildings	502	556
- Office equipment and vehicles	113	146
- White goods	-	92
Auditor's remuneration (excluding VAT)		
Fees payable to the Association's auditor for the audit of the financial statements	34	33
Fees payable to the Association's auditor for other services	-	-
Total audit services	34	33
Total non-audit services	-	-

Orbit South Housing Association Limited

Notes to the Financial Statements

For the year ended 31 March 2020

6. Board member 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. Payments made to the chair of Orbit South Housing Association Limited in his 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 (2019: £nil).

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

	2020 £000	2019 £000
K Bolister	2	2
J Boomhauer	5	5
S Tandooran-Sentain	5	5
D Butler	2	1
T Mihill	5	4
E Stent	2	-
Total	21	17

Expenses paid during the year on behalf of board members amounted to £7,000 (2019: £5,000).

7. Surplus on sale of fixed assets - housing properties

	2020			2019	
	Letting £000	Shared equity £000	Total £000	Letting £000	Shared equity £000
Disposal proceeds	11,982	105	12,087	12,615	93
Carrying value of fixed assets	(4,751)	(67)	(4,818)	(5,718)	(1)
	7,231	38	7,269	6,897	92
Capital grant recycled	879	-	879	1,255	-
RTB clawbacks	(482)	-	(482)	(362)	-
Disposal Proceeds fund/Grant Abated	-	-	-	(61)	-
Surplus on disposal	7,628	38	7,666	7,729	92
					7,821

Orbit South Housing Association Limited**Notes to the Financial Statements****For the year ended 31 March 2020****8. Interest receivable and other income**

	2020 £000	2019 £000
Interest receivable and similar income	12	11

9. Interest payable

	2020 £000	2019 £000
Loan arrangement fees	19	19
Loans and bank overdrafts	25,196	19,817
Interest payable capitalised on housing properties under construction	25,215	19,836
Loan premium write off	(3,145)	(4,423)
	(175)	(175)
	21,895	15,238
Other financing costs		
Defined benefit pension charge	51	76

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. No taxation is anticipated in the year of £nil (2019: £nil). The Board is not aware of any circumstances which will affect the future taxation status of the Association.

Orbit South Housing Association Limited

Notes to the Financial Statements

For the year ended 31 March 2020

11. Housing properties

	Housing properties for letting		Supported housing	Low cost home ownership	Extra Care establis- hments	Total £000
	Complete £000	In Development £000	Complete £000	Complete £000	Complete £000	
Cost						
At 1 April 2019	1,173,356	90,508	37,776	3,576	999	1,306,215
Additions	22,542	92,958	2,514	33	-	118,047
Transfer on completion	32,853	(32,853)	-	-	-	-
Transfer to other group members	-	(21,254)	-	-	-	(21,254)
Disposals	(4,002)	-	(58)	(307)	-	(4,367)
At 31 March 2020	1,224,749	129,359	40,232	3,302	999	1,398,641
Less: accumulated depreciation						
At 1 April 2019	(148,475)	-	(5,514)	(102)	(85)	(154,176)
Eliminated on disposal	1,616	-	29	17	-	1,662
Depreciation	(16,231)	-	(604)	(11)	(9)	(16,854)
At 31 March 2020	(163,090)	-	(6,088)	(96)	(94)	(169,368)
Less: provisions for impairment						
At 1 April 2019	(1,366)	-	-	-	-	(1,366)
At 31 March 2020	(1,366)	-	-	-	-	(1,366)
Net book amount						
At 31 March 2020	1,060,293	129,359	34,144	3,206	905	1,227,907
At 31 March 2019	1,023,515	90,508	32,262	3,474	914	1,150,673

Additions to properties during the year include capitalised interest and finance costs of £3.1 million (2019: £4.4 million) and development administration costs / project management fees of £2.3 million (2019: £1.3 million).

Net book value of housing and other properties comprises:

	2020 £000	2019 £000
Freehold land and buildings	1,228,333	1,150,596
Long leasehold land and buildings	66	69
	1,228,399	1,150,665

Orbit South Housing Association Limited

Notes to the Financial Statements

For the year ended 31 March 2020

12. Other fixed assets

	Freehold offices £000	Leasehold offices £000	Commercial premises £000	Motor vehicles £000	Furniture, fixtures & equipment £000	Total £000
Cost						
At 1 April 2019	1,165	-	150	-	1,451	2,766
Additions	-	153	-	-	466	619
Disposals	(613)	-	-	-	(465)	(1,078)
Write off	(40)	-	-	-	-	(40)
At 31 March 2020	512	153	150	-	1,452	2,267
Less:						
accumulated depreciation						
At 1 April 2019	(485)	-	(81)	-	(1,335)	(1,901)
Charge for year	(15)	(2)	(3)	-	(37)	(57)
Write off	8	-	-	-	-	8
Eliminated on disposal	255	-	-	-	465	720
At 31 March 2020	(237)	(2)	(84)	-	(907)	(1,230)
Less:						
provisions for impairment						
At 1 April 2019	(107)	-	-	-	-	(107)
Charge for the year	107	-	-	-	-	107
At 31 March 2020	-	-	-	-	-	-
Net book amount						
At 31 March 2020	275	151	66	-	545	1,037
At 31 March 2019	573	-	69	-	116	758

13. Fixed asset investments

	2020 £000	2019 £000
Monies deposited for Affordable Housing Finance Plc	1,359	1,351

In July 2016, Orbit South Housing Association raised a £25 million fixed rate bond and in December 2016 a further £25 million fixed rate EIB loan both 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 £1,148,750. The AHF Bond is secured by a first fixed charge on properties, however following a property sales in the year £192,000 is held in a cash security deposit account to cover the amount below the required security threshold.

Orbit South Housing Association Limited

Notes to the Financial Statements

For the year ended 31 March 2020

14. Debtors

	2020 £000	2019 £000
Due within one year:		
Rental debtors	3,660	4,524
Less: provision for doubtful debts	(1,480)	(1,471)
	2,180	3,053
Service charges due from Leaseholders	228	198
Amounts due from group undertakings	32,652	65,072
Prepayments and accrued income	709	1,078
Other debtors	2,210	1,625
Provision for bad debts	(194)	(162)
	37,785	70,864
Due after more than one year:		
Other debtors	1,930	1,100

15. Creditors: amounts falling due within one year

	2020 £000	2019 £000
Housing loans inter-company (note 20)	7,210	6,410
Amounts due to group undertakings	42,259	60,630
Other creditors including taxation and social security	1,491	2,208
Accruals and deferred income	10,980	7,709
Deposits in advance	4	4
Rents received in advance	2,868	2,742
Grants received in advance	122	1,141
Disposal proceeds and recycled capital grant fund (note 19)	3,595	2,935
Deferred capital grant (note 17)	7,067	4,821
Total	75,596	88,600

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

	2020 £000	2019 £000
Housing loans (net of loan arrangement fees) (note 20)	49,572	49,554
Housing loans Inter-company (note 20)	548,060	524,860
Deferred capital grant (note 17)	385,481	374,064
Deferred income for renewals and maintenance contributions	4,798	4,359
Other creditors	890	925
Disposal proceeds and recycled capital grant fund (note 19)	2,080	2,485
Loan premium Affordable Housing Finance Plc	4,060	4,235
Total	994,941	960,482

Housing loans shown above are net of £428,000 (2019: £446,000) loan arrangement fees carried forward.

Orbit South Housing Association Limited

Notes to the Financial Statements

For the year ended 31 March 2020

17. Deferred capital grant

	2020 £000	2019 £000
At 1 April 2019	378,885	380,003
Grant received in the year	20,874	4,221
Released to income in the year	(7,067)	(4,821)
Elimination on disposal	75	345
Transfer from RCGF and DPF	(219)	(805)
Transfer from other group members	-	(58)
At 31 March 2020	392,548	378,885

Analysed as:

	2020 £000	2019 £000
Amounts to be released within 1 year	7,067	4,821
Amounts to be released in more than 1 year	385,481	374,064
Total	392,548	378,885

18. Provisions for liabilities

	At beginning of the year £000	Release of provision during the year £000	At end of year £000
Water Rates	712	-	712
	712	-	712

The Water Rates provision relates to costs arising from a historic contractual arrangement and will be utilised as required.

19. Disposal proceeds and recycled capital grant funds

	RCGF £000	DPF £000	Total £000
At 1 April 2019	5,374	46	5,420
Grants recycled	879	-	879
Utilised in the year	(613)	(46)	(659)
Interest accrued	35	-	35
At 31 March 2020	5,675	-	5,675

Orbit South Housing Association Limited

Notes to the Financial Statements

For the year ended 31 March 2020

19. Disposal proceeds and recycled capital grant funds (continued)

Amount due for repayment to Homes England

	RCGF £000	Total £000
Within one year	3,595	3,595
After more than one year	2,080	2,080
At 31 March 2020	5,675	5,675

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

20. Housing loans and finance lease obligations

Note (a)

	2020 £000	2019 £000
Due within one year		
Orbit Treasury Limited	7,210	6,410
Due after more than one year		
Orbit Treasury Limited	209,089	185,889
Orbit Capital plc	338,971	338,971
Affordable Housing Finance Plc	50,000	50,000
	598,060	574,860
Total	605,270	581,270

All loans are in sterling. The majority of loans in the Group are routed through a separate treasury vehicle, Orbit Treasury Limited. All members of the Group have entered into a fully cross-collateralised structure. Orbit Treasury Limited borrows money on behalf of the Group and on-lends these to the individual Operating Associations as required. The Associations, as part of this arrangement, also agree to cover all costs associated with the funding including any associated hedging arrangements such as interest rate swaps. The benefits of setting up the treasury vehicle include streamlined and efficient treasury procedures and strategy.

Orbit Capital plc (OC) is a public limited company incorporated on 22 January 2015. 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 raising a £250 million 30 year sterling bond (maturity date 24 March 2045) priced at 3.50%. The company arranged its second public bond issue on 7 June 2018 raising £450 million 30 year sterling bond (maturity date 14 June 2048) priced at 3.375% which was used to restructure the groups existing debt portfolio and provide long term funding to support the group strategy.

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 (£250m) and 14 June 2048 (£450m).

Orbit South Housing Association Limited

Notes to the Financial Statements

For the year ended 31 March 2020

20. Housing loans and finance lease obligations (continued)

On the 28 July 2016 the company raised a £25 million 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%. In December 2016 a further £25 million fixed rate EIB loan was raised with Affordable Housing Finance Plc via The Housing Finance Corporation. The EIB loan is repayable by instalments starting in July 2027 and matures in July 2046 with interest payable at a fixed rate of 1.702%.

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

	2020 £000	2019 £000
In one year or less, on demand	7,210	6,410
Repayable by instalments:		
- more than one year but not more than two years	7,210	6,410
- In more than two years but not more than five years	21,360	19,230
- In more than 5 years	544,220	524,220
	573,060	549,860
Repayable other than by instalments:		
- In more than five years	25,000	25,000
Total	605,270	581,270

Note (b)

The interest rate profile at 31 March 2020 was:

	Total £000	Variable rate £000	Fixed rate £000	Weighted average rate %	Weighted average term until maturity years
Instalment loans	580,270	216,299	363,971	4.05%	24
Non instalment loans	25,000	-	25,000	2.89%	24
	605,270	216,299	388,971	4.00%	24

21. Called up share capital

	2020 £	2019 £
Issued and fully paid shares of £1 each		
At 1 April 2019	8	12
Issued	1	3
Surrendered	(1)	(7)
At 31 March 2020	8	8

Orbit South Housing Association Limited

Notes to the Financial Statements

For the year ended 31 March 2020

21. Called up share capital (continued)

The share capital of Orbit South Housing Association is raised by the issue of shares with a nominal value of £1 each. The Association's Co-operative and Community Benefit Society status means the maximum shareholding permitted per member is 1 share. There is no authorised share capital and the Orbit Board may issue as many £1 shares as it wishes. However, the Board operates a restricted shareholding policy with all shares currently held by serving, 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 general meeting of the Association.

22. Capital commitments

	2020 £000	2019 £000
Capital expenditure which has been contracted for but has not been provided for in the financial statements	92,326	102,304
Capital expenditure which has been authorised under authority from the Orbit board but has yet to be contracted for	75,288	49,195
	167,614	151,499

The Association expects these commitments to be financed with:

	2020 £000	2019 £000
Social housing grant	37,710	5,472
Committed loan facilities (Orbit Treasury Limited)	104,660	116,815
Proceeds from sale of properties	25,244	29,212
	167,614	151,499

23. Contingent liabilities

As at 31 March 2020, there were £16 million contingent liabilities within the Association (2019: £16 million).

Stock acquisitions previously undertaken include original government grant funding of £16 million which has an obligation to be recycled in accordance with the original grant funding terms and conditions.

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

Orbit South Housing Association Limited

Notes to the Financial Statements

For the year ended 31 March 2020

24. Financial commitments

Operating leases

At 31 March 2020 the Association was committed to making the following minimum future payments in respect of operating leases other than land and buildings:

	2020	2019
	£000	£000
Leases which expire		
Within 1 year	384	511
Within 2 - 5 years	393	510
After 5 years	104	2
Total	881	1,023

25. Ultimate parent entity

The immediate parent undertaking and ultimate parent entity and controlling entity of Orbit South 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 2020.

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

The results of Orbit South 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

26. Related party transactions

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 aggregate payments to Orbit totalled £20,000 (2019: £23,000). The outstanding amount owed at 31 March 2020 was £1,000 (2019: £nil).

Orbit South 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 Regulator of Social Housing regulated group entities are shown at note 30.

Orbit South Housing Association Limited

Notes to the Financial Statements

For the year ended 31 March 2020

27. Property portfolio

	2020 Units	2019 Units
<u>Social</u>		
Social Rent General needs	11,459	11,816
Affordable rent	3,801	3,530
Supported Housing		
- Social Rent Supported Housing	1,629	1,632
- Care Homes	4	4
Low cost home ownership (LCHO)	168	168
Total Social Housing Units (excluding Leasehold)	17,061	17,150
Leasehold	1,008	972
Total Social Housing Units	18,069	18,122
<u>Non-Social</u>		
Market rent	20	-
Private retirement schemes	653	653
Non-social Leasehold	59	-
Retained Freehold	805	533
Commercial units	16	13
Total Non-Social housing units	1,553	1,199
Total Social and Non-Social Housing Units	19,622	19,321

28. Number of units under development at end of year

	2020 Number	2019 Number
General needs	1,039	1,338
Private Market Rent	24	88
Total social housing units	1,063	1,426

Orbit South Housing Association Limited

Notes to the Financial Statements

For the year ended 31 March 2020

29. Pension costs

Pension schemes operated by Orbit South Housing Association Limited

Movement in pension cost liabilities during the year

	2020	2019
	£000	£000
Net deficit at 1 April 2019	(2,434)	(3,014)
Service costs	(36)	(17)
Contributions	85	91
Net return on assets less interest on pension scheme liabilities	(51)	(66)
Actuarial (loss)/gain	(82)	590
Settlements	260	-
Other finance costs	(5)	(18)
Deficit in pension scheme at 31 March 2020	(2,263)	(2,434)

(a) Local Government Pension Scheme – Kent County Council

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

Total employer contributions paid to the scheme for the year were £17,000 (2019: £16,000).

The estimated impact of the recent McCloud judgement has been recognised as a past service cost. The impact on the total liabilities as at 31 March 2020 from this judgement is estimated to be £18,000 (or 0.2% as a percent of total liabilities).

Triennial actuarial valuation

Triennial actuarial valuations of the LGPS are performed by an independent, professionally qualified actuary. The most recent valuation of KCC's scheme was completed as at 31 March 2019. This actuarial valuation was certified on 18 December 2019 and used financial assumptions that comply with FRS102. The Association has a funding surplus of £1,136k at 31 March 2019 compared to a funding surplus of £400k at 31 March 2016.

The major financial assumptions used by the actuary in the FRS 102 valuation are:

	2020	2019
Rate of increase in salaries	3.00%	3.90%
Rate of increase in pensions in payment and deferred pensions	2.00%	2.40%
Discount rate applied to scheme liabilities	2.35%	2.40%
Inflation assumption – CPI	2.00%	2.40%
Inflation assumption – RPI	2.80%	3.40%

The estimate of the duration of the employer liabilities is 18 years.

Orbit South Housing Association Limited

Notes to the Financial Statements

For the year ended 31 March 2020

29. Pension costs (continued)

Life expectancy from age 65 (years)

		2020 Number	2019 Number
Retiring today	Males	21.8	22.0
	Females	23.7	24.0
Retiring in 20 years	Males	23.2	23.7
	Females	25.2	25.8

(b) Local Government Pension Scheme - Bexley London Borough

The Association also participated in the Local Government Pension Scheme (LGPS defined benefit statutory scheme) administered by the London Borough of Bexley. The Association withdrew from this scheme during the year 2019/20 following the settlement of all current and future liabilities.

Scheme assets

	2020 £000	2019 £000
Equities	4,925	7,605
Government bonds	62	415
Other bonds	1,043	1,188
Property	1,089	1,506
Other – cash	209	215
Absolute Return fund	676	707
Other	-	969
Total fair value of assets	8,004	12,605
Present value of scheme liabilities	(10,267)	(15,039)
Net pension liability	(2,263)	(2,434)

Statement of financial position at 31 March 2020

	2020 £000	2019 £000
Present value of the defined benefit obligation	10,240	15,009
Fair value if fund assets (bid value)	(8,004)	(12,605)
Deficit	2,236	2,404
Present value of unfunded obligation	27	30
Net defined benefit liability/(asset)	2,263	2,434

Orbit South Housing Association Limited

Notes to the Financial Statements

For the year ended 31 March 2020

29. Pension costs (continued)

Scheme liabilities

	2020 £000	2019 £000
Opening defined benefit obligation	15,039	14,954
Settlement of Bexley London Borough LGPS	(4,000)	-
Service cost	18	17
Interest cost	262	378
Change in financial assumptions	(688)	709
Change in demographic assumptions	(91)	(605)
Experience loss/(gain) on defined benefit obligation	(8)	-
Estimated benefits paid net of transfers in	(277)	(416)
Past service costs, including curtailments	18	-
Contributions by scheme participants	(4)	4
Unfunded pension payments	(2)	(2)
Closing defined benefit obligation	10,267	15,039

Reconciliation of opening and closing balances of fair value scheme assets

	2020 £000	2019 £000
Opening fair value of scheme assets	12,605	11,940
Settlement of Bexley London Borough LGPS	(3,672)	-
Interest on assets	211	302
Return on assets less interest	(866)	441
Other actuarial gains	(3)	253
Administration expenses	(5)	(8)
Contribution by employer including unfunded	17	91
Contributions by scheme participants	(4)	4
Estimated benefits paid net of transfers in and including unfunded	(279)	(418)
Fair value of scheme assets at the end of the year	8,004	12,605

Analysis of amounts charged to income and expenditure account

	2020 £000	2019 £000
Amounts charged to operating costs		
Service costs	36	17
Net interest on the defined liability (asset)	51	76
Administration expenses	5	8
	92	101

Orbit South Housing Association Limited

Notes to the Financial Statements

For the year ended 31 March 2020

30. Non-consolidated management arrangements

Orbit South Housing Association Limited has entered into arrangements with a number of other organisations in connection with the management of some of the properties. 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 Regulator of Social Housing, 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 £68.8 million (2019: £44 million) to Orbit Homes (2020) Ltd for the purchase of housing property assets, £1.8 million (2019: £1.3 million) in project management fees and has an outstanding creditor balance with Orbit Homes (2020) Ltd of £0.2 million (2019: £3.9 million).

Orbit Treasury Limited and Orbit Capital plc provide a funding on-lending service to Group members. During the year the Association paid interest costs to Orbit Treasury Limited totalling £10.8 million (2019: £19.2 million) and fees of £1.2 million (2019: £2.2 million) and has an outstanding debtor balance of £nil (2019: £nil million).

The Association also paid interest costs of £11.7 million (2019: £10.3 million) and fees of £0.2 million (2019: £0.4 million) to Orbit Capital plc and had an outstanding debtor balance of £nil (2019: £nil) and creditor balance of £nil (2019: £nil) with Orbit Capital plc. The allocation of these costs is based upon the level of debt required and secured by the housing properties held by the Association.