

Orbit Group Limited

Financial statements

For the year ended 31 March 2017

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



building
communities

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2016-17: year at a glance

Profit
for year
£55.7m



Increase in turnover
to **£333m** (10%)

Customer
satisfaction
81.6% (STAR
survey 2017)



55% increase
in shared
ownership
sales

Regained **G1**
governance
rating

Over **1,400**
people
supported
with
training and
employment
opportunities

1,788
new homes
built

Celebrating 50 years of building communities

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 40,000th home.

Purpose

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

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



In 2013 we launched our 2020 Vision with nine ambitious targets to provide the best homes and services possible for our 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 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 options	Privat rent and aspire aspire to buy offers in place
	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.



2016-17 financial performance

Financial summary

Statement of comprehensive income	2016-17 £m	2015-16 £m	2014-15 £m	2013-14 £m	2012-13 £m
Turnover	333	301	250	221	193
Operating costs and cost of sale	(249)	(228)	(181)	(159)	(147)
Surplus on sale of housing	23	20	15	-	-
Operating surplus	107	93	84	62	46
Surplus on sale of housing	-	-	-	36	23
Net interest and other financing costs	50	52	36	31	28
Movement in fair value of financial instruments	(2)	(2)	(17)	-	-
Taxation	1	(1)	-	-	-
Surplus for the year	56	38	31	67	41

Statement of financial position	2016-17 £m	2015-16 £m	2014-15 £m	2013-14 £m	2012-13 £m
Tangible fixed assets	2,265	2,073	1,905	1,083	984
Debtors due after >1 year	3	2	2	-	-
Net current assets	64	115	100	51	78
Total assets less current liabilities	2,332	2,190	2,007	1,134	1,062
Creditors due after >1 year	1,909	1,816	1,691	752	747
Pensions and provisions	24	25	-	-	-
Designated reserves	-	-	-	9	9
Cash flow hedge reserve	(66)	(62)	(56)	-	-
Revenue reserves	465	411	372	373	306
	2,332	2,190	2,007	1,134	1,062

Key indicators	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 £56m (45% increase) whilst turnover grew by 10% to £333m. Surplus on the sale of housing has increased to £23m, reflecting the growth in our sales programme this year. 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 £2,265m (2016: £2,073m), 9% increase and reserves to £399m (2016: £349m). We now have 40,610 units, an increase of 1,379 from 2016.

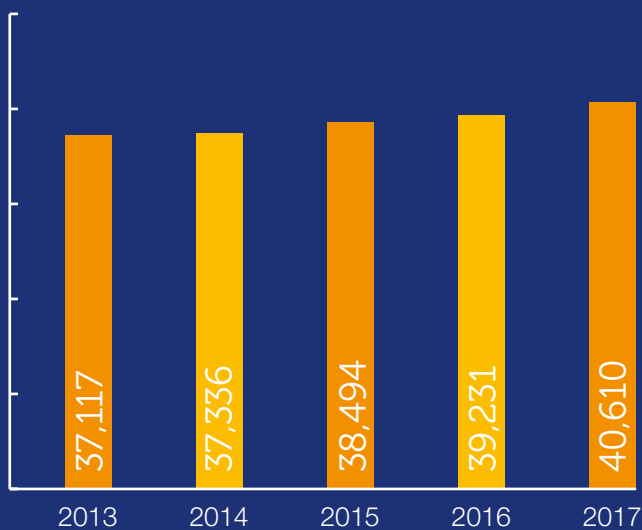
Operating costs increased by 4% to £155m. Our largest area of expenditure is the maintenance of our properties, which was £62.6m of which £17.5m was spent on the replacement of components (including kitchens, bathrooms and boiler replacements) and work to improve the energy efficiency of our properties. Management costs were £22.6m, an increase of £1.6m.

Operating margin (overall) has increased year on year to 32%, while operating margin on social housing lettings has reduced to 37% (2016: 40%). This is largely as a result of increased maintenance investment and impairment costs.

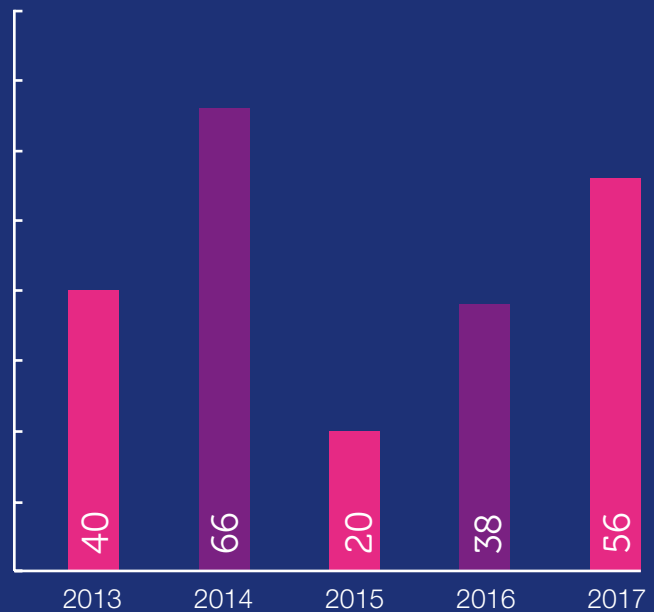
The profits generated will continue to be reinvested, firstly in improving our existing properties through our investment programmes, in improving services to customers, in our communities and in the development of new homes.

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

Units

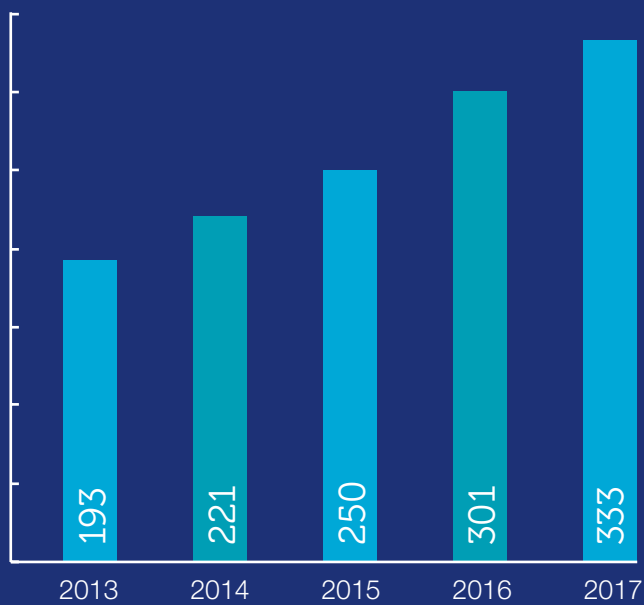


Surplus (£m)

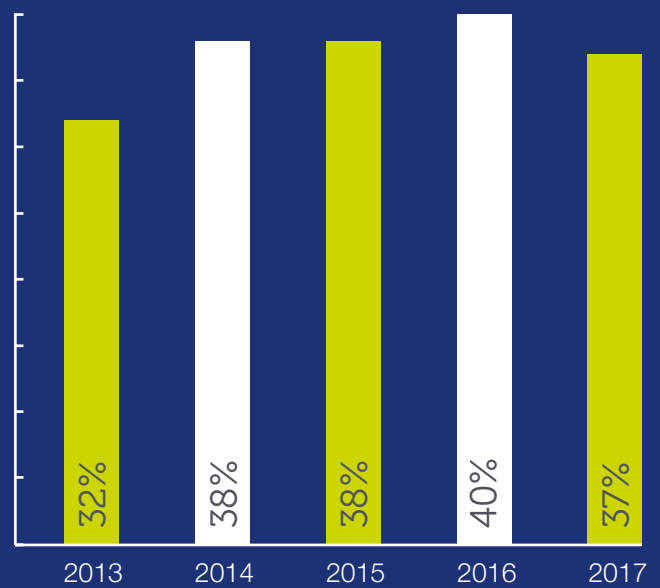




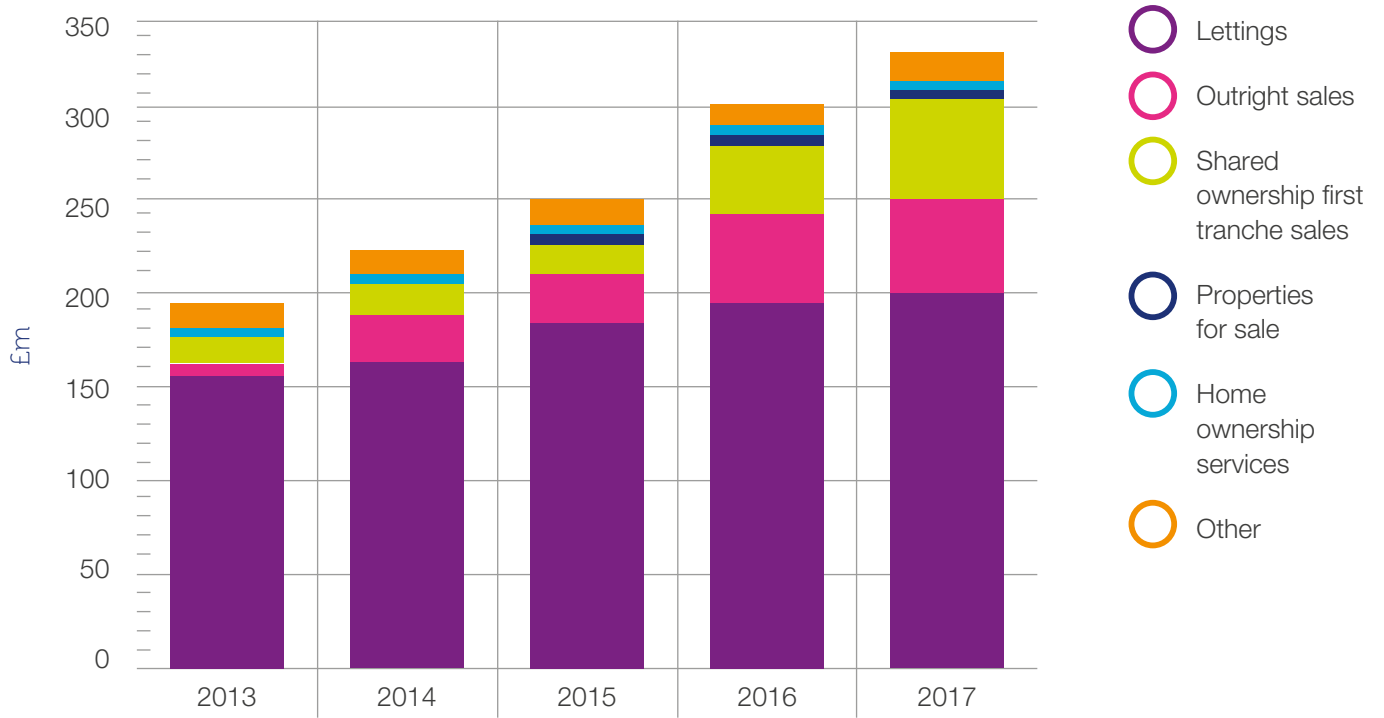
Turnover (£m)



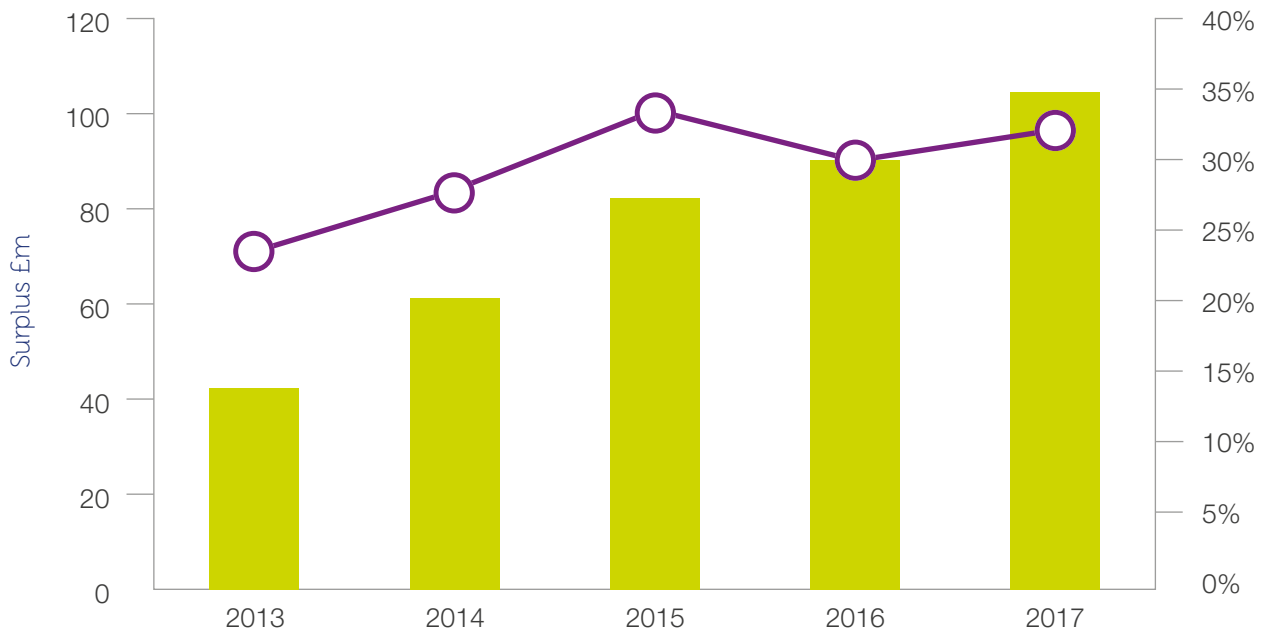
Operating margin - social housing lettings (%)





Turnover analysis



Operating surplus and margin



-  Operating margin
-  Operating surplus



2017-18 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'.

Building on work from 2016-17, our focus remains on four core business plan areas; service, property, profit and people 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.

Value for money (VFM)

VFM gains

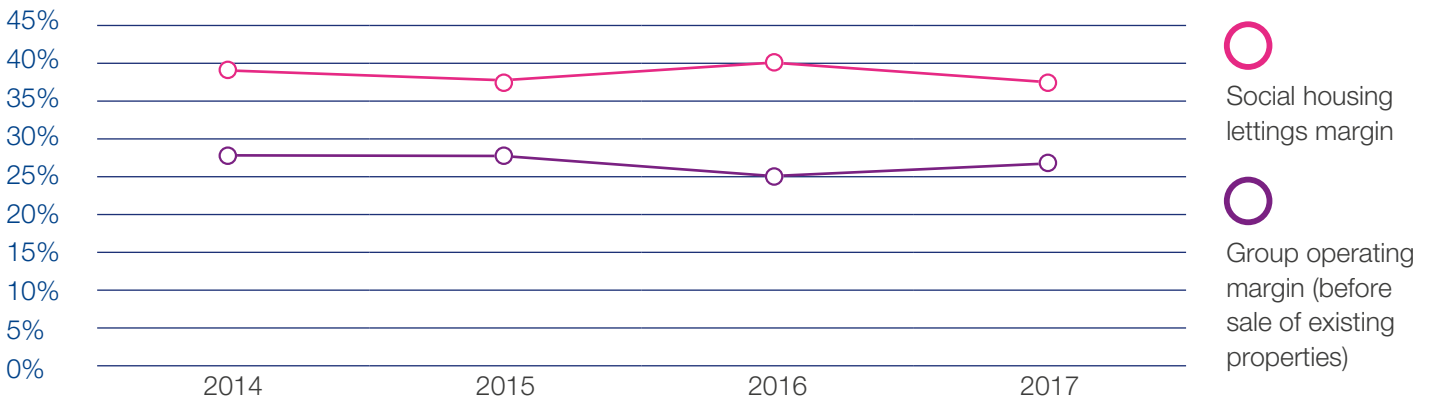
We targeted £3.1m of efficiency savings in our 2016-17 budgets. A total of £5.2m has been achieved as shown in the table below.

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

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

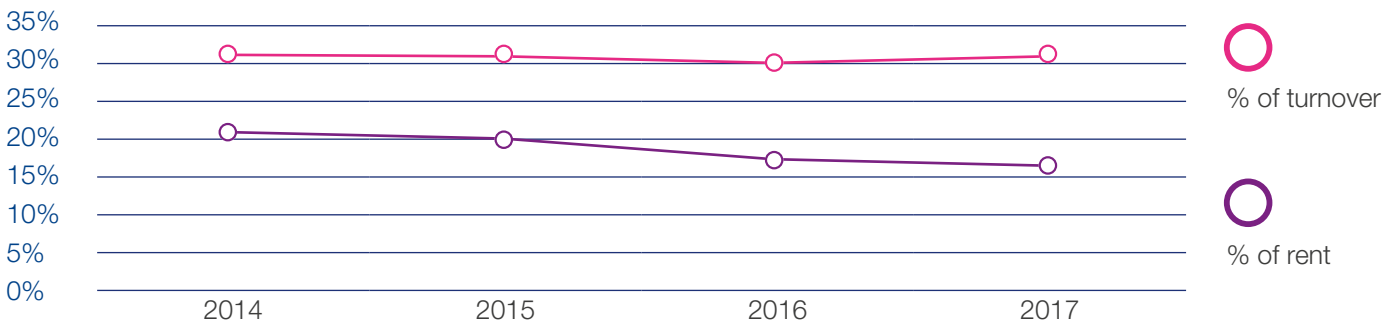
These following graphs show high level financial trends and are generally positive.

High level Group performance



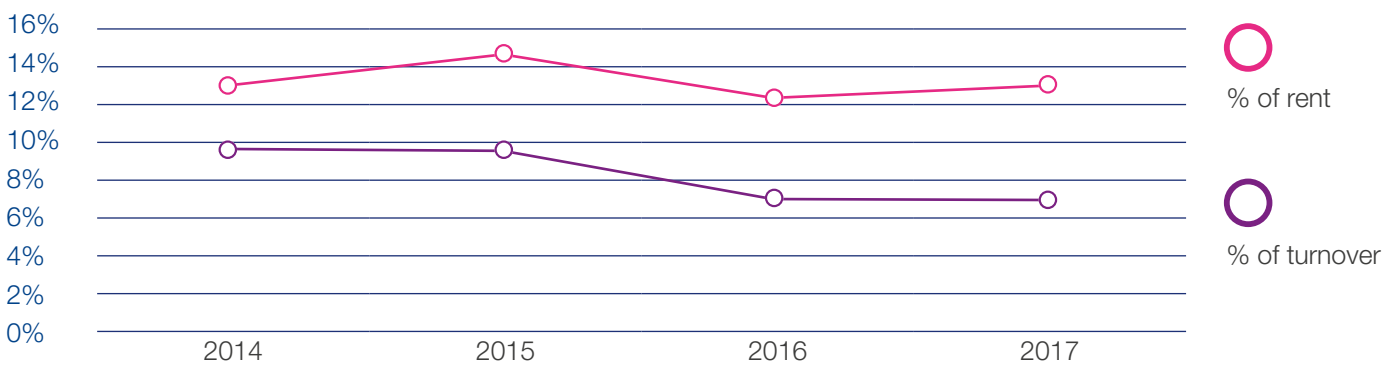
The high level performance shows an improvement in the headline operating margin, reflecting the improving efficiency of the business. This is despite a small downturn on operating performance of social housing caused by increased investment in planned maintenance and some one-off impairment charges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

Revenue maintenance costs



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.

Management costs



Management costs have increased slightly as a percentage of rental income as a product of investing 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.

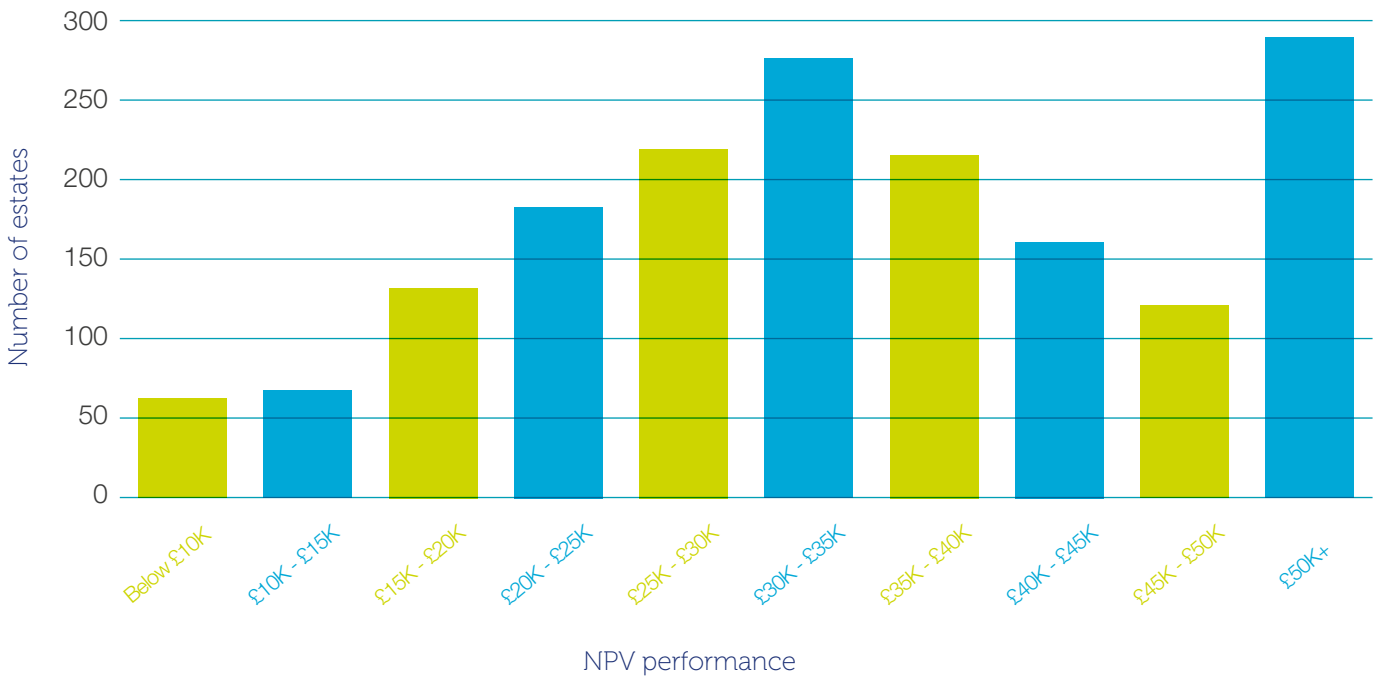
We are investing in the relevant skills; IT infrastructure and data capture to enable a better level of decision making for our existing stock.



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.

NPV of Orbit estates



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.

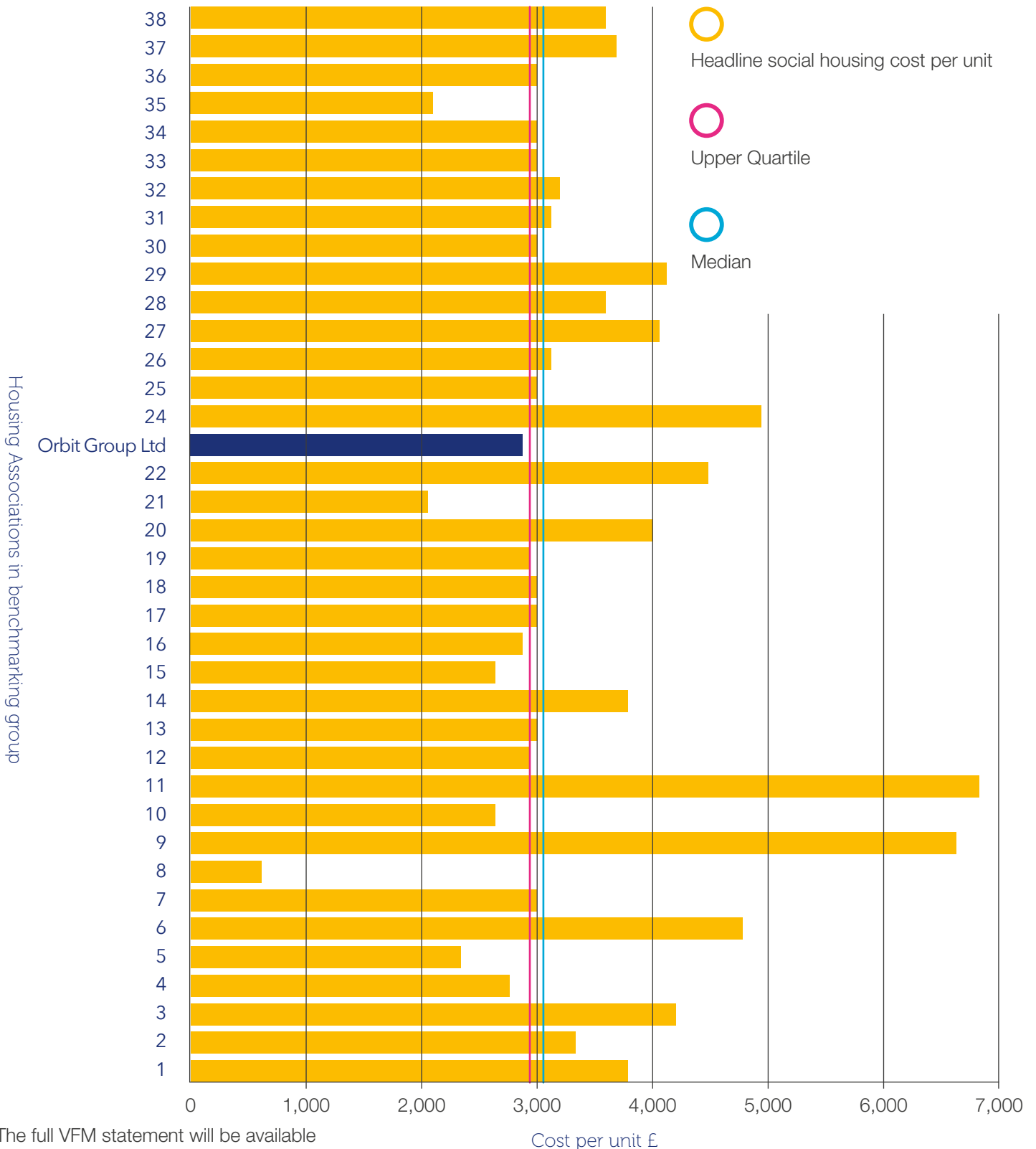
Social impact

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

- 324 customers in to jobs
- 1,480 customers to undertake employment related training and skills
- 2,682 customers with wellbeing programmes to help manage mental health and anti-social behaviour
- 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. We are a top quartile performer.



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

Board members, executive officers and auditors

Board members

Name	Position	Appointed	Resigned
The Rt Hon. Baroness Blackstone	Chair/Non Exec Director	1 February 2013	
Professor Tony Crook CBE	Deputy Chair/Non Exec Director	1 October 2010	
Fran Beckett	Non Exec Director	1 April 2011	
Richard Berrett	Non Exec Director	10 July 2013	9 July 2016
Steve Brown	Non Exec Director	1 February 2013	
Chris Crook	Non Exec Director	6 December 2011	
Andrew Stanford	Non Exec Director	1 April 2014	17 January 2017
Paul Tennant	Executive Director	11 September 2012	23 December 2016
David Young CBE	Non Exec Director	10 July 2013	
Andy Hobart	Non Exec Director	14 September 2016	
David Weaver	Non Exec Director	14 September 2016	

Executive team

Executive director	Role
Mark Hoyland	Interim Chief Executive (appointed 30 January 2017)
Paul Tennant	Chief Executive (resigned 23 December 2016)
Suzanne Forster	Group Finance Director
Paul High	Executive Director – Orbit Homes (resigned 31 March 2017)
Afzal Ismail	Executive Director – Orbit Corporate Services
Boris Worrall	Executive Director – Futures (resigned 31 January 2017)
Paul Richards	Executive Director – Customer Services
Craig Wilcockson	Executive Director - People (appointed 10 April 2017)
John Carleton	Executive Director - Property Investment (appointed 8 May 2017)

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

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.

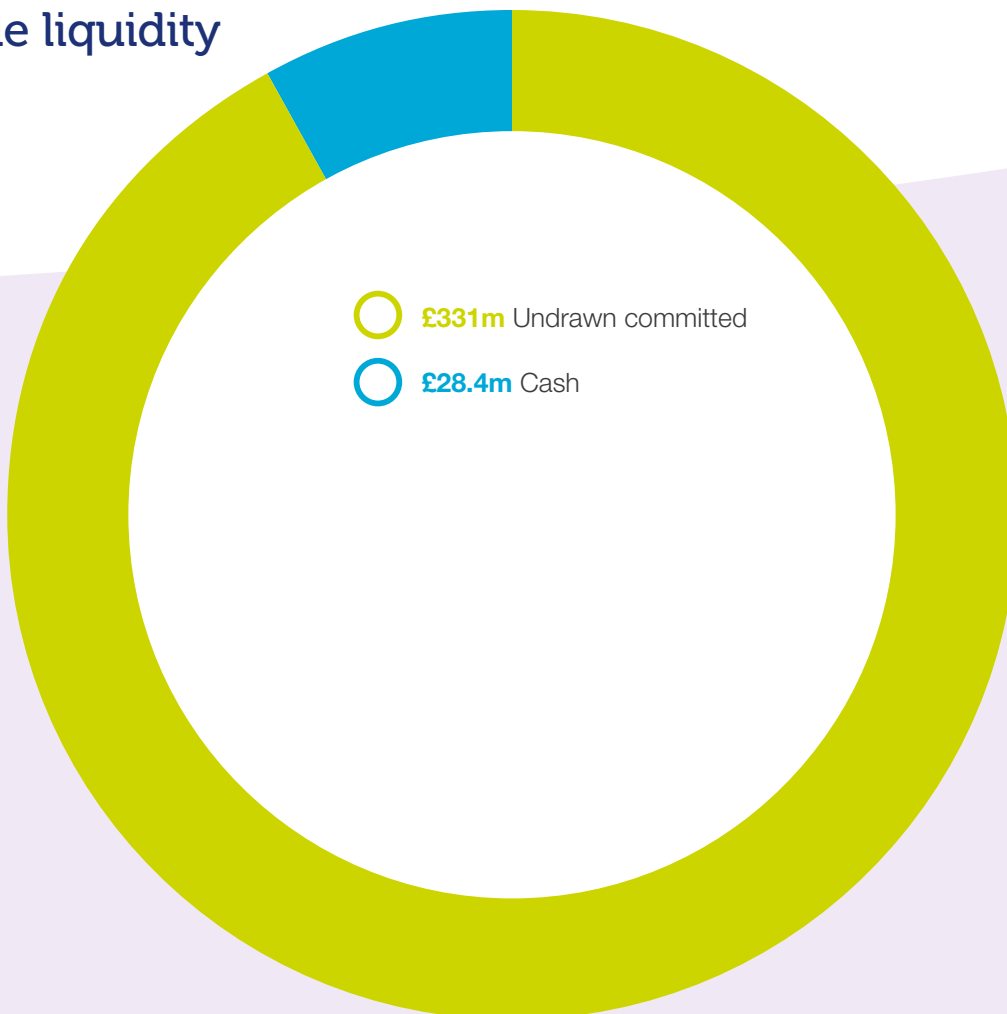
Key indicators

	Target 2016-17	Actual 2016-17
Immediately available cash and loans against budget	100%	243%

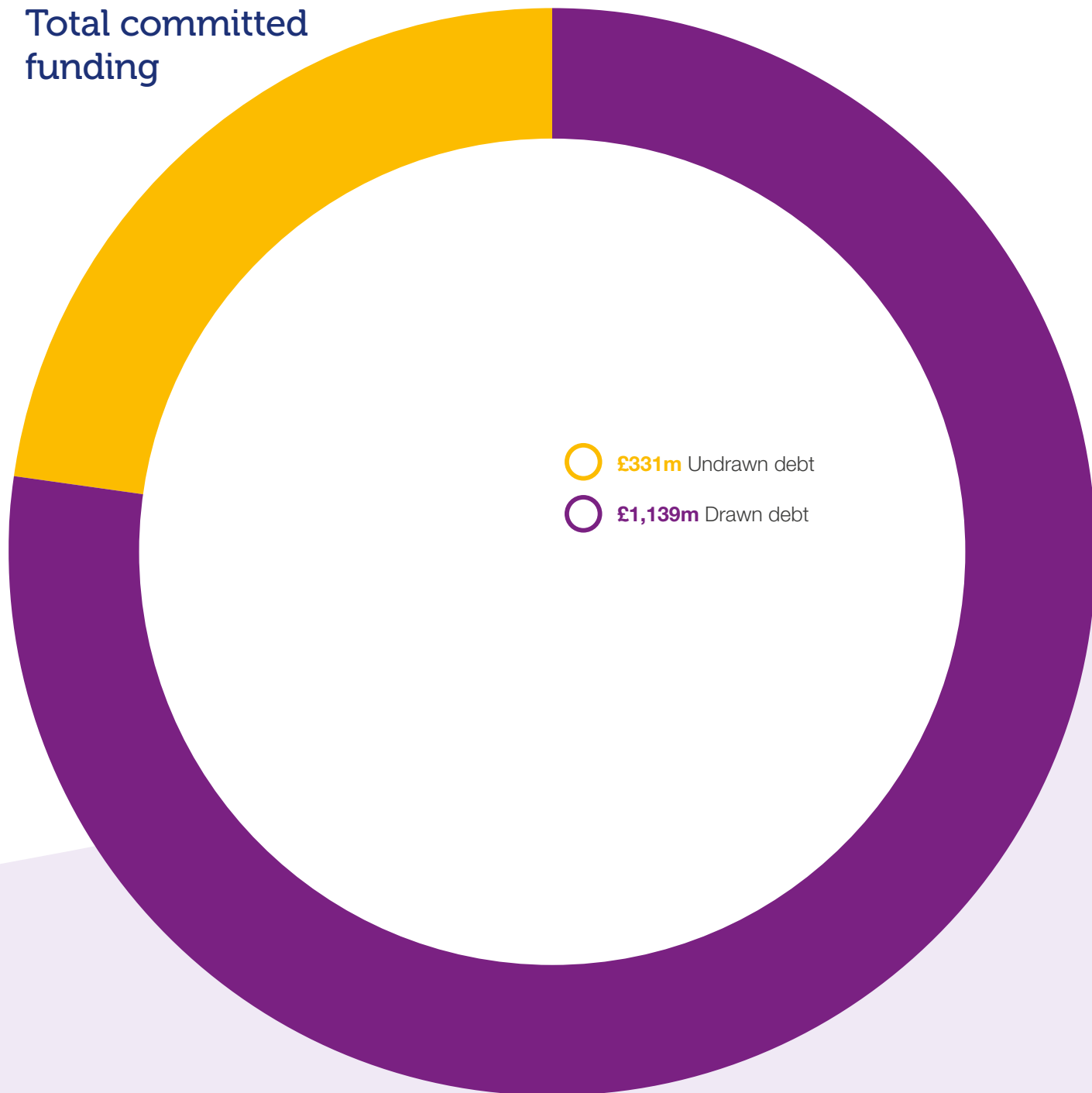
	2016-17	2015-16
Months cash/secured loans available	36	19
Months approved loans available	36	20

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.

Available liquidity



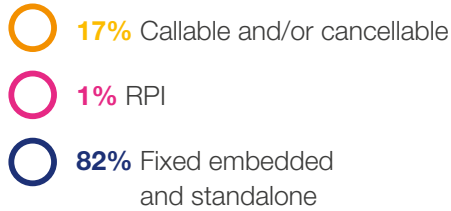
Total committed funding



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.

Hedging mix %



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.

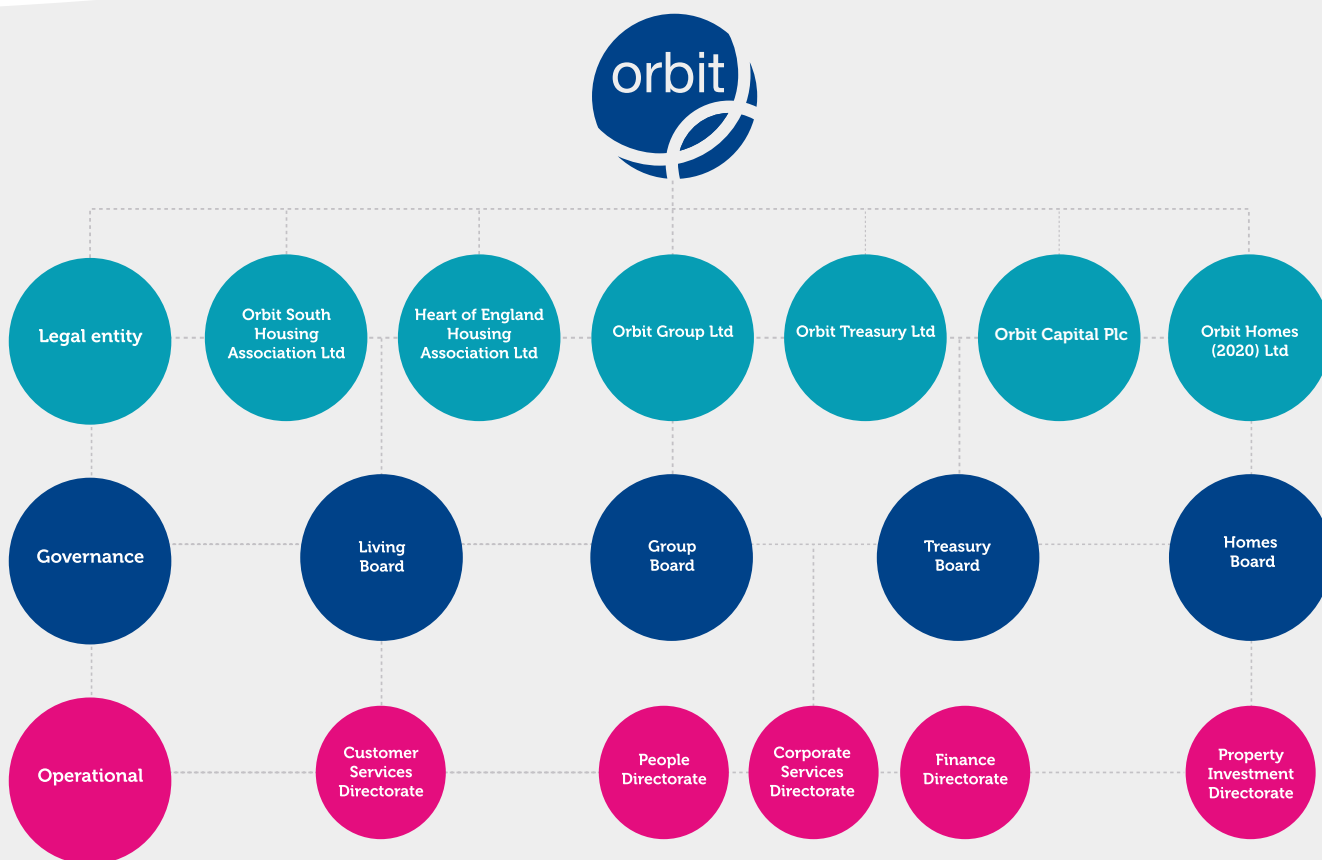
Cash flows

Our 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 Group Limited as an individual association, the net cash inflow from operating activities in 2017 was £60.0 million (2016: £56.9 million) primarily due to movements in debtors and creditor balances. The principal sources of cash inflow for the Association were the income from other Orbit members for support services, income from the provision of shared ownership housing accommodation and the sale of housing properties. The principal sources of cash outflow for the Association were the costs associated with the provision of support services and housing accommodation, the acquisition and construction of housing properties and interest payable on loan facilities.

Organisational structure, governance and risk management

The Group structure is illustrated below; Orbit Group Limited is the parent organisation of the Group. 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 22.

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.

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.

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"> • Reliance on market sales • Interest rate and inflation • Maintenance and development costs • Efficiency gains 	<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
Negligence / poor working practices leading to an unsafe working environment.	<p>We have created a robust Health & Safety strategy, using external expertise, and have a dedicated Compliance team within Property Services. We are also investing in Health & 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 & 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 & 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>
Poor standard of management and leadership unable to adapt to a changing financial and regulatory operating environment.	<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>
Unable to respond to a cyber attack in an effective manner.	<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> <p>After an ISO 27001 inspection we retained our accreditation and DRP testing has been undertaken achieving satisfactory outcomes.</p>
Poor quality of data leading to a failure on governance in terms of performance monitoring and decision making.	<p>We have a data strategy project in place in order to review this risk.</p> <p>We have implemented a new performance management framework and are continuously reviewing and improving the reporting under this.</p>

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 incident, 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 Orbit board



The Rt Hon. Baroness Blackstone
Chair

24 July 2017

Statement of internal control for Orbit Group

Purpose

The statement of internal control provides an opinion to internal and external stakeholders on how effectively Orbit governs its business so as to manage the key risks to the successful delivery of its business and financial plan.

Sources of assurance

A key element of providing this opinion is based upon Orbit's internal 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 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 Orbit's 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 in 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.

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 21 September 2017.

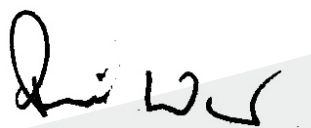
Disclosure of information to auditors

The directors who held office at the date of approval of this statement confirm, so far as they are each aware, there is no relevant audit information of which 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 auditors

KPMG LLP were 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 24 July 2017 and signed on its behalf by:



Richard Wright
Secretary



We have audited the financial statements of Orbit Group Limited for the year ended 31 March 2017 set out on pages 36 to 100. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

This report is made solely to the Association's members, as a body, in accordance with section 87 of the Co-operative and Community Benefit Societies Act 2014 and section 128 of the Housing and Regeneration Act 2008. Our audit work has been undertaken so that we might state to the association those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the association as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As more fully explained in the statement of board's responsibilities set out on page 33, the association's directors are responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

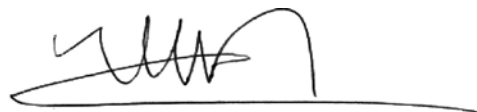
In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the Group and the Association as at 31 March 2017 and of the surplus of the Group and the Association for the year then ended;
- comply with the requirements of the Co-operative and Community Benefit Societies Act 2014; and
- have been properly prepared in accordance with the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

Matters on which we are required to report by exception

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

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



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

28 July 2017

Consolidated and Association statement of comprehensive income

For the year ended 31 March 2017

	Note	Group		Association	
		2017 £000	2016 £000	2017 £000	2016 £000
Turnover	2	333,288	301,217	89,139	71,103
Cost of sales	2	(93,275)	(78,238)	(39,894)	(33,265)
Operating costs	2	(155,436)	(149,338)	(28,863)	(30,937)
Surplus on sale of housing properties	7	22,820	19,506	3,924	3,347
Operating surplus	2&5	107,397	93,147	24,306	10,248
(Loss) on sale of property, plant and equipment – other	5	-	(503)	-	(503)
Income from shares in group undertakings		-	-	1,700	1,700
Interest receivable	8	767	749	1,543	1,770
Interest payable	9	(49,549)	(48,363)	(6,522)	(5,041)
Other financing costs	9	(1,004)	(4,128)	(438)	(788)
Movement in fair value of financial instruments		(2,343)	(1,806)	(10)	(4)
Donations received		-	-	13,266	12,167
Surplus before taxation		55,268	39,096	33,845	19,549
Taxation	10	400	(836)	-	1
Surplus for the year		55,668	38,260	33,845	19,550
Unrealised surplus on revaluation of housing properties	26	-	-	5	130
Actuarial gain/(loss) in respect of pension schemes	36	(1,674)	588	(599)	-
Change in fair value of hedged financial instru- ment		(3,811)	(6,487)	-	-
Total comprehensive income		50,183	32,361	33,251	19,680

All amounts derive from continuing operations.

Consolidated and Association statement of changes in reserves

For the year ended 31 March 2017

Group	Income and expenditure reserve £000	Revaluation reserve £000	Cash flow hedge reserve £000	Total reserves £000
Balance as at 31 March 2016	410,825	-	(62,108)	348,717
Surplus for the year	55,668	-	-	55,668
Actuarial gain/(loss) in respect of pension schemes	(1,674)	-	-	(1,674)
Change in fair value of hedged financial instruments	-	-	(3,811)	(3,811)
Balance as at 31 March 2017	464,819	-	(65,919)	398,900

Association	Income and expenditure reserve £000	Revaluation reserve £000	Cash flow hedge reserve £000	Total reserves £000
Balance as at 31 March 2016	194,363	226	-	194,589
Surplus for the year	33,845	-	-	33,845
Transfer from revaluation reserve to I&E reserve	5	(5)	-	-
Actuarial loss on pension liability	(599)	-	-	(599)
Balance as at 31 March 2017	227,614	221	-	227,835

Consolidated and Association statement of financial position

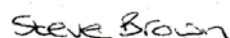
As at 31 March 2017

	Note	Group		Association	
		2017 £000	2016 £000	2017 £000	2016 £000
Fixed assets					
Tangible fixed assets	12&15	2,249,859	2,057,531	301,999	261,986
Investments – HomeBuy loans receivable	14	13,828	15,073	13,828	15,073
Fixed asset investments	13	1,507	800	34,013	34,013
		<u>2,265,194</u>	<u>2,073,404</u>	<u>349,840</u>	<u>311,072</u>
Debtors: amounts falling due after more than one year					
	17	2,681	1,910	25,999	32,496
Current Assets					
Properties for sale and stock	16	117,828	98,172	51,180	35,286
Trade and other debtors	17	29,679	30,478	81,096	51,316
Investments	18	4,265	6,041	3,465	5,230
Cash and cash equivalents		30,950	67,738	19,187	56,260
		<u>182,722</u>	<u>202,429</u>	<u>154,928</u>	<u>148,092</u>
Less: creditors: amounts falling due within one year	19	(115,878)	(85,127)	(123,194)	(81,857)
Less: SHPS pension deficit liability due within one year	36	(2,726)	(2,031)	(2,726)	(2,031)
Net current assets		<u>64,118</u>	<u>115,271</u>	<u>29,008</u>	<u>64,204</u>
Total assets less current liabilities		<u>2,331,993</u>	<u>2,190,585</u>	<u>404,847</u>	<u>407,772</u>
Creditors: amounts falling due after more than one year					
Disposal proceeds and Recycled Capital Grants Funds	20	(10,282)	(10,751)	(5,815)	(5,658)
Derivative liabilities	20	(116,824)	(110,564)	-	-
Other creditors	20	(1,782,274)	(1,694,928)	(152,874)	(186,818)
SHPS pension deficit liability	36	(18,323)	(20,707)	(18,323)	(20,707)
		<u>(1,927,703)</u>	<u>(1,836,950)</u>	<u>(177,012)</u>	<u>(213,183)</u>
Provisions for liabilities					
Pension provision	36	(3,660)	(2,569)	-	-
Other provisions	22	(1,730)	(2,349)	-	-
Total net assets		<u>398,900</u>	<u>348,717</u>	<u>227,835</u>	<u>194,589</u>
Reserves					
Income and expenditure reserve		464,819	410,825	227,614	194,363
Revaluation reserve		-	-	221	226
Cash flow hedge reserve		<u>(65,919)</u>	<u>(62,108)</u>	<u>-</u>	<u>-</u>
Total reserves		<u>398,900</u>	<u>348,717</u>	<u>227,835</u>	<u>194,589</u>

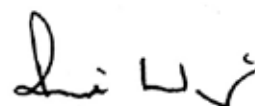
The financial statements on pages 36 to 100 were approved by the Orbit board and signed on its behalf by:



The Rt Hon. Baroness Blackstone
CHAIR
24 July 2017



BOARD MEMBER



Richard Wright
SECRETARY





Consolidated and Association statement of cash flows

For the year ended 31 March 2017

	Note	Group		Association	
		2017 £000	2016 £000	2017 £000	2016 £000
NET CASH GENERATED FROM OPERATING ACTIVITIES	29	137,436	131,360	60,035	56,943
Cash flow from investing activities					
Interest received		767	749	1,543	1,770
Dividends received		-	-	1,700	1,700
Grants received		8,458	18,662	2,492	3,589
Acquisition and construction of housing properties		(251,645)	(205,122)	(65,856)	(43,482)
Housing and other fixed assets sold to other group members		-	-	1,981	5,109
Mortgages redeemed/(issued)		32	44	105	300
Net movement on equity loans and grants		(91)	15	(67)	47
Purchase of other fixed assets		(2,971)	(2,109)	(2,144)	(1,801)
Sale of other fixed assets		-	171	-	171
Investment		(707)	-	-	-
Cash flow from financing activities					
Donations received		-	-	-	6,769
Taxation paid		107	(474)	-	(4)
Interest paid		(47,352)	(50,947)	(6,978)	(6,139)
Other financing costs paid		-	-	-	(464)
(Increase) in bank deposits with a maturity in excess of 24 hours		1,776	1,213	1,765	(3,305)
Housing loans and bond finance received		126,018	143,898	315,621	229,284
Housing loans repaid		(9,741)	(15,393)	(347,270)	(232,755)
Loan arrangement fees paid		(907)	(2,319)	-	-
Other financial liabilities		2,032	4,605	-	-
Net change in cash and cash equivalents		(36,788)	24,353	(37,073)	17,732
Cash and cash equivalents at beginning of the year		67,738	43,385	56,260	38,528
Cash and cash equivalents at end of the year	31	30,950	67,738	19,187	56,260

1. Principal accounting policies

Legal status

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

Basis of accounting

The financial statements have been prepared on a going concern basis, under the historical cost basis of accounting except as modified by the revaluation of freehold and leasehold offices, in accordance with United Kingdom applicable Accounting Standards including the Financial Reporting Standard 102 (FRS 102) and the Housing SORP 2014, Statement of Recommended Practice for Registered Social Housing Providers, and comply with the Accounting Direction for Private Registered Providers of Social Housing 2015. As a public benefit entity Orbit Group Limited has applied all paragraphs of FRS 102 which relate to public benefit entities in preparing the financial statements.

Going concern

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

Basis of consolidation

The financial statements for Orbit Group Limited are the result of the consolidation of the financial statements of the Association and its subsidiaries during the year ended 31 March 2017. The subsidiaries consolidated are: Orbit South Housing Association Limited, Heart of England Housing Association Limited (Orbit Heart of England), Orbit Treasury Limited, Orbit New Homes Limited, Orbit Homes (2020) Limited, Orbit Gateway Limited and Orbit Capital plc. Uniform accounting policies have been adopted across the Group, and surpluses/deficits and balances on intra group transactions have been eliminated on consolidation.

Turnover

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

Properties for sale

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

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

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 or the extent to which they are directly engaged in the operations concerned.

Value Added Tax

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

Liquid resources

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

1) Principal accounting policies (continued)

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

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

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

Housing properties are shown at cost less 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 shown within 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.

Government and other grants

Social Housing Grant (SHG) is receivable from the Homes and Communities Agency (HCA). 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.

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



No
Ball games

1) Principal accounting policies (continued)

SHG due from the HCA or received in advance is included as a current asset or liability within the statement of financial position.

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

Capitalisation of interest and administration costs

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

Other tangible fixed assets and depreciation

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

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

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

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

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

Stock and work in progress

Stock and work in progress are stated at the lower of cost and net realisable value. Cost includes land, build

costs, applicable overheads and interest. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow moving or defective items where appropriate. Interest on borrowings incurred during the development period is capitalised.

Investment in subsidiary undertakings

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

Leased assets

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

Pension costs

Orbit Group Limited participates in the Social Housing Pension Scheme (SHPS), the full details are given in note 36 to the financial statements. For the purposes of the financial statements this scheme is accounted for on a defined contribution basis in relation to deficit liabilities. SHPS pension deficit liability is shown in the statement of financial position. Orbit Group Limited also offered a Stakeholder pension scheme for employees who were not eligible to join SHPS because of the nature of their contract of employment.

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

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

1) Principal accounting policies (continued)

Orbit South Housing Association Limited operates defined benefit funded pension schemes. The assets of the schemes are held separately from those of the association in independently administered funds. The requirements of FRS 102 are fully reflected in the financial statements and associated notes. Note 36 provides a summary of the pension valuation report, together with prior year statements which state last year's revenue and reserves. For funding purposes, surpluses or deficiencies are dealt with as advised by the actuary.

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



1) Principal accounting policies (continued)

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.

Service charge sinking funds

Service charge sinking funds are dealt with as creditors.

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.

Taxation

The charge for the year is based on profits arising on activities that are liable to tax. Taxable members of the Group have adopted the accounting standard for deferred tax (FRS 102, section 29).

Deferred tax is provided in full, at the tax rates expected to apply to the period when the asset is realised or the liability is settled, on any timing differences, although deferred tax assets are only recognised to the extent it is regarded as more likely than not they will be recovered. Timing differences arising from the revaluation of fixed assets are only recognised where there is a binding agreement to sell the revalued assets.

Deferred tax assets and liabilities are not discounted.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Loan classifications and subsequent valuations are the key areas of judgement applied in the financial statements. Fixed rate and variable loans have been classified as basic instruments. Fixed rate loans are stated at amortised cost using the effective interest rate method. Variable rate loans are disclosed at carrying value due to the short term interest period.

Advice has been sought from external treasury advisors on fair value judgements and estimates.

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.

Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the statement of comprehensive income. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Fair value hedges

Where a derivative financial instrument is designated as a hedge of the exposure to a fixed interest risk or foreign exchange risk of a debt instrument measured at amortised cost or the commodity price risk in a firm commitment or of a commodity held, all changes in the fair value of the derivative are recognised immediately in profit or loss. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (and any gains or losses on re-measurement are recognised in the statement of comprehensive income).

If hedge accounting is discontinued and the hedged financial asset or liability has not been derecognised, any adjustments to the carrying amount of the hedged item are amortised into the statement of comprehensive income using the effective interest method over the remaining life of the hedged item.

1) Principal accounting policies (continued)

Cash flow hedges

Where the hedged risk is the variable interest rate risk in a debt instrument measured at amortised cost; the interest rate risk in a firm commitment or a highly probable forecast transaction, the company recognises the effective part of any gain or loss on the derivative financial instrument in other comprehensive income (OCI). Any ineffective portion of the hedge is recognised immediately in the statement of comprehensive income.

The hedging gain or loss recognised in OCI is reclassified to the statement of comprehensive income when the hedged item is recognised in the statement of comprehensive income or when the hedging relationship ends.

Orbit Treasury Limited accounting policy for derivatives is to recognise in the statement of comprehensive income gains and losses on hedges of revenues or operating payments only as they crystallise. Treasury policy states clearly all transactions will be in sterling or hedged to sterling.

Movement in fair value of financial instruments

Hedge accounting

The principle of hedge accounting applies only to standalone swaps, which have to be fair valued at each period end.

However, RPI swaps and swaps with cancellable options do not meet the criteria of hedging instruments (S12.17C). The movement in fair value is therefore taken directly to the statement of comprehensive income.

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

Debt instruments (loan portfolio)

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

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

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

Bond finance

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

HomeBuy

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

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

Mortgage rescue

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

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

The loans and associated grants are disclosed as 'HomeBuy and other equity loans and grants' in note 14 to the financial statements.

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

Group – current year	Turnover	Cost of sales	Operating costs	Surplus on sale of housing	Operating Surplus/ (deficit)
	£000	£000	£000	£000	£000
Social housing lettings	200,011	-	(125,470)	-	74,541
Other social housing activities					
Development for sale	50,392	(42,476)	-	-	7,916
Properties for sale	4,620	(4,590)	-	-	30
Home ownership services	4,853	-	(6,259)	-	(1,406)
LCHO first tranche sales	54,217	(36,713)	(5,404)	-	12,100
Charges for support services	1,630	-	(2,846)	-	(1,216)
Other	15,415	(9,496)	(12,388)	-	(6,469)
	131,127	(93,275)	(26,897)	-	10,955
	331,138	(93,275)	(152,367)	-	85,496
Non-social housing activities	2,150	-	(3,069)	-	(919)
Surplus on sale of housing	-	-	-	22,820	22,820
Total	333,288	(93,275)	(155,436)	22,820	107,397
Group – prior year					
	Turnover	Cost of sales	Operating costs	Surplus on sale of housing	Operating Surplus/ (deficit)
	£000	£000	£000	£000	£000
Social housing lettings	193,411	-	(115,915)	-	77,496
Other social housing activities					
Development for sale	49,565	(44,080)	-	-	5,485
Properties for sale	5,985	(5,985)	-	-	-
Home ownership services	4,734	-	(5,609)	-	(875)
LCHO first tranche sales	36,865	(28,173)	(2,906)	-	5,786
Charges for support services	1,901	-	(3,788)	-	(1,887)
Other	7,111	-	(12,254)	-	(5,143)
SHPS pension remeasurement expense	-	-	(6,539)	-	(6,539)
	106,161	(78,238)	(31,096)	-	(3,173)
	299,572	(78,238)	(147,011)	-	74,323
Non-social housing activities	1,645	-	(2,327)	-	(682)
Surplus on sale of housing	-	-	-	19,506	19,506
Total	301,217	(78,238)	(149,338)	19,506	93,147

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

Association – current year	Turnover £000	Cost of sales £000	Operating costs £000	Surplus on sale of housing £000	Operating Surplus/ (deficit) £000
Social housing lettings	13,968	-	(4,968)	-	9,000
Other social housing activities					
Properties for sale	4,264	(4,264)	-	-	-
Home ownership services	805	-	(716)	-	89
LCHO first tranche sales	52,845	(35,630)	(5,404)	-	11,811
Group Recharges	16,235	-	(16,235)	-	-
Other	944	-	(1,513)	-	(569)
	75,093	(39,894)	(23,868)	-	11,331
	89,061	(39,894)	(28,836)	-	20,331
Non-social housing activities	78	-	(27)	-	51
Surplus on sale of housing	-	-	-	3,924	3,924
Total	89,139	(39,894)	(28,863)	3,924	24,306

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

3. Income and expenditure from social housing lettings

Group				2017	2016
	General needs housing £000	Supported housing and housing for older people £000	Low cost home ownership £000	£000	£000
Rent receivable net of identifiable service charges	152,002	12,470	10,215	174,687	169,513
Service charge income	8,679	5,360	1,826	15,865	14,816
Amortisation of social housing and other capital grants	7,009	1,066	783	8,858	8,569
Other income from lettings	-	-	601	601	513
	167,690	18,896	13,425	200,011	193,411
Expenditure					
Management	(18,237)	(2,934)	(1,458)	(22,629)	(21,047)
Service charge costs	(10,208)	(5,282)	(1,558)	(17,048)	(15,654)
Routine maintenance	(26,969)	(2,152)	(15)	(29,136)	(29,280)
Planned maintenance	(21,421)	(3,036)	2	(24,455)	(21,861)
Bad debts	(1,408)	(75)	4	(1,479)	(966)
Depreciation of housing properties	(24,285)	(2,641)	(1,736)	(28,662)	(27,107)
Impairment of housing properties	(1,443)	-	-	(1,443)	-
Other costs	-	(618)	-	(618)	-
Operating costs on social housing lettings	(103,971)	(16,738)	(4,761)	(125,470)	(115,915)
Surplus on social housing lettings	63,719	2,159	8,663	74,541	77,496
Void losses	2,045	1,097	5	3,147	2,978

3. Income and expenditure from social housing lettings (continued)

Association

	General needs housing £000	Low cost home ownership £000	2017 £000	2016 £000
Rent receivable net of identifiable service charges	540	10,215	10,755	9,724
Service charge income	-	1,826	1,826	897
Amortisation of social housing and other capital grants	3	783	786	786
Other income from lettings	-	601	601	513
	543	13,425	13,968	11,920
Expenditure				
Management	(45)	(1,459)	(1,504)	(1,637)
Service charge costs	-	(1,558)	(1,558)	(1,047)
Routine maintenance	-	(15)	(15)	(62)
Planned maintenance	-	2	2	4
Bad debts	8	4	12	1
Depreciation of housing properties	(169)	(1,736)	(1,905)	(1,741)
Operating costs on social housing lettings	(206)	(4,762)	(4,968)	(4,482)
Surplus on social housing lettings	337	8,663	9,000	7,438
Void losses	-	5	5	18

4. Staff costs

	Group		Association	
	2017 Number	2016 Number	2017 Number	2016 Number
Average number employed				
Office staff	1,016	946	994	921
Scheme staff	259	300	250	290
	1,275	1,246	1,244	1,211
Full time	1,019	959	996	933
Part time	256	287	248	278
	1,275	1,246	1,244	1,211
Full time equivalents	1,226	1,183	1,199	1,151

A full time equivalent would be 35 hours per week.

	Group		Association	
	2017 £000	2016 £000	2017 £000	2016 £000
Staff costs for the above				
Wages and salaries	37,973	36,218	37,089	34,629
Social security costs	3,641	3,410	3,561	3,233
Other pension costs	1,994	1,888	1,921	1,772
	43,608	41,516	42,571	39,634

	Group		Association	
	2017 Number	2016 Number	2017 Number	2016 Number
Number employed at 31 March				
Office staff	1,014	976	992	953
Scheme staff	233	274	225	264
	1,247	1,250	1,217	1,217

4. Staff costs (continued)

Directors and senior staff emoluments - FTE

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

Band	Group	
	2017 Number	2016 Number
£210,000 - £220,000	1	-
£200,001 - £210,000	-	-
£190,001 - £200,000	-	1
£180,001 - £190,000	-	-
£170,001 - £180,000	-	-
£160,001 - £170,000	-	-
£150,001 - £160,000	-	-
£140,001 - £150,000	1	1
£130,001 - £140,000	2	2
£120,001 - £130,000	-	1
£110,001 - £120,000	2	1
£100,001 - £110,000	5	5
£90,001 - £100,000	6	5
£80,001 - £90,000	12	10
£70,001 - £80,000	13	13
£60,001 - £70,000	23	30
Total	65	69

5. Operating Surplus

	Group		Association	
	2017 £000	2016 £000	2017 £000	2016 £000
Operating surplus is arrived at after charging/(crediting)				
Depreciation of housing properties	28,662	27,107	1,905	1,741
Depreciation of other tangible fixed assets	2,429	2,261	1,954	1,876
Amortisation of social housing grant	(8,858)	(8,569)	(786)	(786)
Impairment of housing properties	1,443	-	-	-
Impairment of other tangible fixed assets	355	647	-	-
Deficit on disposal of other tangible fixed assets	-	503	-	503
Operating lease rentals				
Land and buildings	857	788	-	51
Office equipment and vehicles	412	412	218	268
Vehicles	219	269	-	-
Aerial	144	147	-	-
White goods	73	72	-	-
Auditors' remuneration (excluding VAT)				
Fees payable to the Association's auditors for the audit of the financial statements	78	90	7	15
Non-audit services				
Fees payable to the Association's auditors for other services	68	45	52	43
Tax compliance services	37	58	31	43
Total non-audit services	105	103	83	86

6. Directors Emoluments

The directors of the Association are its board members and the Group chief executive.

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

	Group		Association	
	2017 £000	2016 £000	2017 £000	2016 £000
Group board members (non executive)				
F Beckett	16	16	16	16
R Berrett	6	9	2	9
The Rt Hon. Baroness Blackstone	27	27	27	27
S Brown	10	10	10	10
A Crook	15	15	15	15
C Crook	15	15	15	15
A Hobart	5	-	5	-
D Weaver	5	-	5	-
D Young	11	11	11	11
Total	110	103	106	103

	2017 £000	2016 £000
Associations board members (non executive)		
K Bolister	5	5
J Ball	-	2
W Colgrave	6	3
L Dexter	-	4
H Devy	6	5
J Dickinson	-	2
S Fisher	3	3
D Ghandi	-	3
J Hopes	5	5
G Kyle	5	5
S Margrave	5	5
V Nicholls	-	1
G Richardson	5	5
A Squirrell	-	2
K Strong	5	5
S Sumar	-	5
N Topping	-	3
D Tampin	3	3
S Tandooran- Sentain	4	3
S Watson	6	3
L Williams	1	-
W Yardley	4	3
S Shubhankar	4	-
J Boomhauer	3	-
Total	70	75

6. Directors Emoluments (continued)

	Group		Association	
	2017 £000	2016 £000	2017 £000	2016 £000
Aggregate emoluments (including pension contributions) paid to or received by directors who are executive staff members including salaries, honoraria and other benefits	1,089	1,013	1,089	1,013
Aggregate emoluments of the highest paid director excluding pension contributions included in aggregate emoluments of directors who are executive staff members	213	215	213	215

The Group chief executive was a member of SHPS on the same terms as all other staff that are also members; no enhanced or special terms apply. Expenses paid during the year to board members amounted to £42k (2016: £38k).

7. Surplus on sale of fixed assets - housing properties

Group	2017			2016		
	Letting £000	Shared equity £000	Total £000	Letting £000	Shared equity £000	Total £000
Disposal proceeds	26,648	8,388	35,036	27,607	7,919	35,526
Carrying value of fixed assets	(8,079)	(6,112)	(14,191)	(11,994)	(5,970)	(17,964)
	18,569	2,276	20,845	15,613	1,949	17,562
Capital grant recycled	2,231	1,667	3,898	1,991	1,531	3,522
RTB Clawback	(1,923)	-	(1,923)	(1,407)	-	(1,407)
Disposal proceeds fund	-	-	-	(171)	-	(171)
Surplus on disposal	18,877	3,943	22,820	16,026	3,480	19,506

Association	2017			2016		
	Letting £000	Shared equity £000	Total £000	Letting £000	Shared equity £000	Total £000
Disposal proceeds	46	8,340	8,386	-	7,706	7,706
Carrying value of fixed assets	(55)	(6,074)	(6,129)	-	(5,890)	(5,890)
	(9)	2,266	2,257	-	1,816	1,816
Capital grant recycled	-	1,667	1,667	-	1,531	1,531
Disposal proceeds fund	-	-	-	-	-	-
Surplus/(loss) on disposal	(9)	3,933	3,924	-	3,347	3,347

8. Interest receivable and other income

	Group		Association	
	2017 £000	2016 £000	2017 £000	2016 £000
Interest receivable and similar income	767	749	1,543	1,770

9. Interest payable

	Group		Association	
	2017 £000	2016 £000	2017 £000	2016 £000
Finance leases				-
Loans and bank overdrafts	51,547	48,595	6,889	5,285
Interest payable capitalised on housing properties under construction	(1,998)	(232)	(367)	(244)
	49,549	48,363	6,522	5,041
Capitalisation rate used to determine the finance costs capitalised during the period	0.75%	0.75%	0.75%	0.75%
Other financing costs				
Early redemption fee for Dexia loan	-	3,703	-	464
Loan arrangement fees	475	-	-	-
Defined benefit pension charge	529	425	438	324
	1,004	4,128	438	788

10. Tax on surplus on ordinary activities

The only members of the Group liable to a tax charge or credit throughout the year ended 31 March 2017 were Orbit Group Limited, Orbit Homes (2020) Limited, Heart of England Housing Association Limited, Orbit Treasury Limited and Orbit Capital plc. Orbit Group Limited obtained charitable status with effect from 3 April 2006. From that point, its principal sources of income and gains have been exempt from corporation tax and accordingly, no deferred tax assets have been recognised in the statement of financial position of the Association at either 31 March 2017 or 31 March 2016.

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

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

10. Tax on surplus on ordinary activities (continued)

	Group		Association	
	2017 £000	2016 £000	2017 £000	2016 £000
(a) Analysis of (credit)/charge in year:				
Current tax:				
UK corporation tax on profits of the year	(547)	-	-	-
Adjustment in respect of previous year	562	836	-	(1)
	15	836	-	(1)

The current tax charge for the year is lower (2016: lower) than the standard rate of Corporation Tax in the UK of 20% (2016: 20%). The differences are explained below:

	Group		Association	
	2017 £000	2016 £000	2017 £000	2016 £000
(b) Factors affecting tax charge for current year				
Surplus on ordinary activities before taxation	55,268	39,096	33,845	19,549
Tax charge at 20% (2016: 20%) thereon	11,054	7,819	6,769	3,910
Non taxable (surpluses) (primarily charitable exemptions)	(11,601)	(7,819)	(6,768)	(3,926)
Capital allowances less than depreciation	-	-	-	-
Adjustment in respect of previous year	562	836	(1)	15
Deferred tax -movement relating to fair value losses (note 11)	(467)	-	-	-
Tax release to SoCI (note 11)	52	-	-	-
Current tax (credit)/charge for the year	(400)	836	-	(1)

(c) Factors that may affect future tax charges:

In the Summer Budget 2015, the government announced legislation setting the Corporation Tax main rate at 19% for the years starting 1 April 2017, 2018 and 2019. In the 2016 budget, the government announced a further reduction to the Corporation Tax main rate for the year starting 1 April 2020, setting the rate at 17%.

11. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Group		Association	
	2017 £000	2016 £000	2017 £000	2016 £000
	Assets	Assets	Assets	Assets
As at 1 April	-	-	-	-
Movement relating to fair value losses through statement of comprehensive income	(467)	-	-	-
Tax release to statement of comprehensive income	52	-	-	-
Total (assets)/liabilities as at 31 March	(415)	-	-	-

The adoption of FRS 102 has resulted in certain costs relating to the third party borrowing being recognised using an effective interest rate method rather than on a straight line basis as previously. As a result the difference between the carrying values at 31 March 2015 using old GAAP accounting and the carrying values at that date as restated applying FRS 102 have been brought into account as a taxable transitional adjustment, spread over a 10 year period.

None of the borrowing which gave rise to the transitional adjustments was fully repaid by 31 March 2016 therefore 10% of the adjustments will be taxed each year starting with the period to 31 March 2016; a loss of £2,882,000 resulting in a deduction of £288,200 per year.

Deferred tax should be recognised in respect of the taxable transitional adjustments.

The deferred tax asset is calculated using the tax rate of 18% of the carrying value at 31 March 2016 (£2,593,800) and spread over the remaining 9 year period, resulting in £51,876 of future tax release per year to the statement of comprehensive income



12. Housing properties

Group	Housing properties for letting		Supported housing		Low cost home ownership		Non-social housing		Total
	Complete	In development	Complete	In development	Complete	In development	Complete	In development	
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost									
At 1 April 2016	1,797,599	157,186	56,244	-	207,795	53,733	2,600	2,275,157	
Reclassifications	2,156	-	190	-	(2,346)	-	-	-	
Additions	14,379	178,003	1,079	-	174	91,840	-	285,475	
Transfer on completion	77,440	(77,440)	-	-	32,702	(32,702)	-	-	
Transfer to other group members	-	(5,315)	-	-	5,315	-	-	-	
Transfer to stock/WIP	-	-	-	-	(37,837)	(14,312)	-	(52,149)	
Disposals	(11,635)	-	(822)	-	(4,096)	-	-	(16,553)	
At 31 March 2017	1,879,939	252,434	56,691	-	201,707	98,559	2,600	2,491,930	
Less: accumulated depreciation									
At 1 April 2016	(197,688)	-	(14,562)	-	(13,920)	-	(141)	(226,311)	
Eliminated on disposal	4,122	-	252	-	367	-	-	4,741	
Depreciation	(24,834)	-	(970)	-	(1,839)	-	(35)	(27,678)	
Reclassification	65	-	(11)	-	(54)	-	-	-	
At 31 March 2017	(218,335)	-	(15,291)	-	(15,446)	-	(176)	(249,248)	
Less: provisions for impairment									
At 1 April 2016	(1,867)	-	-	-	(54)	(985)	-	(2,906)	
Charge for the year	(1,443)	-	-	-	-	-	-	(1,443)	
At 31 March 2017	(3,310)	-	-	-	(54)	(985)	-	(4,349)	
Net book amount									
At 31 March 2017	1,658,294	252,434	41,400	-	186,207	97,574	2,424	2,238,333	
At 31 March 2016	1,598,044	157,186	41,682	-	193,821	52,748	2,459	2,045,940	

12. Housing properties (continued)

Additions to properties during the year include capitalised interest and finance costs of £2.0m million (2016: £0.2 million) and development administration costs/project management fees of £8.3 million (2016: £7.4 million). The Group reviewed its properties for impairment and there was a charge of £1.4m (2016: £Nil) to the statement of comprehensive income. During the year the total expenditure on works to existing properties was £62.6 million of which £17.5 million has been capitalised.

12. Housing properties (continued)

Association	Housing properties for letting		Supported housing		Low cost home ownership		Non-social housing		Total
	Complete	In development	Complete	In development	Complete	In development	Complete	In development	
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost									
At 1 April 2016	13,580	-	-	-	202,349	53,733	-	-	269,662
Reclassifications	2,346	-	-	-	(2,346)	-	-	-	-
Additions	-	-	-	-	132	64,948	-	-	65,080
Transfer on completion	-	-	-	-	32,702	(32,702)	-	-	-
Transfer to other group members	-	-	-	-	5,315	26,892	-	-	32,207
Transfer to stock/WIP	-	-	-	-	(37,364)	(14,312)	-	-	(51,676)
Disposals	(52)	-	-	-	(4,059)	-	-	-	(4,111)
At 31 March 2017	15,874	-	-	-	196,729	98,559	-	-	311,162
Less: accumulated depreciation									
At 1 April 2016	(849)	-	-	-	(13,816)	-	-	-	(14,665)
Reclassifications	54	-	-	-	(54)	-	-	-	-
Eliminated on disposal	-	-	-	-	367	-	-	-	367
Depreciation	(169)	-	-	-	(1,736)	-	-	-	(1,905)
At 31 March 2017	(964)	-	-	-	(15,239)	-	-	-	(16,203)
Less: provisions for impairment									
At 1 April 2016	-	-	-	-	(54)	(985)	-	-	(1,039)
(Charge)/credit for the year	-	-	-	-	-	-	-	-	-
At 31 March 2017	-	-	-	-	(54)	(985)	-	-	(1,039)
Net book amount									
At 31 March 2017	14,910	-	-	-	181,436	97,574	-	-	293,920
At 31 March 2016	12,731	-	-	-	188,479	52,748	-	-	253,958

12. Housing properties (continued)

Additions to properties during the year include capitalised interest and finance costs of £0.4 million (2016: £0.2 million) and development administration costs/project management fees of £2.8 million (2016: £1.8 million). The Association reviewed its properties for impairment and there was a charge of £nil to statement of comprehensive income for 2017 (2016: £Nil).

12. Housing properties (continued)**The net book value of housing and other properties (note 15) comprises:**

	Group		Association	
	2017 £000	2016 £000	2017 £000	2016 £000
Freehold land and buildings	2,231,530	2,044,439	290,026	253,480
Long leasehold land and buildings	14,060	13,090	8,222	8,506
Short leasehold land and buildings	2	2	-	-
	2,245,592	2,057,531	298,248	261,986



13. Investments

	Group		Association	
	2017 £000	2016 £000	2017 £000	2016 £000
Monies deposited with Affordable Housing Finance Plc	1,507	-	-	-
Monies deposited with Funding for Homes Ltd	-	800	-	-
Investment in preference shares of Orbit Homes (2020) Limited	-	-	34,000	34,000
Investment in ordinary shares of Orbit Capital plc	-	-	13	13
Total	1,507	800	34,013	34,013

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

In July 2016, Orbit South Housing Association and Heart of England Housing Association each 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 £1,507k. 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.

During the year ended 31 March 2017, Orbit Group Limited made no further investment (2016: £12.0m) in 5% redeemable preference shares in Orbit Homes (2020) Limited, a wholly owned subsidiary company.

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

14. HomeBuy and other equity loans

Group and Association	2017			2016		
	HomeBuy loans £000	Other equity loans £000	Total £000	HomeBuy loans £000	Other equity loans £000	Total £000
Loan advanced to borrowers at April	11,785	3,288	15,073	13,066	3,363	16,429
New loans issued	-	-	-	-	-	-
Interest receivable	-	57	57	-	58	58
Repaid during the year	(1,214)	(88)	(1,302)	(1,281)	(133)	(1,414)
Loan advanced to borrower at 31 March	10,571	3,257	13,828	11,785	3,288	15,073

15. Other fixed assets

Group	Freehold offices £000	Leasehold offices £000	Commercial premises £000	Motor vehicles £000	Furniture, fixtures & equipment £000	Total £000
Cost						
At 1 April 2016	3,293	10,476	543	19	17,130	31,461
Additions	-	547	-	-	2,424	2,971
Disposals	-	-	-	-	(226)	(226)
Write offs	-	(106)	-	-	(2,619)	(2,725)
At 31 March 2017	3,293	10,917	543	19	16,709	31,481
Less: accumulated depreciation						
At 1 April 2016	(1,055)	(4,186)	(180)	(19)	(13,261)	(18,701)
Charge for year	(82)	(557)	(16)	-	(1,774)	(2,429)
Write offs	-	106	-	-	2,467	2,573
Eliminated on disposal	-	-	-	-	126	126
At 31 March 2017	(1,137)	(4,637)	(196)	(19)	(12,443)	(18,431)
Less: provisions for impairment						
At 1 April 2016	(1)	(1,168)	-	-	-	(1,169)
Charge/(credit) for year	-	(355)	-	-	-	(355)
At 31 March 2017	(1)	(1,523)	-	-	-	(1,524)
NET BOOK AMOUNT						
At 31 March 2017	2,155	4,757	347	-	4,267	11,525
At 31 March 2016	2,237	5,122	363	-	3,869	11,591

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

subject to the requirement to test assets for impairment. If the offices had not been revalued they would have been included in Orbit Group Limited balance sheet at £Nil (2016: £Nil). With the adoption of FRS 102, this policy has been retained. The difference between the revalued amounts of the offices and their depreciated costs are as follows:

15. Other Fixed Assets (continued)

	Freehold offices £000	Leasehold offices £000	Total £000
Depreciated historical cost			
Revalued amount	221	-	221
Difference as at 31 March 2017	221	-	221
Difference as at 31 March 2016	226	-	226

Association

	Freehold offices £000	Leasehold offices £000	Furniture, fixtures & equipment £000	Total £000
Cost or valuation				
At 1 April 2016	771	6,907	11,990	19,668
Additions	-	99	2,257	2,356
Transfer to group members	-	-	(98)	(98)
Write offs	-	(106)	(2,619)	(2,725)
Disposals	-	-	(156)	(156)
At 31 March 2017	771	6,900	11,374	19,045
Less: accumulated depreciation				
At 1 April 2016	(343)	(2,195)	(8,581)	(11,119)
Charge for year	(7)	(383)	(1,564)	(1,954)
Write offs	-	106	2,466	2,572
Eliminated on disposal	-	-	56	56
At 31 March 2017	(350)	(2,472)	(7,623)	(10,445)
Less: provisions for impairment				
At 1 April 2016	-	(521)	-	(521)
Charge/(credit) for year	-	-	-	-
At 31 March 2017	-	(521)	-	(521)
NET BOOK AMOUNT				
At 31 March 2017	421	3,907	3,751	8,079
At 31 March 2016	428	4,191	3,409	8,028

16. Properties for sale

	Group		Association	
	2017 £000	2016 £000	2017 £000	2016 £000
Housing properties for sale	954	1,981	954	1,981
Shared ownership - completed properties	3,723	10,064	3,664	9,416
Shared ownership - under construction	46,562	23,889	46,562	23,889
Market sale - under construction	66,589	62,238	-	-
	117,828	98,172	51,180	35,286

The above figures include capitalised interest of £367k (2016: £244k) for the Group and the Association.

17. Debtors

	Group		Association	
	2017 £000	2016 £000	2017 £000	2016 £000
Due within one year:				
Rental debtors	9,662	9,620	458	441
Less: provision for doubtful debts	(3,046)	(2,805)	(52)	(52)
	6,616	6,815	406	389
Amounts due from subsidiaries	-	-	77,904	47,093
Prepayments and accrued income	2,923	3,548	1,033	1,678
SHG receivable	2,539	1,689	-	618
Amounts due from development partners	6,993	5,485	-	-
Other debtors	10,608	12,941	1,753	1,537
	29,679	30,478	81,096	51,316
Due after more than one year:				
Other debtors	2,681	1,910	574	646
Amounts due from subsidiaries	-	-	25,425	31,850
	2,681	1,910	25,999	32,496

Loans have been made to partner companies to enable the construction and sale of homes at certain sites. The Loans are repaid out of the sales receipts, and are appropriately secured.

18. Current asset investments

	Group		Association	
	2017 £000	2016 £000	2017 £000	2016 £000
Other investments and cash - short term deposits comprise:				
- Maturing in excess of 7 days	4,265	6,041	3,465	5,230
	4,265	6,041	3,465	5,230

19. Creditors: amounts falling due within one year

	Group		Association	
	2017	2016	2017	2016
	£000	£000	£000	£000
Housing loans	35,388	9,742	1,820	2,932
Trade creditors	28,456	23,749	8,456	4,630
Amounts due to group undertakings	-	-	102,340	64,221
Other creditors including taxation and social security	9,316	13,716	3,754	4,440
Accruals and deferred income	17,661	18,191	-	101
Deposits received in advance	-	460	-	460
Rents received in advance	4,173	3,841	288	218
Grants received in advance	1,392	917	-	576
RCGF and DPF within one year (note 23)	9,313	4,661	4,536	2,212
HomeBuy and other equity grants	1,214	1,281	1,214	1,281
Deferred capital grant	8,858	8,569	786	786
Deferred income credit	107	-	-	-
Total	115,878	85,127	123,194	81,857

20. Other creditors: amounts falling due after more than one year

	Group		Association	
	2017	2016	2017	2016
	£000	£000	£000	£000
Housing loans	853,758	824,285	80,134	112,392
Derivatives financial liabilities	116,824	110,564	-	-
Deferred capital grant	642,097	646,608	58,068	58,900
Deferred income for renewals and maintenance contributions	14,521	14,547	2,960	2,644
HomeBuy and other equity grants	11,712	12,882	11,712	12,882
Bond finance	248,434	194,605	-	-
Deferred income credit	-	221	-	-
Other creditors	2,582	-	-	-
RCGF and DPF more than one year (Note 23)	10,282	1,780	5,815	5,658
Loan premium Affordable Homes Plc	9,170	10,751	-	-
Total	1,909,380	1,816,243	158,689	192,476

Housing loans shown above are net of £4,098k loan arrangement fees carried forward (2016: £3,536k) and swap buy-out cancellation fees of £5,505k (2016: £5,812k).

Bond finance shown above is net of £1,766k arrangement fees carried forward (2016: £1,588k), discount costs of £3,676k (2016: £3,807k) and issue price premium of £3,876k (2016: Nil).

21. Deferred capital grant

	Group		Association	
	2017 £000	2016 £000	2017 £000	2016 £000
At 1 April	655,176	648,356	59,686	57,899
Grant received in the year	7,747	19,416	249	2,598
Transfer to RCGF and DPF	(3,079)	(3,631)	(1,387)	(1,532)
Transfer from intercompany	-	-	901	1,374
Elimination on the disposal of assets	(31)	(397)	191	133
Released to income in the year	(8,858)	(8,568)	(786)	(786)
At 31 March	650,955	655,176	58,854	59,686
Analysed as:				
Amounts to be released within 1 year	8,858	8,568	786	786
Amounts to be released in more than 1 year	642,097	646,608	58,068	58,900
Total	650,955	655,176	58,854	59,686

22. Provisions for liabilities

Group	Release of		
	At beginning of the year £000	provision during the year £000	At end of year £000
Restructuring	34	(34)	-
HIA hardship	5	-	5
Stratford Sound Insulation	1,598	(585)	1,013
Thames water rates	712	-	712
	2,349	(619)	1,730

Analysed as:

	Group		Association	
	2017 £000	2016 £000	2017 £000	2016 £000
Amounts to be released in more than 1 year	1,730	2,349	-	-

There were no provisions held within the association.

The HIA hardship fund relates to grants payable to customers and will be utilised in the next financial year.

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.

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

23. Disposal proceeds and recycled capital grant funds

Group	RCGF £000	DPF £000	Total £000
At 1 April 2016	14,465	947	15,412
Grants recycled	5,133	-	5,133
Interest accrued	52	3	55
Utilised in the year	(1,410)	-	(1,410)
Other	227	178	405
At 31 March 2017	18,467	1,128	19,595

Amount due for repayment to the Homes and Communities Agency

Group	RCGF £000	DPF £000	Total £000
Within one year	8,372	941	9,313
After more than one year	10,095	187	10,282
At 31 March 2017	18,467	1,128	19,595

Disposal proceeds and recycled capital grant funds

Association	RCGF £000	DPF £000	Total £000
At 1 April 2016	7,870	-	7,870
Grants recycled	2,903	-	2,903
Interest accrued	28	-	28
Utilised in the year	(450)	-	(450)
At 31 March 2017	10,351	-	10,351

Amount due for repayment to the Homes and Communities Agency

Association	RCGF £000	DPF £000	Total £000
Within one year	4,536	-	4,536
After more than one year	5,815	-	5,815
At 31 March 2017	10,351	-	10,351

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

24. Housing loans and bond finance

	Group		Association	
	2017 £000	2016 £000	2017 £000	2016 £000
Due within one year				
Orbit Treasury Limited	-	-	1,212	2,932
Greenwich NatWest	608	542	608	-
Bank/building society loans	18,780	9,200	-	-
Debenture stock	16,000	-	-	-
	35,388	9,742	1,820	2,932
Due after more than one year				
Orbit Treasury Limited	-	-	35,134	85,015
Orbit Capital plc	-	-	34,918	27,377
Bond finance	250,000	200,000	-	-
Bank/building society loans	793,799	800,644	-	-
Affordable Homes Plc	50,000	-	-	-
Greenwich NatWest	10,082	10,690	10,082	-
Debenture stock	-	16,000	-	-
	1,103,881	1,027,334	80,134	112,392
	1,139,269	1,037,076	81,954	115,324

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

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

24. Housing loans and bond finance (continued)

Note (a)

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

	Group		Association	
	2017 £000	2016 £000	2017 £000	2016 £000
In one year or less, on demand	35,388	9,742	1,820	2,932
Repayable by instalments:				
- more than one year but not more than two years	33,162	16,888	1,212	2,932
- in more than two years but not more than five years	100,029	96,477	3,635	8,795
- in more than 5 years	540,511	535,725	75,287	100,665
	673,702	649,090	80,134	112,392
Repayable other than by instalments:				
- in one year or less	16,000	-	-	-
- in more than one year but not more than two years	14,179	28,244	-	-
- in more than two years but not more than five years	55,000	40,000	-	-
- in more than 5 years	345,000	310,000	-	-
	430,179	378,244	-	-
	1,139,269	1,037,076	81,954	115,324

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

Note (b)

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

24. Housing loans and bond finance (continued)

The interest rate profile at 31 March 2017 was:

	Total £m	Variable Rate £m	Fixed Rate £m	Weighted average rate %	Weighted average term until maturity Years
Group					
Instalment loans	948.3	102.1	846.2	3.92	22.6
Non-instalment loans	191.0	55.0	136.0	3.61	13.8
	1139.3	157.1	982.2	3.86	21.1
Association					
Instalment loans	82.0	6.6	75.3	4.94	23

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

	Group 2017 £m
Expiring in more than one year but not more than two years	16
Expiring in more than two years	315
Undrawn committed facilities	331

Hedge Accounting (Group)

The following table indicates the periods in which the cash flows associated with cash flow hedging instruments are expected to occur as required by FRS 102.29(a) for the cash flow hedge accounting models in Group not in Association.

	2017					
	Carrying amount £'000	Expected cash flows £'000	1 year or less £'000	1 to < 2 years £'000	2 to < 5 years £'000	5 years and over £'000
Interest rate swaps:						
Assets	-	44,810	1,107	1,424	6,561	35,718
Liabilities	65,919	(143,964)	(10,359)	(10,358)	(30,188)	(93,059)
	65,919	(99,154)	(9,252)	(8,934)	(23,627)	(57,341)
	2016					
	Carrying amount £'000	Expected cash flows £'000	1 year or less £'000	1 to < 2 years £'000	2 to < 5 years £'000	5 years and over £'000
Interest rate swaps:						
Assets	-	62,705	1,813	2,060	8,785	50,047
Liabilities	62,108	(154,381)	(10,414)	(10,359)	(30,724)	(102,884)
	62,108	(91,676)	(8,601)	(8,299)	(21,939)	(52,837)

24. Housing loans and bond finance (continued)

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

	2017					
	Carrying amount £'000	Expected cash flows £'000	1 year or less £'000	1 to < 2 years £'000	2 to < 5 years £'000	5 years and over £'000
Interest rate swaps:						
Assets	-	11,265	167	236	1,072	9,790
Liabilities	50,904	(35,980)	(1,816)	(1,818)	(5,463)	(26,883)
	50,904	(24,715)	(1,649)	(1,582)	(4,391)	(17,093)
	2016					
	Carrying amount £'000	Expected cash flows £'000	1 year or less £'000	1 to < 2 years £'000	2 to < 5 years £'000	5 years and over £'000
Interest rate swaps:						
Assets	-	15,096	286	325	1,410	13,075
Liabilities	48,456	(37,806)	(1,824)	(1,818)	(5,458)	(28,706)
	48,456	(22,710)	(1,538)	(1,493)	(4,048)	(15,631)

Fair values

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

	2017		2016	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Loan	462,775	735,341	451,975	670,581
Bond	95,000	112,882	95,000	110,046
Embedded swap	240,625	100,801	250,625	96,510
	798,400	949,024	797,600	877,137

Orbit Treasury Limited has thirty cash flow hedges. The hedge relationships of twenty five meets each condition for hedge accounting, which are consistent with the entity's risk management objectives for undertaking hedges. The remaining five cash flow hedges do not meet the conditions of hedge accounting due to having callable options in the swap contract from the banks.

Orbit Treasury Limited considers that an economic relationship exists between the hedging instrument

(interest rate swap) and the hedged item (floating rate loan) in that the values of the hedged item and hedging instrument move in opposite directions in response to movements in LIBOR, the hedged risk, over the life of the hedge.

The objective of the hedge is to mitigate the changes in the future cash flows stemming from the floating rate interest payments related to the floating rate loan entered into by Orbit Treasury Limited.

24. Housing loans and bond finance (continued)

In accordance with chapter 12 of FRS 102, hedge accounting has been applied to the following swap contracts.

	2017	2016
	£000	£000
Barclays £5m 4.96% 31 January 2020	598	761
Barclays £5m 5.06% 14 April 2023	1,215	1,313
Barclays £5m 4.24% 14 April 2023	1,269	1,287
Barclays £10m 4.7% 26 April 2025	2,818	2,877
Barclays £5m 4.43% 14 April 2028	1,660	1,616
Barclays £5m 4.28% 13 June 2025	1,260	1,270
Barclays £5m 3.78% 14 April 2030	1,540	1,454
Barclays £10m 4.665% 01 July 2034	5,053	4,803
Barclays £5m 4.085% 12 February 2037	2,371	2,218
Barclays £10m 4.238% 31 October 2031	3,946	3,765
Barclays £15m 4.0425% 15 April 2033	5,944	5,609
Lloyds £10m 4.81% 03 April 2028	3,709	3,649
Lloyds £5m 4.865% 12 November 2029	2,091	2,040
Lloyds £20m 3.955% 30 March 2037	9,070	8,448
Lloyds £10m 3.89% 30 November 2037	4,544	4,214
Lloyds £20m 2.735% 30 November 2031	4,051	3,581
Lloyds £30m 2.78% 28 November 2031	6,259	5,560
Lloyds £10m 4.24% 04 April 2022	1,720	1,912
Lloyds £10m 4.229% 31 October 2031	3,934	3,753
Lloyds £10m 4.761% 07 July 2038	6,273	5,951
Lloyds £10m 4.946% 07 July 2038	6,616	6,299
RBS £15m 2.0675% 13 May 2020	631	689
RBS £25m 2.4875% 13 May 2022	2,041	2,060
Dexia £9m 4.775% 01 April 2030	3,758	3,647
Dexia £10m 3.975% 30 March 2037	4,571	4,260
	86,942	83,036

24. Housing loans and bond finance (continued)

The following swap contracts do not qualify for hedge accounting.

	2017 £000	2016 £000
Dexia £5m 4.235% 30 April 2037	3,045	2,722
Lloyds £5m 4.235% 30 April 2037	2,733	2,722
Barclays £10m 4.125% 02 July 2033	4,272	4,164
Lloyds £12.5m 4.39% 31 August 2037	13,205	12,021
Dexia £10m 4.34% 07 July 2038	6,626	5,899
	29,881	27,528
Total fair value of derivatives	116,823	110,564

The total movement in fair value of derivatives in the year was £6,259k (2016: £8,449k) of which £3,811k (2016: £6,487k) were recognised in other comprehensive income representing the effective component of the swap with the ineffective component of £96k deficit (2016: £404k surplus) representing the shortfall of the fair value of hedging instruments over the change in the fair value of expected cash flows together with £2,352k (2016: £2,366k) fair value movement of swap contracts that don't qualify for hedge accounting.

The hedged items have a variable interest rate risk associated with the LIBOR linked bank loan. The counterparty to the swap and the credit risk associated is considered to be low.

Financial risk management

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

Interest rate risk

At 31 March 2017, 86% of the company's debt was fixed or hedged. There is no intention to repay any term debt other than in accordance with the terms of each agreement. The Group has £160m of variable debt funding which could be exposed to rises in LIBOR rates. If LIBOR was to increase by 0.50%, then the impact would be additional interest costs of £0.7m to the statement of comprehensive income. Any such costs can be recovered from the associations.

Liquidity risk

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

Credit risk

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

25. Called up share capital

	Group		Association	
	2017 £000	2016 £000	2017 £000	2016 £000
Issued and fully paid shares of £1 each				
At 1 April 2016	8	8	8	8
Issued	-	-	-	-
Surrendered	-	-	-	-
At 31 March 2017	8	8	8	8

The share capital of Orbit Group Limited, which was formed in 1997, is raised by the issue of shares with a nominal value of £1 each. The Association's Co-operative and Community Benefit Society status means the maximum shareholding permitted per member is 1 share. There is no authorised share capital and the Orbit board may issue as many £1 shares as it wishes. However, the board operates a restricted shareholding policy with all

shares currently held by serving, or former Orbit board members only. The Association's shares carry no right to interest, dividend or bonus. Shares are not capable of being withdrawn or transferred and cannot be held jointly. Shareholders have the right to attend (or to vote by proxy) at any general, special general or extraordinary general meeting of the Association.

26. Revaluation reserve

Association

	At beginning of the year £000	Transfer to I&E account £000	At end of year £000
Revaluation of offices	226	(5)	221

27. Capital commitments

	Group		Association	
	2017	2016	2017	2016
	£000	£000	£000	£000
Capital expenditure which has been contracted for but has not been provided for in the financial statements	405,848	478,015	98,125	115,718
Capital expenditure which has been authorised under authority from the Orbit board but has yet to be contracted for	431,595	451,955	77,268	76,897
	837,443	929,970	175,393	192,615

The company expects these commitments to be financed with:

	Group		Association	
	2017	2016	2017	2016
	£000	£000	£000	£000
Social Housing Grant	21,786	35,668	165	1,579
Committed loan facilities and reserves	275,754	412,386	11,699	22,253
Proceeds from sale of properties	539,903	481,916	163,529	168,783
	837,443	929,970	175,393	192,615

28. Contingent liabilities

As at 31 March 2017, there were £32.8m contingent liabilities within either the Group or the Association (2016: £33m).

Liabilities

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

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

29. Cash flow from operating activities

	Group		Association	
	2017 £000	2016 £000	2017 £000	2016 £000
Surplus for the year	55,668	38,260	33,845	19,550
Sale of other tangible assets	-	503	139	503
Interest payable	49,549	48,363	6,522	5,041
Interest receivable	(767)	(749)	(1,543)	(1,770)
Movement in fair value of financial instruments	2,343	1,806	10	4
Other financing cost	1,004	4,128	438	788
Donations paid	-	-	(14,966)	(13,867)
Depreciation charge on other fixed assets	2,429	2,261	1,954	1,876
Depreciation charge on housing properties	22,936	21,103	1,905	1,741
Add back cost of sale for housing properties	16,553	18,433	6,129	5,501
Amortisation of grant on housing properties	(8,858)	(8,569)	(786)	(786)
Provision for impairment on housing properties	1,443	-	-	-
Provision for impairment on other fixed assets	355	647	-	-
Tax	(400)	836	-	-
Movement in other provisions	(619)	279	(8)	10
Decrease/(increase) in bad debt provision	241	64	-	(14)
Decrease in stocks	-	1	-	-
Change in fair value of hedged financial instrument	3,811	6,487	-	-
Adjustment for pension funding	2,801	4,447	(2,726)	4,832
Decrease/(increase) in debtors	2,147	(2,752)	(11,559)	1,803
(Increase)/decrease in creditors	(13,200)	(4,188)	40,681	31,731
Net cash inflow from operating activities	137,436	131,360	60,035	56,943

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

	Group		Association	
	2017 £000	2016 £000	2017 £000	2016 £000
(Decrease)/increase in cash in the year	(36,788)	24,353	(37,073)	17,732
(Decrease)/increase in bank deposits (with a maturity in excess of 24 hours)	(1,776)	(1,213)	(1,765)	3,305
Other changes	(978)	-	(10,081)	143
Loans and bond finance received	(105,887)	(131,083)	(303,211)	(229,284)
Loans repaid	-	2,578	347,270	232,754
Loan premium	(9,412)	-	-	-
Loan arrangement fees	1,340	1,151	-	-
Change in net debt	(153,501)	(104,214)	(4,860)	24,650
Net debt at 1 April	(948,554)	(844,340)	(53,834)	(78,484)
Net debt at 31 March	(1,102,055)	(948,554)	(58,694)	(53,834)

31. Analysis of changes in net debt

Group	At beginning of the year £000	Cash Flows £000	Other Changes £000	At end of year £000
Cash at bank and in hand	27,738	(2,260)	-	25,478
Bank deposits - less than 24 hours	40,000	(34,528)	-	5,472
	67,738	(36,788)	-	30,950
Bank deposits - in excess of 7 days	6,041	(1,776)	-	4,265
Housing loans due within one year	(9,742)	(9,635)	(16,011)	(35,388)
Housing loans due after one year	(827,334)	(42,288)	15,741	(853,881)
Bond finance	(196,193)	(53,964)	(43)	(250,200)
Loan premium	-	(9,412)	242	(9,170)
Loan and bond arrangement fees	10,936	1,340	(907)	11,369
	(948,554)	(152,523)	(978)	(1,102,055)

Association	At beginning of the year £000	Cash Flows £000	Other Changes £000	At end of year £000
Cash at bank and in hand	16,260	(2,573)	-	13,687
Bank deposits - less than 24 hours	40,000	(34,500)	-	5,500
	56,260	(37,073)	-	19,187
Bank deposits - in excess of 7 days	5,230	(1,765)	-	3,465
Housing loans due within one year	(2,932)	-	1,720	(1,212)
Housing loans due after one year	(112,392)	44,059	(11,801)	(80,134)
	(53,834)	5,220	(10,081)	(58,694)

32. Financial commitments

Operating leases

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

	Group		Association	
	2017 £000	2016 £000	2017 £000	2016 £000
Leases which expire				
Within 1 year	1,254	1,337	134	200
Within 2 - 5 years	638	1,576	11	68
After 5 years	-	163	-	-
Total	1,892	3,076	145	268

33. Number of units under development at end of year

	2017				Total
	OHL	OGL	OHE	OSHA	
General needs	-	-	632	552	1,184
Low cost home ownership	-	512	-	-	512
Properties for market sale	385	-	-	-	385
Total social housing units	385	512	632	552	2,081

	2016				Total
	OHL	OGL	OHE	OSHA	
General needs	-	-	726	447	1,173
Low cost home ownership	-	400	-	-	400
Properties for market sale	317	-	-	-	317
Total social housing units	317	400	726	447	1,890

34. Property portfolio

	OGL	OHE	OSHA	Total 2017	Total 2016
General needs	-	12,694	11,942	24,636	24,475
Affordable rent	-	1,132	2,683	3,815	3,092
Intermediate rent	118	12	171	301	336
Supported housing	-	1,879	1,655	3,534	3,595
Total owned by Orbit	118	15,717	16,451	32,286	31,498
Low cost home ownership	3,923	18	40	3,981	3,529
Leasehold	732	801	1,472	3,005	2,884
Private retirement schemes	-	458	653	1,111	1,111
Owned	-	5	-	5	5
Managed on behalf of others	172	-	2	174	157
Leasehold and other managed	904	1,264	2,127	4,295	4,157
Total social housing units	4,945	16,999	18,618	40,562	39,184
Market rent	-	11	-	11	10
Commercial units	-	20	17	37	37
Total non social housing units	-	31	17	48	47
Total units	4,945	17,030	18,635	40,610	39,231



35. Subsidiary organisations and related party transactions

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

Organisation	Status	Principal activity	Country of incorporation	Basis of control by parent undertaking
Registered under the Co-operative and Community Benefit Societies Act 2014				
Orbit South Housing Association Limited (trading as Orbit East & South)	Registered Housing Association and a Registered Society under the Co-operative and Community Benefit Societies Act 2014	Provision of rented housing	England and Wales	Control of membership of the board plus nominal shareholding
Heart of England Housing Association Limited (trading as Orbit Heart of England)	Registered Housing Association and a Registered Society under the Co-operative and Community Benefit Societies Act 2014	Provision of rented and special needs housing	England and Wales	Control of membership of the board plus nominal shareholding
Incorporated under the Companies Act 2006				
Orbit Treasury Limited	Private Limited Company	Group treasury vehicle	England and Wales	Ownership of all issued share capital
Orbit New Homes Limited (Dormant)	Private Limited Company	Development of housing for sale	England and Wales	Ownership of all issued share capital
Orbit Gateway Limited (Dormant)	Private Limited Company	Buying and selling of real estate	England and Wales	Ownership of all issued share capital
Orbit Homes (2020) Limited	Private Limited Company	Design and build company and development of housing for sale	England and Wales	Ownership of all issued share capital
Orbit Capital plc	Public Limited Company	Group bond finance vehicle	England and Wales	Ownership of all issued share capital

Transactions with non-regulated Group members

During the year the Association has transacted with three fellow group subsidiaries not regulated by the HCA, Orbit Homes (2020) Ltd, Orbit Treasury Ltd and Orbit Capital plc. Orbit Homes (2020) Ltd provides design and build services to the Group. During the year the Association made payments totalling £32.2m to Orbit Homes (2020) Ltd for the purchase of Housing Property assets and has an outstanding creditor balance with Orbit Homes (2020) Ltd of £4.0m and outstanding debtors of £28.6m.

35. Subsidiary organisations and related party transactions (continued)

Orbit Treasury Ltd and Orbit Capital plc provide a funding on lending service to Group members. During the year the Association paid interest costs to Orbit Treasury plc totalling £4.0m (2016: £4.3m) and fees of £0.3m (2016: £0.4m). The Association also paid interest costs of £1.0m. The allocation of these costs is based upon the level of debt required and secured by the housing properties held by the Association.

Related party transactions

The Orbit Heart of England 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 £10k (2016: £10k). The outstanding amount owed at 31 March 2016 was less than £1k which is due to a timing difference in charges and payment collection.

The Association is exempt from the requirements of Financial Reporting Standard FRS 102 'Related Party Disclosures' to disclose transactions between Group undertakings as all companies are under the control of the board of the parent company. Included with debtors (note 17) and creditors (note 19) are the amounts owed to and owed by other group members.



36. Pension costs

Social Housing Pension Scheme - defined benefit scheme

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

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

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

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

36. Pension costs (continued)

Deficit contributions

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

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

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

Present values of liability (Group and Association)

	31 March 2017 (£000s)	31 March 2016 (£000s)	31 March 2015 (£000s)
Present value of liability	21,049	22,738	17,906

Reconciliation of opening and closing provisions

	Period ending 31 March 2017 (£000s)	Period ending 31 March 2016 (£000s)
Provision at start of period	22,738	17,906
Unwinding of the discount factor (interest expense)	438	324
Deficit contribution paid	(2,726)	(2,031)
Remeasurements - impact of any change in assumptions	599	(140)
Remeasurements - amendments to the contribution schedule	-	6,678
Liability at end of period	<u>21,049</u>	<u>22,738</u>

36. Pension costs (continued)**Income and expenditure impact**

	Period ending 31 March 2017 (£000s)	Period ending 31 March 2016 (£000s)
Interest expense	438	324
Remeasurements - impact of any change in assumptions	599	(140)
Remeasurements - amendments to the contribution schedule	-	6,678

Assumptions

	31 March 2017 % per annum	31 March 2016 % per annum	31 March 2015 % per annum
Rate of discount	1.33	2.06	1.92

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

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

36. Pension costs (continued)

Deficit contributions schedule

Year ending	31 March 2017 (£000s)	31 March 2016 (£000s)	31 March 2015 (£000s)
Year 1	2,832	2,726	2,031
Year 2	2,942	2,832	2,116
Year 3	3,057	2,942	2,204
Year 4	2,664	3,057	2,295
Year 5	2,240	2,664	2,391
Year 6	2,320	2,240	1,978
Year 7	1,988	2,320	1,533
Year 8	1,630	1,988	1,592
Year 9	1,679	1,630	1,238
Year 10	865	1,679	858
Year 11	-	865	883
Year 12	-	-	455
Year 13	-	-	-
Year 14	-	-	-
Year 15	-	-	-
Year 16	-	-	-
Year 17	-	-	-
Year 18	-	-	-
Year 19	-	-	-
Year 20	-	-	-

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

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

36. Pension costs (continued)**Other pension schemes operated by Orbit Group members**

Movement in pension cost liabilities during the year

	Group	
	2017	2016
	£000	£000
Net deficit at 1 April	(2,569)	(3,117)
Service costs	(36)	(44)
Contributions	116	109
Unfunded pensions payments	-	-
Net return on assets less interest on pension scheme liabilities	(71)	(77)
Actuarial (loss)/gain	(1,075)	588
Past service costs	-	-
Other finance costs	(25)	(28)
Gain arising on settlement of liabilities	-	-
Settlement of liabilities	-	-
(Deficit) in pension scheme at 31 March	(3,660)	(2,569)

Other pension schemes operated by Orbit South Housing Association Limited**(a) Local Government Pension Scheme – Kent County Council**

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

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

Total employer contributions paid to the scheme for the year were £53k (2016:£54k).

Triennial actuarial valuation

Triennial actuarial valuations of the LGPS are performed by an independent, professionally qualified actuary. The most recent valuation of KCC's scheme was completed as at 31 March 2016 using financial assumptions that comply with FRS 102.

36. Pension costs (continued)

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

	2017	2016	2015
Rate of increase in salaries	4.20%	4.20%	4.20%
Rate of increase in pensions in payment and deferred pensions	2.70%	2.40%	2.40%
Discount rate applied to scheme liabilities	2.70%	3.70%	3.30%
Inflation assumption - CPI	2.70%	2.40%	2.40%
Inflation assumption - RPI	3.60%	3.30%	3.20%

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

The discount rate is the annualised yield at the 19 year point on the Merrill Lynch AA rated corporate bond yield curve which has been chosen to meet the requirements of FRS 102 and with consideration of the duration of the employer liabilities. This is consistent with the approach used at the last accounting date.

The Retail Prices Index (RPI) increase assumption is set based on the difference between conventional gilt yields and index-linked gilt yields at the accounting date using data published by the Bank of England (BoE), specifically the 19 year point on the BoE market implied inflation curve. The RPI assumption is therefore 3.6% p.a. (2016: 3.3%). This is consistent with the approach used at the last accounting date.

As future pension increases are expected to be based on the Consumer Prices Index (CPI) rather than RPI, we have made a further assumption about CPI which is that it will be 0.9% p.a. below RPI i.e. 2.7% p.a. (2016 2.4%). We believe that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods and recent independent forecasts.

Salaries are assumed to increase at 1.5% p.a. above CPI in addition to a promotional scale. However, we have allowed for a short-term overlay from 31 March 2016 to 31 March 2020 for salaries to rise in line with CPI. This has been updated from last year to be consistent with the 2016 valuation of the fund.

Life Expectancy from age 65 (years)

		2017	2016
		Number	Number
Retiring today	Males	23.0	22.9
	Females	25.0	25.3
Retiring in 20 years	Males	25.1	25.2
	Females	27.4	27.7

36. Pension costs (continued)**Statement of financial position as at 31 March 2017**

	Value at 31 March 2017 £000	Value at 31 March 2016 £000	Value at 31 March 2015 £000
Present value of the defined benefit obligation	11,514	9,048	9,575
Fair value if fund assets (bid value)	8,471	7,141	7,238
Deficit/(surplus)	3,043	1,907	2,337
Present value of unfunded obligation	34	32	32
Unrecognised past service cost	-	-	-
Impact of asset ceiling	-	-	-
Net defined benefit liability/(asset)	3,077	1,939	2,369

Scheme liabilities

	2017 £000	2016 £000
Opening defined benefit obligation	9,079	9,607
Service cost	37	44
Interest cost	332	313
Change in financial assumptions	2,414	(662)
Loss on curtailments	107	1
Estimated benefits paid net of transfers in	(236)	(233)
Change in demographic assumptions	(200)	-
Contributions by scheme participants	17	11
Unfunded pension payments	(2)	(2)
Closing defined benefit obligation	11,458	9,079

Reconciliation of opening and closing balances of fair value scheme assets

	2017 £000	2016 £000
Opening fair value of scheme assets	7,141	7,238
Interest on assets	261	236
Return on assets less interest	1,215	(159)
Other actuarial gains	27	-
Administration expenses	(5)	(5)
Contributions by employer including unfunded	53	55
Contributions by scheme participants	17	11
Estimated benefits paid net of transfers in and including unfunded	(238)	(235)
Fair value of scheme assets at the end of the year	8,471	7,141

36. Pension costs (continued)

Analysis of amounts charged to income and expenditure

	2017 £000	2016 £000
Amounts charged to operating costs		
Service costs	37	44
Net interest on the defined liability (asset)	71	77
Administration expenses	5	5
	113	126

Movement in deficit during the year

	2017 £000	2016 £000
(Deficit) in pension scheme at 1 April 2016	(1,939)	(2,369)
Service costs	(36)	(44)
Contributions	53	54
Unfunded pension payments	-	-
Other finance costs	(5)	(5)
Past service costs	-	-
Net return on assets less interest on pension scheme liabilities	(71)	(77)
Actuarial (losses)/gains	(1,079)	502
(Deficit) in pension scheme at 31 March 2017	(3,077)	(1,939)

b) Local Government Pension Scheme - Bexley London Borough

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

	2017	2016	2015
Rate of increase in salaries	3.80%	3.50%	3.50%
Rate of increase in pensions payment and deferred pensions	2.30%	2.00%	2.00%
Discount rate applied to scheme liabilities	2.50%	3.40%	3.10%
Inflation assumption - CPI	2.30%	2.00%	2.00%

Life expectancy from age 65 (years)

		2017 Number	2016 Number
Retiring today	Males	23.0	23.2
	Females	26.0	25.6
Retiring in 20 years	Males	25.2	25.5
	Females	28.3	28.5

36. Pension costs (continued)**Scheme assets**

	Value at 31 March 2017 £000	Value at 31 March 2016 £000	Value at 31 March 2015 £000
Equities	2,148	1,762	1,879
Government Bonds	-	-	-
Other Bonds	256	249	276
Property	370	367	352
Other - cash	59	73	47
Other	626	583	588
Total fair value of assets	3,459	3,034	3,142
Present value of scheme liabilities	(4,042)	(3,664)	(3,890)
Net pension liability	(583)	(630)	(748)

Scheme liabilities

	2017 £000	2016 £000
Opening defined benefit obligation	3,664	3,890
Service cost	-	-
Interest cost	121	118
Actuarial (gain)/loss	448	(146)
Member contributions	-	-
Estimated benefits paid net of transfers in	(191)	(198)
Past service cost	-	-
Government bonds	-	-
Closing defined benefit obligation	4,042	3,664

36. Pension costs (continued)

Expected return on assets

Reconciliation of opening and closing balances of fair value scheme assets

	2017	2016
	£000	£000
Opening fair value of scheme assets	3,034	3,142
Interest on scheme assets	101	95
Actuarial (losses)/gains	452	(60)
Contributions by employer	63	55
Contributions by members	-	-
Benefits/transfers paid	(191)	(198)
Fair value of scheme assets as at 31 March 2017	3,459	3,034

	2017	2016
	£000	£000
(Deficit) in pension scheme at 1 April 2016	(630)	(748)
Service costs	-	-
Contributions	63	55
Other finance costs	(20)	(23)
Actuarial gains/(losses)	4	86
(Deficit) in pension scheme at 31 March 2017	(583)	(630)

37. Non-consolidated management arrangements

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







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30446R, Orbit South Housing Association Ltd - Registered Society No.
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