

**HEART OF ENGLAND HOUSING ASSOCIATION  
LIMITED (TRADING AS ORBIT HEART OF ENGLAND)**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 MARCH 2011**

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
(TRADING AS ORBIT HEART OF ENGLAND)**

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**Industrial and Provident Society  
Number 30446R**

**Tenant Services Authority  
Number L4526**

# HEART OF ENGLAND HOUSING ASSOCIATION LIMITED (TRADING AS ORBIT HEART OF ENGLAND)

## BOARD MEMBERS, EXECUTIVE OFFICERS AND AUDITORS

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### GROUP RESTRUCTURE

Heart of England Housing Association Limited was formed on 1 April 2008 from an amalgamation of South Warwickshire Housing Association Limited and Heart of England Housing Group Limited. Simultaneously it joined the Orbit Group as a subsidiary of Orbit Group Limited and purchased the Midlands properties previously owned by Orbit Housing Association.

Other members of the disbanded Heart of England Housing Group namely Heart of England Consultancy Limited and Heart of England Commercial Limited became dormant subsidiaries of Heart of England Housing Association Limited. Both companies were dissolved with effect from 22 March 2011.

Heart of England Housing Association Limited, operates under the name 'Orbit Heart of England' (OHE),

The structure of the Orbit group ("Orbit") has continued to evolve as we move forward on our journey to be great.

The leasehold management of the shared ownership homes has transferred from Orbit Group Limited to Orbit South and Orbit Heart of England, as we continue our journey to provide a good quality, consistent service to our customers, regardless of the tenure of their home. Work is underway to transfer the management of Private Retirement Leasehold homes to Orbit South and Orbit Heart of England during 2011/12.

Heart of England Housing and Care Limited was sold to the Sanctuary Group on the 31 July 2010. In addition, three Registered Care Homes (2 owned by Orbit Group Limited and 1 by Orbit Heart of England) were also sold to the Sanctuary Group on the 31 March 2011.

These changes embrace our ambitions around service delivery, value for money, greater customer engagement and local accountability. They also support our place shaping agenda, linking new housing provision to investment in communities and our existing stock.

### BOARD MEMBERS

The following are all Members of the Board, all of whom have served throughout the year unless otherwise stated:

<b>Name</b>	<b>Role</b>	<b>Appointed</b>	<b>Left</b>
Roy Brooks	Chair	1/4/08	30/6/11
Robin Dahlberg *	Chair	1/7/11	
Robin Dahlberg *	Independent Member	1/4/11	30/6/11
Michael Culverwell	Deputy Chair	1/4/08	31/3/11
Lindsay Dennish	Co-optee	10/3/10	
Jacqui Dickinson	Resident Member	14/10/09	
Brian Fletcher	Independent Member	1/4/08	31/3/11
Denise Kelly	Resident Member	14/10/09	
Michael Lawrence	Independent Member	21/11/08	
Michael Robertson-Smith	Independent Member	1/4/08	
Ian Tillotson	Independent Member	24/10/08	
Gurmeet Viridi	Independent Member	10/3/10	
Tim Vogel	Independent Member	1/4/08	31/3/11
Margaret Wellington	Independent Member	1/4/08	
David Wilkinson	Resident Member	1/4/08	
Valerie Williamson **	Independent Member	1/4/08	

\* Robin Dahlberg was appointed to the Orbit Group Limited Board and Heart of England Housing Association Limited Board on 1 April 2011. He became Chair of the Association on 1 July 2011.

\*\* Valerie Williamson was a Co-optee Member of the Orbit Heart of England Board. From 10/3/2010 her status changed to an Independent Member.

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
(TRADING AS ORBIT HEART OF ENGLAND)**

**BOARD MEMBERS, EXECUTIVE OFFICERS AND AUDITORS**

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**EXECUTIVE OFFICERS**

The Executive Officers are employed by Orbit Group Limited and their services are provided to Orbit Heart of England via an Intra Group Agreement. These include Stewart Fergusson, the Managing Director and Secretary of Orbit Heart of England. The Executive Officers are members of the Group Executive Team and they are listed in the Financial Statements of the Group. The Directors benefit from insurance indemnifying them against legal claims from third parties.

**DIRECTORS' AND OFFICERS' LIABILITY INSURANCE**

Directors' and Officers' insurance has been maintained throughout the year to indemnify against liability when acting for the Association.

**AUDITORS**

KPMG LLP  
One Snowhill  
Snow Hill Queensway  
Birmingham  
B4 6GH

**PRINCIPAL SOLICITORS**

Trowers and Hamlins  
Sceptre Court  
40 Tower Hill  
London, EC3N 4DX

**REGISTERED OFFICE**

10 Greenhill Street  
Stratford-upon-Avon  
Warwickshire  
CV37 6LG

# HEART OF ENGLAND HOUSING ASSOCIATION LIMITED (TRADING AS ORBIT HEART OF ENGLAND)

## OPERATING AND FINANCIAL REVIEW

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### SOCIAL LANDLORD'S BUSINESS, OBJECTIVES AND STRATEGY

The principal activity of the Association is to provide quality affordable homes and effective support services, all designed to meet customers' needs and to help build sustainable communities.

At the year end, the Association owned and/or managed 14,919 homes and commercial units.

The Association's strategic objective throughout the year was to make a significant contribution to the communities it served.

The Association works within the overall strategic framework for Orbit, which is developed by all members of Orbit in a consultative process.

#### **Ambition**

To ensure delivery of our abiding ambition of "Building Brighter Futures for People and Communities", the Board and Executive revisited the purpose and principles of Orbit during the year.

***Orbit is a housing organisation building brighter futures for people and communities by investing in great services for over 70,000 people and providing great communities to live in.***

#### ***Purpose***

1. We are values-based organisations with the shared ambition of Building Brighter Futures for People and Communities.
2. We meet our ambition by providing great places to live, great services and investing in communities.
3. We make surpluses which we invest in achieving our ambition and we seek to grow to do more.

#### ***Principles***

1. We provide a range of housing and services to meet peoples' aspirations and needs.
2. We focus our resources in the areas where we will have most impact in achieving our ambition.
3. Running an efficient and effective organisation enables us to generate surpluses to meet our ambition.

#### ***Partnership***

1. Our business is based on partnership to deliver strategic strength, local delivery and a collaborative culture.
2. Our objectives are shaped, delivered and scrutinised in partnership with our customers.
3. We collaborate with councils, civil society, Government and other agencies to do more to help people and communities.

#### **Objectives**

We wish to be great in everything that we do and have set out the outcomes we believe will enable us to deliver great customer service, create great places and be a great organisation by 2013.

Our journey from Good to Great by 2013 focuses on these outcomes:

- **CUSTOMER**

Creating great customer services by becoming a top quartile performer in key indicators, being passionate about understanding our customers' needs, treating every customer as an individual and exceeding our customers' expectation.

Great will be assessed by the quality of our engagement with our customers that enables them to shape service provision and delivery; demonstrating our accountability to customers and continually improving our performance; being assessed as providing excellent services.

# HEART OF ENGLAND HOUSING ASSOCIATION LIMITED (TRADING AS ORBIT HEART OF ENGLAND)

## OPERATING AND FINANCIAL REVIEW

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### Objectives (Continued)

- **PLACE**

Creating great places where people want to live through supporting successful neighbourhoods, offering a wide range of choice, and providing an innovative approach to the development of new neighbourhoods.

Great will be assessed by the quality of the local environment; engagement with local residents and the community; the range of high quality sustainable homes meeting residents' needs; and the quality of our existing homes.

- **ORGANISATION**

Being a great organisation where we run things well, provide a great place to work, have sound finances, deliver value for money, and have a strong external reputation.

Great will be assessed by our financial viability and demonstration of real value for money; the quality and ability of our staff team to deliver the aspirations of customers, live the values and culture of Orbit; and the quality of the tools and infrastructure to innovate and drive forward our services to our customers.

Since 2003 Orbit has progressively improved its position by being more focussed, better structured and increasingly more effective. We believe that we have created an excellent platform for the future.

The culture and behaviour that support our delivery of services are enshrined in our values of:

*HONESTY   INNOVATION   EXCELLENCE   PARTNERSHIP   RESPECT*

Our journey from good to great is broken down in steps each financial year through to 2013. Each of the business plans are linked and work towards this common purpose, creating a golden thread that aligns our effort, resources and people. They also support our collective and individual aspiration to make a real and demonstrable difference to people's lives.

The various Boards approve all Business Plans and monitor progress and delivery against targets. In consultation with residents, and with the support of Orbit Services, our members will develop and monitor detailed delivery plans. All of our plans have clear milestones and measurable outcomes to guide and confirm progress.

We face an era of unprecedented change, and opportunity. It is imperative that, whilst we are ready for the challenge, we understand and adapt to the external environment and transform our business to deliver greater effectiveness and efficiency.

The Comprehensive Spending Review has significant implications for the housing sector, and over the next 5 years there are a number of key issues that we need to manage. These include: -

- Massive pressure on the customers that we serve now, as they deal with the economic consequences of deficit reduction and the disproportionate impact that it will have on those on low incomes or those in marginal jobs or in receipt of benefits.
- A drive for enhanced Value for Money and efficiency in our sector as we seek to derive resources to be invested in service improvement, provision of new homes and stepping in to support services lost in our communities
- The implementation of Localism and Big Society and the evolving role we may be able to play to enhance capacity and opportunity for our communities and support their aspirations or to develop them where none currently exists
- Responding to the pressure to provide new homes to meet the housing crisis in this country offering a broader mix of homes funded through a range of innovative financing solutions which will see the type of customers we assist change and develop
- Preparing for the significant policy changes ahead most notably the welfare reform proposals which will impact on our customers and their communities along with the changes to Supporting People funding which assists some of the most vulnerable in society

## HEART OF ENGLAND HOUSING ASSOCIATION LIMITED (TRADING AS ORBIT HEART OF ENGLAND)

### OPERATING AND FINANCIAL REVIEW

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#### Objectives (Continued)

All of the above increases risk that must be addressed and managed and demands that we make best use of all of our resources including staff and technology and provide strong and effective leadership as we undertake this journey

These issues are reflected in our plans for 2011/12 and in particular through our focus on 4 ongoing strategic initiatives to enable us to deliver our plans by 2013. These are:

- **Customer First** – engaging and working with residents
- **Infrastructure** - investment in technology and tools to do the job
- **People** - investing in developing our people and the Orbit culture
- **Finances** - maximising our finances, VFM and growth of Orbit

We continually review performance both collectively and by individual organisation, and take appropriate action. We review overall how well we deliver our strategy and test, adapt and change as appropriate.

Orbit Heart of England has developed its own five year Business Plan with detailed and locally focused objectives within each of Orbit's three ambitions. Orbit Heart of England's main focus for the year was to focus on the customer by building an infrastructure that will produce high levels of satisfaction with our services. We have progressed the establishment of structures and processes to enable us to achieve continuous improvement in performance and in the delivery of services to all residents and to create an efficient regional association that contributes to meeting housing needs in the area where we work.

In line with the Orbit-wide strategic priorities, the Orbit Heart of England Board has identified the following main priorities for 2011/12

- Delivery of its Customer First strategy
- Continued investment in its local communities
- Investment in People plans, focusing on customer, culture and empowerment.
- Improve the places where its residents live by investing in a range of new homes.
- Investing in existing stock and in specific regeneration schemes
- Reviewing our stock profile through active portfolio management
- Continuous investment in tools and technologies to enhance its capability to improve service
- Delivery of financial, procurement and value for money improvements and achievement of its financial targets.
- Improving its reputation with its customers, stakeholders and staff.

Progress against plans will be reported upon throughout the year. Reporting will consist of both strategic indicators and operational performance indicators which will be monitored by the Association's Board.

#### OPERATING REVIEW

##### Performance in the Year

During the year the Board has reviewed the performance of the business via a quarterly review of progress against a number of Key Performance Indicator (KPI) measures. The 2010/11 suite of 15 KPI's was designed to support the Customer, Place and Organisation framework of business objectives used throughout Orbit.

A revised suite of Performance Indicators has been agreed 2011-12 which will continue to be regularly reviewed by the Board. This is supported by more detailed challenge of KPI performance by the Senior Management Team which is supported by regular team and individual performance management reviews. A number of key change projects are also scheduled which will improve performance across a range of services.

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
(TRADING AS ORBIT HEART OF ENGLAND)**

**OPERATING AND FINANCIAL REVIEW**

**OPERATING REVIEW (CONTINUED)**

<b>CUSTOMER</b>	<b>Target 2010/11</b>	<b>Actual 2010/11</b>	<b>Achieved</b>
1. Overall Satisfaction with Repairs	85%	75%	x
2. Positive First Impressions	88%	86%	x
3. Customer Service Satisfaction	89%	92%	✓
4. Successful Customer Outcomes	80%	92%	✓
<b>PLACE</b>			
5. Decent Homes Compliance	99%	98.4%	x
6. Overall Energy Efficiency Rating	69	68.3	x
7. Investment in Communities	£140k	£768k	✓
8. Development Units Completed*	373	375	✓
9. Gas Servicing Compliance	100%	99.1%	x
<b>ORGANISATION</b>			
10. Overall Current Arrears	4.0%	3.5%	✓
11. Adjusted Overall Budgeted Surplus	£4.7m	£6.3m	✓
12. Management Costs as % of Rents	26.7%	28.0%	x
13. Performance on Voids – Overall re-let (days)	24 days	27.9 days	x
14. Staff Turnover	14.5%	12.0%	✓
15. Staff Sickness (Overall)	4.5%	3.7%	✓

\* Includes all homes in Midlands. Shared ownership properties are held in OGL

Financial performance in the year has exceeded expectations, with a surplus for the year of £4.2 million compared with a revised budgeted surplus of £2.0 million. The variance was mainly as a result of lower interest costs £1 million and pension costs £0.7 million.

The development programme has progressed well during the year with 260 new homes costing £44.7 million being transferred into management in the year. There are a further 425 homes under development and it is anticipated that 241 of these homes will be completed and come into management during 2011/12.

During the year the Association achieved a number of key objectives:

- We continued to restructure our approach to the delivery of our maintenance service which will see our in house maintenance provider becoming the sole supplier from April 2011.
- We have completed a number of sales of properties as part of our stock rationalisation and delivered the agreed development programme.
- We completed on time the 2010-11 planned maintenance programme including 838 kitchens and 395 bathrooms.
- Property Matters, our in house maintenance provider significantly exceeded its financial surplus target.
- We invested over £600k in communities through our community investment projects.
- We developed our approach and piloted resident scrutiny of our services.
- We completed our customer census work and started to utilise the information to shape our services.
- We continued to invest in our managers who are benefitting from the Orbit Leadership and Development programme throughout the year.
- We established a successful Money Advice Service to support residents who are experiencing financial difficulties.
- We launched the Customer Reward scheme, the first of its kind nationally.
- We strengthened our approach to Continuous Improvement during the year and have implemented a revised process for prioritising and monitoring projects.
- We commenced external accreditation for Investors in People and Investors in Excellence.
- We have completed the largest Passivhaus development in the UK which will be available on the affordable rent programme and will also form the basis of a study, conducted by Coventry University working in partnership with Orbit Heart of England, which will monitor the effectiveness of the homes.



# HEART OF ENGLAND HOUSING ASSOCIATION LIMITED (TRADING AS ORBIT HEART OF ENGLAND)

## OPERATING AND FINANCIAL REVIEW

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### OPERATING REVIEW (CONTINUED)

#### Dynamics of the Social Landlord

Orbit Heart of England has a Rent Plan which allows rent restructuring to be achieved within the Tenant Services Authority's timetable.

The Association has an Asset Management Strategy which covers all of its housing properties and which takes account of both the future likely demand for the homes as well as the actual physical condition of the properties. The Association has focussed its planned maintenance programme to ensure that all homes meet the Decent Homes Standard within the required timescale, at the same time achieving efficiencies in terms of procurement and programme delivery. The Association will from 2011-12 deliver its maintenance service through Orbit Heart of England's in house maintenance division, Property Matters.

#### Investment for the future

The Board is committed to spending approximately £23 million each year to maintain and improve its accommodation and will consider opportunities to expand the operations by the acquisition of new homes and / or services.

Orbit Heart of England continues to pilot a range of Eco and Passive house projects to assist in the determination of the best solutions for the retrofitting of existing stock and its future new build agenda in order to meet the Government's Carbon Reduction target ahead of schedule.

Orbit Heart of England is fully committed to providing the highest levels of customer service and continued to invest in and support a range of initiatives such as the implementation of mobile technology for front-line service delivery staff and repairs operatives.

### FINANCIAL REVIEW

#### Capital structure and Treasury Policy

Housing properties of £556.3 million, other fixed assets and investments of £4 million, net current liabilities of £13.5million and negative accumulated reserves of £17.6 million are financed by grants £251.2 million (44%), loans and long term creditors of £310 million (55%), and pension liability of £3.2 million (1%).

The depreciation policy for Orbit Heart of England is that it depreciates its properties over the average economic life of those properties.

The Association has reviewed its housing stock to ensure there has been no impairment in the carrying value of individual schemes. No impairment provisions have been deemed necessary this year.

The Association has adopted FRS17 (accounting for pensions) in full. The pension liability on the balance sheet at 31 March 2011 was £3.2 million (2010: £5.3 million).

From 1 October 2007, the major loans of all Orbit Members at that date were re-routed through a new group treasury vehicle, Orbit Treasury Limited. The treasury vehicle has facilitated changes to the group structure and is supported by group cross-collateralisation. The benefits include improved efficiencies in terms of both streamlined and efficient treasury procedures and strategy, as well as reduced average interest rates and reduced compliance work.

The Orbit Group Board recognises that the fluctuations in the Association's debt requirement arising from sales and new developments in particular make it important to regularly review its treasury policy. The treasury function operates within a framework of clearly defined Board approved policies, procedures and delegated authorities. The fundamental principle underlying the Association's approach is to treat treasury activities as a means of controlling risk rather than for profit generation. The Association has Rules that allow the use of derivatives and the relevant accounting policies are included in note 1 to the Financial Statements.

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
(TRADING AS ORBIT HEART OF ENGLAND)**

**OPERATING AND FINANCIAL REVIEW**

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**FINANCIAL REVIEW (CONTINUED)**

The treasury policy adopted by the Board requires the Association to:

- only use institutions or investment instruments with high credit ratings
- limit exposure to individual institutions when investing
- limit sensitivity to market fluctuations by adopting a mix of fixed and floating interest rates
- limit the use of third party derivatives
- limit refinancing risk by means of a good spread of debt repayment terms

The treasury policy adopted by Orbit Group Limited was an Orbit-wide policy, and has been adopted and continued by Orbit Treasury Limited.

**Cash flow and liquidity**

The cash inflow from operating activities during the year was £2.7 million (2010: £35.6 million).

The principal source of both operating cash inflow and outflow remained that of income from the provision of housing accommodation and associated operating costs.

**Post Balance Sheet Event**

As part of our ongoing stock rationalisation programme, a portfolio of 98 rented and 25 freehold homes in the Wolverhampton area were sold to Nehemiah UCHA on 4 April 2011. In addition to this, a further 148 properties in Birmingham were sold to Family HA on the 27 June 2011.

**Going concern**

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

**Conclusion**

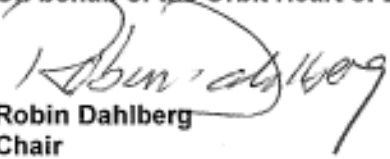
The successful creation of Orbit Heart of England as a single legal entity during the 2008/09 financial year provided a solid financial and organisational platform which will enable efficient and effective services to be delivered to all our residents across the region.

Our work on implementing the resident reward scheme, the new money advice service and work which has started on making all our new homes passive by 2016 shows that we are innovatively looking at ways of meeting the challenges the our residents and the sector are facing.

Financially, the Association out performed against the budget for the third year running.

Members of the Board and staff have shown great commitment and support to the Association throughout the year. Without their continuing support, sound judgement and ongoing contribution none of the achievements would be possible.

**On behalf of the Orbit Heart of England Board**

  
**Robin Dahlberg**

**Chair**

**16 August 2011**

## **HEART OF ENGLAND HOUSING ASSOCIATION LIMITED (TRADING AS ORBIT HEART OF ENGLAND)**

### **HOUSING ASSOCIATION GOVERNANCE**

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#### **Governance**

Heart of England Housing Association Limited (Orbit Heart of England) is a member of the Orbit Group and has operated as a subsidiary of the Parent, Orbit Group Limited (OGL) since 1 April 2008. It is a not-for-profit organisation registered on 1 April 2008 as an Industrial and Provident Society and has exempt charitable status.

#### **NHF's 'Excellence in Governance' Code**

The Board has adopted the National Housing Federation's 'Excellence in Governance' Code. We confirm that Orbit Heart of England complies with the Code of Governance in all material aspects.

#### **Board of Management**

The Board Members of the Association during the year ended 31 March 2011 are listed on page 3.

The Board is responsible for governing the affairs of the Association and comprises a maximum of 14 and a minimum of 10 non-executive members, excluding co-optees, made up of independent members and resident / leaseholder members. Thus the Board Members are drawn from a range of backgrounds bringing together professional, commercial and local experience. The Chair of Orbit Heart of England also sits on the Orbit Group Board, the Governing Board of OGL. All Members of the Orbit Group Board are paid in relation to their responsibilities on that Board.

The Board meets at least 6 times a year. During 2010/11, two Committees were in place, the Service Board and the Property Matters Committee, which were set up to allow the Board to focus on strategic matters. From April 2011 a Resident Scrutiny Group replaced the Service Board. The responsibilities of the Service Board were reallocated to the Board and the Resident Scrutiny Group.

The Association is represented on each of the following Orbit Committees of Orbit Group Limited: Orbit Audit Committee and Group Services Committee.

The Board delegates the day to day management of the Association to the Executives and staff. Certain Executives and staff attend the Orbit Heart of England Board meetings. The Board and the Committees obtain external specialist advice from time to time as necessary.

#### **Resident Involvement**

Orbit Heart of England is committed to involving residents in decisions affecting their homes. There is representation from residents on the Board, Property Matters Committee and the Resident Scrutiny Group.

Orbit Heart of England has an agreed resident involvement strategy, with key objectives of: making involvement activities easier to take part in, encouraging a wider range of residents to take part, making sure involvement leads to better services and improving value for money. All service areas have to produce an annual involvement plan and residents help us identify the impact they have on service improvement.

Resident scrutiny of our performance has been developed and an initial pilot of the approach undertaken. This will ensure that OHE meet the regulatory requirements of the Tenant Services Authority.

#### **Performance Monitoring**

During the year the Board, the Service Board and Property Matters Committee have monitored and reviewed key areas of performance for Orbit Heart of England.

#### **Housing Ombudsman Service**

The Ombudsman service dealt with 2 cases during the year. The Ombudsman did not uphold either of the complaints.

## **HEART OF ENGLAND HOUSING ASSOCIATION LIMITED (TRADING AS ORBIT HEART OF ENGLAND)**

### **HOUSING ASSOCIATION GOVERNANCE**

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#### **Responsibility for the System of Internal Control**

The Orbit Heart of England Board acknowledges that it has the overall responsibility for establishing and maintaining the whole system of internal control and for reviewing its effectiveness to provide the necessary assurances.

#### **Scope of Assurance**

The Board recognises that no system of internal control can provide absolute assurance or eliminate all risk. The system of internal control is designed to manage risk and to provide reasonable assurance that the key business objectives and expected outcomes will be achieved. It also exists to give reasonable assurance about the preparation and reliability of financial and operational information and the safeguarding of the Association's assets and interests.

#### **Risk Management Process**

The Association has in place a comprehensive and robust Risk Management Strategy & Framework, which is fully compliant with the requirements of the TSA and is based on best practice across the public and private sectors.

The process for the identification and management of risks is an ongoing process and has been in place throughout the year under review. The control environment to manage these risks is continually evaluated and monitored by the Orbit Heart of England Board. The lead person for the Association on risk management is the Orbit Heart of England Managing Director and the Audit Matters Team as part of an audit review assess whether the control measures stated by Officers as in place and working, are actually effective. The findings of which are reported in Audit Reports and the process is that any significant anomalies are reported to the Orbit Heart of England Managing Director and the Orbit Heart of England Board. The Orbit Audit Committee monitors the implementation of Orbit Strategy and plan for Risk Management. The overall responsibility for risk management for the Association remains with the Orbit Heart of England Board.

#### **Process for Reviewing the Effectiveness of the Internal Control System**

The Orbit Heart of England Board has established a robust and comprehensive framework to assess the effectiveness of the internal control system. The framework comprises of different sources of assurance the more significant ones being Internal Audit, the Orbit Audit Committee, External Audit and the Association's Senior Management Team. In addition, a major component of this assessment is the risk management process described above.

Briefly the key features are:

- The Orbit Heart of England Board retains responsibility for a defined range of issues covering strategic, operational, financial and compliance issues including new investment projects. The Board also regularly reviews key performance indicators to assess the progress towards the achievement of key business objectives, targets and outcomes.
- Orbit Heart of England has in place a comprehensive Internal Audit Plan. The plan covers financial and non-financial areas of Orbit Heart of England's business and assurances in all of the significant areas of the Association's activity is provided by the Audit Matters Team. Formal procedures have been established for instituting appropriate action to correct weaknesses identified from these reports. Additionally, as part of each audit review, the Audit Matters Team follow up the previous year's recommendations and the extent to which these have been implemented form part of the Audit Report.
- In accordance with good practice, the Orbit Audit Committee presented a report to the Orbit Heart of England Board outlining its work in 2010/11 to support the assurance work on internal controls. It should also be noted that the Group Risk and Compliance Director reports directly to the Group Chief Executive and has direct access to the Orbit Audit Committee.

## **HEART OF ENGLAND HOUSING ASSOCIATION LIMITED (TRADING AS ORBIT HEART OF ENGLAND)**

### **HOUSING ASSOCIATION GOVERNANCE**

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#### **Process for Reviewing the Effectiveness of the Internal Control System (continued)**

- The Orbit Heart of England Board receives an annual report from the Managing Director outlining the work undertaken and a corresponding opinion on the adequacy and effectiveness of the system of internal controls. In addition, the Orbit Audit Committee reviews reports from management, internal auditors and external auditors to provide reasonable assurance that control procedures are in place and are being followed across Orbit.
- Orbit has an Internal Regulatory Framework (IRF) process as a means to internally regulate itself. The IRF process is split into three stages; desktop review, visits to boards and reporting and broadly covers an assessment of financial viability, governance and performance. Following on from the previous five years, the sixth year (2010/11) of the IRF process was completed and received by all Boards within Orbit. The IRF will be reviewed during 2011/12 to ensure it remains fit for purpose in the changed operating environment.

#### **Control Environment**

The Association has a number of measures in place to instil and encourage a suitable culture of effective internal control. These mechanisms include the following:

- It has adopted the Orbit Standing Orders which include appropriate delegations of Authority, signatories and mandates. A copy of the Orbit Standing Orders is available to all staff and compliance is an implied term of an employee's contract of employment.
- The Association has adopted the NHF Code of Governance, which provides guidance to members on best practice in the governance of Housing Associations, and the 'Terms of Reference', for Board and its Committees is based on the guidance therein.
- Formal policies and procedures are in place, including the documentation of key systems. A number of these are being reviewed and updated Orbit-wide.
- The Board is able to confirm that all property, assets and activities of Orbit Heart of England are properly documented, managed and insured. The Board receives adequate information and professional advice to be able to make decisions in relation to Orbit Heart of England's property and assets and to confirm that all property and assets are under the control of the Association.
- Annual appraisal procedures are well established for staff, appropriate training and development opportunities are offered to all staff to maintain standards of performance.
- Forecasts and budgets are prepared which allow the Board and management to monitor the key business risks and financial objectives. Regular management accounts are prepared which provide relevant, reliable and up-to-date financial and other information. Significant variances from budgets are investigated and reported.
- All significant new initiatives, major commitments and investment projects are subject to formal authorisation procedures, through Board Members and others as appropriate including comprehensive risk assessments.
- The Orbit Audit Committee reviews reports from management, internal auditors and external auditors to provide reasonable assurance that control procedures are in place and are being followed across Orbit. Formal procedures have been established for instituting appropriate action to correct weaknesses identified from these reports.
- A Staff Handbook exists, the sections of which include staff conduct (e.g. whistle blowing, hospitality, gifts email, etc), health & safety, equal opportunities and other organisational policies (e.g. Data Protection).

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
(TRADING AS ORBIT HEART OF ENGLAND)**

**HOUSING ASSOCIATION GOVERNANCE**

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**Fraud**

Orbit complies with the TSA's requirements on fraud. The TSA's requirements and Orbit's approach on fraud are reflected in an approved Policy and Fraud Response Plan. Relevant cases are reported to the TSA. The Orbit Standing Orders outline a policy on responding to suspected fraud and corruption. A fraud register is maintained and reviewed regularly by the Orbit Audit Committee and reported to the Orbit Group Board.

**Board's Conclusion**

The Board has received the Annual Report on Internal Controls Assurance and has conducted its annual review of the effectiveness of the system of internal control. In addition, the Orbit Heart of England Board has monitored and considered the outcomes arising as a consequence of the Association's Risk Management process and the corresponding reports from officers on the associated control environment.

The Board confirms that the process for identifying, evaluating and managing significant risks faced by the Association is ongoing and has been in place throughout the year under review, up to the date of the annual report, and is regularly reviewed by the Board. There is sufficient evidence to confirm that adequate systems of internal control existed and operated throughout the year. No fundamental weaknesses were identified which required disclosure in the financial statements.

**On behalf of the Orbit Heart of England Board**



**Robin Dahlberg  
Chair  
16 August 2011**

# HEART OF ENGLAND HOUSING ASSOCIATION LIMITED (TRADING AS ORBIT HEART OF ENGLAND)

## REPORT OF THE BOARD

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The Board present their report and audited financial statements for the year ended 31 March 2011.

### **The Association**

The Association is a not-for-profit organisation with exempt charitable status and is administered by the Orbit Heart of England Board. The Association operates in the Midlands.

The Association manages a number of housing schemes providing accommodation for rent. At 31 March 2011 it owned housing properties with a depreciated historic cost of £556.3 million (2010: £518.9 million). The Managing Director and Secretary is employed by Orbit Group Limited. During the year a range of services were provided by the parent body Orbit Group Limited, as set out in the Intra-Group Agreement and Customer Supplier Agreements. The Association also had service agreements with other members of Orbit in respect of delivery of housing management related services.

### **Principal Activities**

The principal activity of the Association is to provide quality affordable homes and effective support services, all designed to meet customers' needs and to help build sustainable communities. An operating and financial review of the year's activities appears on pages 4 to 9.

### **Board Members and Executive Officers**

The present Board Members together with the dates of any changes are set out on page 2. All of the Board Members served throughout the year except as otherwise shown. The Executive Officers hold no interest in the Association's shares and have no legal status as directors although they act as executives within the authority delegated by the Board.

### **Members of Staff**

Orbit's ambition is to be considered as employers of choice within the sector, an organisation that is seen to be a great place to work, where employees are supported to do an excellent job and fulfil their potential and a place where our values are put into practice on a daily basis.

Our approach is through the Orbit People Strategy, which sets out the Orbit's approach to making this ambition a reality. The strategy reflects our commitment to opportunities for continuous professional and personal development, Equality and Diversity and our drive for continuous improvement.

We will ensure that employees have the skills, knowledge and motivation to deliver excellent services for our customers in line with our 'customer first' approach, and that we have confident, capable people managers who are able to work together to deliver results. Various recognition awards for staff have been introduced, including 'Extra Mile' awards, and Orbit Customer First Awards. We continue to train and develop our people by providing opportunities for in-house training and conferences, together with financial support to attend various professional and vocational courses.

The Orbit Academy is the focal point for learning and development within Orbit. Its ambition is to become a 'Centre of Excellence' for both staff and, ultimately, residents helping to achieve our aim of Building Brighter Futures for People and Communities.

We have in place leadership standards and a competency framework, and have now introduced a new performance management framework, ensuring that every member of staff understands their role in achieving Orbit's ambitions. The Leadership and Management Development Programmes for the Executive Team, the Leadership Team and senior and first line managers within Orbit are proving to be both popular and successful, and form part of our approach to developing our potential and growing our leaders.

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
(TRADING AS ORBIT HEART OF ENGLAND)**

**REPORT OF THE BOARD**

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**Creditors Payment Policy**

Orbit's current policy concerning the payment of its trade creditors is to:

- Settle the terms of payment with those suppliers when agreeing the terms of each transaction.
- Ensure that the suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
- Pay in accordance with its contractual and other legal obligations.

**Health and Safety**

The Board is aware of its responsibilities on all matters relating to health and safety and has adopted Orbit's detailed health and safety policies. Orbit provides members of staff with health and safety training and development opportunities. In accordance with Orbit's requirements work is ongoing to perform risk assessments and reduce the potential for accidents.

Driver awareness training and risk assessments are undertaken for all staff who have occasion to drive on Association business.

**Donations**

During the year the Association did not make any donations to charitable organisations.

**Statement of the responsibilities of the Board for the financial statements**

The Industrial and Provident Societies Acts and Registered Social Housing legislation require the Board to prepare financial statements for each year, which give a true and fair view of the state of affairs of the Association and of the surplus for that year. In preparing those financial statements the Board has:

- Selected suitable policies and applied them consistently;
- Made judgments and estimates that are reasonable and prudent;
- Followed applicable accounting standards and the 2008 Statement of Recommended Practice: "Accounting by Registered Social Landlords" (2008 SORP);
- Prepared the financial statements on a going concern basis.

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Industrial and Provident Societies Acts 1965 to 2002, Schedule 1 to the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2006. It is also responsible for maintaining an adequate system of internal control and safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Annual General Meeting**

The annual general meeting will be held on 16 August 2011 at 10 Greenhill Street, Stratford-upon-Avon, Warwickshire, CV37 6LG.

**Auditors**

A resolution to re-appoint KPMG LLP as the Company's auditor will be proposed at the Annual General Meeting.

**The report of the Board was approved on 16 August 2011 and signed on its behalf by:**



**Stewart Fergusson**  
Secretary



## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HEART OF ENGLAND HOUSING ASSOCIATION LIMITED (TRADING AS ORBIT HEART OF ENGLAND)**

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We have audited the financial statements of Heart of England Housing Association Limited (Trading as Orbit Heart of England) for the year ended 31 March 2011 set out on pages 17 to 43. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the association's members, as a body, in accordance with section 128 of the Housing and Regeneration Act 2008 and section 9 of the Friendly and Industrial and Provident Societies Act 1968. Our audit work has been undertaken so that we might state to the association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the association and the association's members, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Board and auditor**

As more fully explained in the Statement of Board's Responsibilities set out on page 15, the association's Board is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB'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 APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

### **Opinion on financial statements**

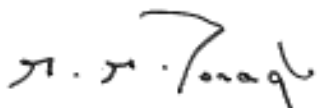
In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the association as at 31 March 2011 and of its surplus/(deficit) for the year then ended; and
- have been properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2003, the Housing and Regeneration Act 2008 and the Accounting Requirements for Registered Social Landlords General Determination 2006.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Industrial and Provident Societies Acts 1965 to 2003 require us to report to you if, in our opinion:

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



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

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
(TRADING AS ORBIT HEART OF ENGLAND)**

**INCOME AND EXPENDITURE  
For the Year Ended 31 March 2011**

	NOTES	2011 £'000	2010 £'000
Turnover	2/3	66,998	64,433
Operating Costs – Ordinary	2/3	<u>(50,211)</u>	<u>(49,733)</u>
Operating Surplus	4	16,787	14,700
Surplus on Sale of housing properties	5	249	191
Deficit on Sale of other fixed assets	12	(8)	(3)
Surplus on Ordinary Activities before Interest		<u>17,028</u>	<u>14,888</u>
Interest Receivable and Similar Income	8	12	46
Interest Payable and Similar Charges	9	(12,593)	(12,646)
Financing cost	7	<u>(223)</u>	<u>(304)</u>
Surplus on Ordinary Activities before Donations		4,224	1,984
Donation Receivable		-	590
<b>Surplus on Ordinary Activities before Taxation</b>		<b><u>4,224</u></b>	<b><u>2,574</u></b>
Tax on Ordinary Activities	10	<u>-</u>	<u>-</u>
Surplus for year		4,224	2,574
Revenue Reserves brought forward	23	(24,650)	(25,581)
Transfer to designated reserves	22	(357)	(189)
Actuarial gains / (losses) taken to reserves	7	<u>1,427</u>	<u>(1,454)</u>
<b>Revenue Reserves at 31 March</b>	23	<b><u>(19,356)</u></b>	<b><u>(24,650)</u></b>

All amounts derive from continuing operations.

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
(TRADING AS ORBIT HEART OF ENGLAND)**

**STATEMENT OF TOTAL RECOGNISED SURPLUSES AND DEFICITS  
For the Year Ended 31 March 2011**

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		<b>2011 £'000</b>	<b>2010 £'000</b>
<b>Surplus for the Financial Year</b>		<b>4,224</b>	<b>2,574</b>
Actual return less expected return on pension scheme assets	7	514	2,140
Gains and losses arising on pension scheme liabilities	7	<u>913</u>	<u>(3,594)</u>
<b>Total Surplus Recognised</b>		<b><u>5,651</u></b>	<b><u>1,120</u></b>

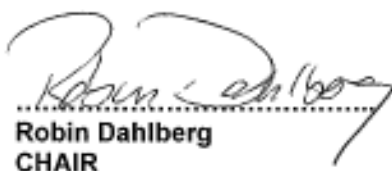
**There is no difference between historical cost and actual cost surpluses and deficits. Accordingly no note of historical cost surpluses and deficits is given.**

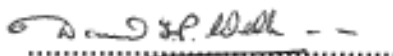
**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
(TRADING AS ORBIT HEART OF ENGLAND)**

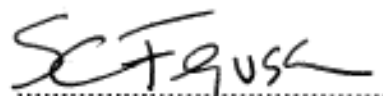
**BALANCE SHEET  
At 31 March 2011**

	NOTES	2011		2010	
		£'000	£'000	£'000	£'000
<b>Tangible Fixed Assets</b>					
Housing properties at Cost	11	556,276		518,880	
Less: Social Housing Grants	11	(236,465)		(214,170)	
Less: Other Public Grants	11	(14,702)		(13,160)	
			305,109		291,550
Other Tangible Fixed Assets	12		3,158		3,193
Fixed investments	13		800		800
			<u>309,067</u>		<u>295,543</u>
<b>Current Assets</b>					
Stocks	14	61		49	
Debtors	15	5,251		5,764	
Debtors more than one year	15	237		240	
Short term investments	16	1,753		1,753	
Cash at Bank and in Hand		1,000		944	
			<u>8,302</u>	<u>8,750</u>	
<b>Creditors: Amounts falling due within one year</b>	17	<u>(21,765)</u>		<u>(39,961)</u>	
<b>NET CURRENT LIABILITIES</b>			(13,463)		(31,211)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			<u><b>295,604</b></u>		<u><b>264,332</b></u>
<b>Creditors: Amounts falling due after more than one year</b>	19		310,003		282,252
<b>Pension Liability</b>	7		3,182		5,312
<b>Capital and Reserves</b>					
Designated Reserves	22	1,775		1,418	
General Reserve	23	(19,356)		(24,650)	
<b>Association's Funds</b>			<u>(17,581)</u>	<u>(23,232)</u>	
			<u><b>295,604</b></u>	<u><b>264,332</b></u>	

The financial statements on pages 17 to 43 were approved by the Board on 16 August 2011 and signed on its behalf by:

  
Robin Dahlberg  
CHAIR

  
David Wilkinson  
BOARD MEMBER

  
Stewart Fergusson  
SECRETARY

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
(TRADING AS ORBIT HEART OF ENGLAND)**

**CASHFLOW STATEMENT**

**For the Year Ended 31 March 2011**

	2011		2010	
	£'000	£'000	£'000	£'000
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES (Note 26)</b>		2,781		35,616
<b>Returns on Investments and Servicing of Finance</b>				
Interest Received	12		46	
Interest Paid	(12,593)		(11,865)	
<b>NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>		(12,581)		(11,819)
<b>Donation</b>	-		590	
<b>Taxation paid</b>	-		-	
<b>NET CASH INFLOW FROM DONATION &amp; TAXATION</b>		-		590
<b>Capital Expenditure and Financial Investment</b>				
Acquisition and construction of housing properties	(47,637)		(88,975)	
Sale of housing properties	904		605	
Grants received	22,781		27,105	
Purchase of other fixed assets	(320)		(489)	
Sale of other fixed assets	(8)		53	
<b>NET CASH OUTFLOW FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT ACTIVITIES</b>		(24,280)		(61,701)
<b>NET CASH OUTFLOW BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING</b>		(34,080)		(37,314)
<b>(i) Liquid Resources</b>				
Decrease in bank deposits	-		3,955	
<b>(ii) Financing (Note 27)</b>				
Loans Received	77,581		92,201	
Loan redemption repayments	(43,445)		(58,229)	
	34,136		33,972	
<b>NET CASH INFLOW FROM MANAGEMENT OF LIQUID RESOURCES AND FINANCING</b>		34,136		37,927
<b>INCREASE IN CASH AT BANK AND IN HAND (Note 28)</b>		<b>56</b>		<b>613</b>

# HEART OF ENGLAND HOUSING ASSOCIATION LIMITED (TRADING AS ORBIT HEART OF ENGLAND)

## NOTES TO THE FINANCIAL STATEMENTS For the Year Ended 31 March 2011

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### 1 PRINCIPAL ACCOUNTING POLICIES

#### Legal Status

Heart of England Housing Association Limited is incorporated under the Industrial and Provident Societies Act 1965 and is registered with the Tenant Services Authority (TSA) as a not-for-profit Registered Provider of social housing as defined by the Housing & Regeneration Act 2008. The Parent Body from the beginning of the year was Orbit Group Limited.

#### Basis of Accounting

The financial statements have been prepared in accordance with applicable Accounting Standards and Statements of Recommended Practice of the United Kingdom. The financial statements comply with the Industrial and Provident Societies Acts 1965 to 2002, Schedule 1 to the Housing Act 1996, the Accounting Requirements for Registered Social Landlords General Determination 2006, and the Statement of Recommended Practice (SORP) published by the National Housing Federation in 2008 "Accounting for Registered Social Landlords". The financial statements are prepared on the historical cost basis of accounting.

#### Group Services

The Association has taken advantage of the exemptions available under FRS8 (Related Party Transactions) and has not disclosed transactions with the Parent undertaking as consolidated financial statements are available from the Registered Office.

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

With the exception of costs capitalised as development costs, all costs incurred through this agreement are written off to the Income and Expenditure Account in the year in which they are incurred.

#### Turnover

Turnover represents rental income receivable, grants from local authorities and the Homes and Communities Agency (HCA), income from shared ownership first tranche sales and other income, all of which arise in the UK.

#### Operating Costs

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

#### Fixed Assets and Depreciation

Tangible fixed assets are stated at cost, less accumulated depreciation and capital grants. Depreciation is charged on a straight-line basis over the expected economic useful lives of the assets at the following annual rates:

Housing properties: existing stock (ex OHA)	1.26%
Housing properties: new ex OHA stock from 2001 onwards and ex SWHA stock	1.00%
Housing properties: rehabilitated (ex OHA)	1.67%
Freehold offices and commercial premises	2%-4%
Leasehold offices	Over the life of the lease
Fixtures, fittings and other equipment	15%-25%
Computer equipment	17%-33%

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

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
(TRADING AS ORBIT HEART OF ENGLAND)**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 March 2011**

---

**1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**

**Housing Properties**

Donated land is included in cost at its valuation on donation, with the donation treated as a capital grant. Housing properties are shown at cost less applicable grants, depreciation and impairment provision. Housing properties in the course of construction are stated at cost and not depreciated and are transferred to completed properties when they are ready for letting. Cost comprises materials, direct labour and attributable overheads. When housing properties are to be transferred to another association or developer, the net costs, after SHG, are dealt with in current assets.

**Social Housing and Other Grants**

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

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

**Capitalisation of Interest and Administration Costs**

Interest on loans financing development has been capitalised. Administration costs relating to development activities are capitalised only to the extent that they are incremental to the development process and directly attributable to bringing the property into their intended use.

**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 Income and Expenditure Account using the annuity method. Rentals paid under operating leases are charged to the Income and Expenditure Account as incurred.

**Pension Costs**

The Association recognises two multi-employer defined benefit schemes for staff, the assets of which are held in separately administered funds under the Social Housing Pension Scheme (SHPS) operated by the Pensions Trust and the Local Government Superannuation Scheme by Warwickshire County Council. The requirements of FRS17 Retirement Benefits are fully reflected in the financial statements and associated notes. Note 7 provides a summary of the pension valuation report for the Local Government Superannuation Scheme, 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 and are included as part of staff costs. Past service costs are recognised immediately in the Income and Expenditure Account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

The Parent Body also participates in the Social Housing Pension Scheme and offers a Stakeholder pension scheme; further details of both can be found in the Group financial statements. The cost of providing retirement pensions and related benefits is charged to management expenses. The disclosures in the Group's financial statements follow the requirements of FRS17.

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
(TRADING AS ORBIT HEART OF ENGLAND)**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 March 2011**

---

**1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**

**Impairment**

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

**Disposals of Housing Properties**

Proceeds from sales are shown net of discounts given under the provisions of the Right to Buy and the Right to Acquire. The cost of properties sold is written off to the Income and Expenditure Account and an adjustment is made to write back depreciation charged in prior years.

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

**Designated Reserves**

The Association designates those reserves that have been set aside for uses that prevent them, in the judgement of the Board, from being regarded as part of the free reserves of the Association.

**Renewal Reserve**

The Association only designates reserves relating to the renewal of furniture and equipment used communally within rented schemes. Annual charges are made, based on a percentage of the original cost of the furniture and equipment. Actual expenditure is charged to the Income and Expenditure Account with the transfer to/from the reserve being the difference between expenditure and the charges due. Funds held on behalf of leaseholders are shown under leaseholder's maintenance provision in creditors due after more than one year.

**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 Income and Expenditure Account in the year in which the work is undertaken. No depreciation charge is made during the year in which a property comes into management, nor in the year of sale.

**Disposal Proceeds Fund**

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

**Recycling of Capital Grant**

Where Social Housing Grant is recycled, as described above, the SHG is credited to a fund that appears as a creditor until spent.

**Value Added Tax**

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

**Taxation**

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

**Loan Finance Issue Costs**

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



**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
(TRADING AS ORBIT HEART OF ENGLAND)**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 March 2011**

---

**1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**

**Property Managed by Agents**

Where the Association carries the majority of the financial risk on property managed by agents, all the income and expenditure arising from the property is included in the Income and Expenditure Account. Where the agency carries the majority of the financial risk, the Income and Expenditure Account 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 Income and Expenditure Account.

**Loan Interest Costs**

The full costs of deferred interest rate and indexation loans are shown in the Income and Expenditure Account.

**Investments**

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

**Supporting People Income and Costs**

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

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
(TRADING AS ORBIT HEART OF ENGLAND)**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 March 2011**

**2 TURNOVER, COST OF SALES, OPERATING COSTS AND OPERATING SURPLUS**

	<b>2011</b>		
	<b>Turnover £'000</b>	<b>Operating Costs £'000</b>	<b>Operating Surplus/ (Deficit) £'000</b>
<b>SOCIAL HOUSING LETTINGS (Note 3a)</b>	<u>59,980</u>	<u>(43,105)</u>	<u>16,875</u>
<b>Other Social Housing Activities</b>			
Management Services	110	(51)	59
Other – Service to Group members	739	(903)	(164)
Home Ownership Services	191	(234)	(43)
Supporting People Contract Income (Block Gross)	1,181	(1,341)	(160)
Supporting People Contract Income (Block Subsidy)	816	(922)	(106)
LCHO First Tranche Sales	1,384	(1,038)	346
Other	<u>1,116</u>	<u>(1,026)</u>	<u>90</u>
	5,537	(5,515)	22
<b>Non-Social Housing Activities (Note 3b)</b>			
Other	<u>1,481</u>	<u>(1,591)</u>	<u>(110)</u>
	<b><u>66,998</u></b>	<b><u>(50,211)</u></b>	<b><u>16,787</u></b>
	<b>2010</b>		
	<b>Turnover £'000</b>	<b>Operating Costs £'000</b>	<b>Operating Surplus/ (Deficit) £'000</b>
<b>SOCIAL HOUSING LETTINGS (Note 3a)</b>	<u>57,567</u>	<u>(42,707)</u>	<u>14,860</u>
<b>Other Social Housing Activities</b>			
Management Services	53	(10)	43
Other – Service to Group members	1,068	(1,140)	(72)
Home Ownership Services	184	(242)	(58)
Supporting People Contract Income (Block Gross)	1,298	(1,342)	(44)
Supporting People Contract Income (Block Subsidy)	793	(890)	(97)
LCHO First Tranche Sales	518	(488)	30
Other	<u>1,123</u>	<u>(1,242)</u>	<u>(119)</u>
	5,037	(5,354)	(317)
<b>Non-Social Housing Activities (Note 3b)</b>			
Other	<u>1,829</u>	<u>(1,672)</u>	<u>157</u>
	<b><u>64,433</u></b>	<b><u>(49,733)</u></b>	<b><u>14,700</u></b>

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
(TRADING AS ORBIT HEART OF ENGLAND)**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 March 2011**

**3a INCOME AND EXPENDITURE FROM SOCIAL HOUSING LETTINGS**

	<b>General Needs Housing £'000</b>	<b>Supported Housing £'000</b>	<b>2011 Total £'000</b>	<b>2010 Total £'000</b>
<b>INCOME</b>				
Rents receivable net of identifiable service charges	51,521	5,322	56,843	54,720
Service Charges	1,875	1,917	3,792	3,577
<b>Gross Rent Receivable</b>	<u>53,396</u>	<u>7,239</u>	<u>60,635</u>	<u>58,297</u>
Less: Rent losses from voids	(436)	(219)	(655)	(732)
Net rents receivable	<u>52,960</u>	<u>7,020</u>	<u>59,980</u>	<u>57,565</u>
Other Income	-	-	-	2
<b>TOTAL INCOME</b>	<u><u>52,960</u></u>	<u><u>7,020</u></u>	<u><u>59,980</u></u>	<u><u>57,567</u></u>
<b>EXPENDITURE</b>				
Services	(1,925)	(1,823)	(3,748)	(3,328)
Management	(5,982)	(2,011)	(7,993)	(9,367)
Routine Maintenance	(12,631)	(1,868)	(14,499)	(13,873)
Planned Maintenance	(12,785)	(917)	(13,702)	(13,327)
Rent Losses from Bad Debts	(408)	(22)	(430)	(374)
Depreciation of Housing Properties	(2,571)	(93)	(2,664)	(2,438)
Other costs	(69)	-	(69)	-
<b>TOTAL EXPENDITURE</b>	<u><u>(36,371)</u></u>	<u><u>(6,734)</u></u>	<u><u>(43,105)</u></u>	<u><u>(42,707)</u></u>
<b>OPERATING SURPLUS ON LETTINGS</b>	<u>16,589</u>	<u>286</u>	<u>16,875</u>	<u>14,860</u>

**3b TURNOVER FROM NON-SOCIAL ACTIVITIES**

	<b>2011 £'000</b>	<b>2010 £'000</b>
<b>Lettings:</b>		
Commercial Premises	213	202
<b>Other</b>	<u>1,268</u>	<u>1,627</u>
	<u>1,481</u>	<u>1,829</u>

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
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**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 March 2011**

**4 OPERATING SURPLUS**

	<b>2011 £'000</b>	<b>2010 £'000</b>
<b>Operating Surplus is Stated after Charging / (Crediting)</b>		
<b>On Fixed Assets Other than Housing Properties:</b>		
Depreciation (owned assets)	208	283
Depreciation (leased assets)	155	150
Deficit on disposals	(8)	(3)
<b>On Housing Properties:</b>		
Housing Properties Depreciation	2,678	2,453
<b>Auditor's Remuneration:</b>		
In their capacity as Auditors	48	44
In respect of other services	78	1
<b>Operating leases</b>	<b>288</b>	<b>270</b>

**5 SURPLUS ON SALE OF HOUSING PROPERTIES**

	<b>2011 £'000</b>	<b>2010 £'000</b>
Proceeds from disposal	999	543
Cost of sales	(750)	(352)
<b>Surplus</b>	<b>249</b>	<b>191</b>

Right to Buy clawback relates to arrangements between Stratford-on-Avon District Council and Orbit Heart of England, whereby the proceeds from sales of the original housing properties made under the Preserved Right to Buy legislation are shared. The method of sharing is set out in a pre-agreed formula.

**6 DIRECTORS' AND EXECUTIVE OFFICERS' EMOLUMENTS**

The Directors of the Association are its Board Members.

Certain of the Board Members are tenants/leaseholders of the Association or the Group. Their tenancies/leases are on normal commercial terms and the Members cannot use their position to their advantage. Payments made to Board Members are shown below. Payments made to the Chair of Heart of England Housing Association Limited in his role as a Group Board Member are disclosed in the financial statements of Orbit Group Limited.

	<b>2011 £'000</b>	<b>2010 £'000</b>
Payments	52	42
Expenses	6	8
	<b>58</b>	<b>50</b>

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
(TRADING AS ORBIT HEART OF ENGLAND)**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 March 2011**

**6 DIRECTORS AND EXECUTIVE OFFICERS' EMOLUMENTS (CONTINUED)**

Members of staff that work for Orbit Heart of England are contractually employed by either Orbit Heart of England or Orbit Group Limited. These financial statements show the emoluments of persons directly employed by the Association. Emoluments of other Senior Executives (including the Managing Director) and staff are disclosed in the Group financial statements.

No payments or benefits, other than those permitted, were made to the persons referred to in Schedule 1 of the Housing Act 1996.

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

	<b>2011 Number</b>	<b>2010 Number</b>
Full Time Equivalents	445	315
	<b>2011 £'000</b>	<b>2010 £'000</b>
<b>Staff costs for the Above</b>		
Wages and salaries	10,501	7,233
Social security costs	930	632
Other pension costs	613	492
	<b>12,044</b>	<b>8,357</b>

**7 PENSIONS**

The Association recognises two multi-employer defined benefit schemes for staff, the assets of which are held in separately administered funds under the Social Housing Pension Scheme (SHPS) operated by the Pensions Trust and the Local Government Superannuation Scheme by Warwickshire County Council. Details of the SHPS are shown in the Group accounts. Further details of the Social Housing Pension Scheme can be found in the Group Financial Statements. The Association also offers a Stakeholder pension scheme

**Local Government (Warwickshire County Council) Scheme**

The latest actuarial valuation was at 31 March 2010 when the Scheme's assets were valued at £1,099m. Employer contributions made by the Association to the scheme for the year were £211,000 (2010: £217,495) in respect of ordinary contributions. The cost is assessed in accordance with advice from a qualified actuary. Employer contributions to the scheme of £nil (2010: £17,280) were included in creditors and paid after the year end.

The following information in respect of the Warwickshire County Pension Fund is provided for Heart of England Housing Association Limited.

The Warwickshire County Council Scheme is a multi-employer defined benefit scheme. The full actuarial valuation carried out at 31 March 2010 was updated to 31 March 2011, using suitable approximate methods, by a qualified independent actuary.

The financial assumptions underlying the valuation were as follows:

Per Annum	<b>2011</b>	<b>2010</b>	<b>2009</b>
Retail Price Inflation	3.4%	3.3%	3.3%
Wage Inflation	4.9%	5.05%	5.05%
Discount rate	5.5%	5.6%	7.1%
Allowance for future pension increases	2.9%	3.3%	3.3%

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
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**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 March 2011**

**7 PENSIONS (CONTINUED)**

The Association's share of fair values of each class of assets held by the Fund as at 31 March and the expected rates of return for the ensuing year are set out the following table:

	<b>Value at 31/03/11 £000</b>	<b>Value at 31/03/10 £000</b>	<b>Value at 31/03/09 £000</b>
Equities	7,382	6,837	4,825
Government Bonds	559	918	766
Other Bonds	1,454	1,327	1,149
Property	1,118	408	383
Cash/Liquidity	112	204	153
Other	559	510	383
<b>Total</b>	<b><u>11,184</u></b>	<b><u>10,204</u></b>	<b><u>7,659</u></b>

	<b>Expected Rates of Return at 31 March</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
Equities	7.5%	7.5%	7.5%
Government Bonds	4.4%	4.5%	4.0%
Other Bonds	5.1%	5.2%	6.0%
Property	6.5%	6.5%	6.5%
Cash/Liquidity	0.5%	0.5%	0.5%
Other	7.5%	7.5%	7.5%
<b>Total</b>	<b><u>6.9%</u></b>	<b><u>6.8%</u></b>	<b><u>7.2%</u></b>

Under the Local Government Pension Scheme, it is not possible separately to identify each main class of assets with a particular member of the Scheme. The above assets as a whole are allocated to participating bodies on the consistent and reasonable basis. The actuary has amended the classification of assets and the fair values shown above have been amended to reflect this.

The Association's share of the net assets and liabilities of the Warwickshire County Council Fund is set out below:

	<b>2011 £000</b>	<b>2010 £000</b>	<b>2009 £000</b>
Share of assets in the Fund	11,184	10,204	7,659
Estimated liabilities in the Fund	<u>(14,366)</u>	<u>(15,516)</u>	<u>(11,236)</u>
<b>Share of deficit in the Fund</b>	<b><u>(3,182)</u></b>	<b><u>(5,312)</u></b>	<b><u>(3,577)</u></b>

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
(TRADING AS ORBIT HEART OF ENGLAND)**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 March 2011**

**7 PENSIONS (CONTINUED)**

The movement in the net deficit of the Association for the year to 31 March is as follows:

	<b>2011 £000</b>	<b>2010 £000</b>
Net deficit at 1 April	(5,312)	(3,577)
<b>Movement in the year:</b>		
Operating charge - Current service cost	(226)	(167)
Operating charge - Past service gain/(loss)	941	(221)
Contributions	211	411
<b>Finance Income:</b>		
Expected return on Pension Fund assets	641	482
Interest on Pension scheme liabilities	(864)	(786)
<b>Total Finance Income</b>	<u>(223)</u>	<u>(304)</u>
Actuarial gain/(loss)	<u>1,427</u>	<u>(1,454)</u>
Net deficit at 31 March	<u><u>(3,182)</u></u>	<u><u>(5,312)</u></u>

**The actuarial gain / (loss) is further analysed as follows:**

	<b>2011 £000</b>	<b>2010 £000</b>
Actuarial gain on pension scheme assets	514	2,140
Experience gains and (losses) arising on scheme liabilities	913	(3,594)
	<u>1,427</u>	<u>(1,454)</u>

**Reconciliation to the balance sheet at 31 March**

	<b>2011 £000</b>	<b>2010 £000</b>
<b>Net Liabilities</b>		
Net liabilities excluding pension liability	(14,399)	(17,920)
Pension liability	<u>(3,182)</u>	<u>(5,312)</u>
Net liabilities including pension liability	<u><u>(17,581)</u></u>	<u><u>(23,232)</u></u>
<b>Reserves</b>		
Income and expenditure reserve excluding pension liability	(16,174)	(19,338)
Pension liability	<u>(3,182)</u>	<u>(5,312)</u>
Income and expenditure reserve including pension liability	<u><u>(19,356)</u></u>	<u><u>(24,650)</u></u>

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
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**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 March 2011**

**7 PENSIONS (CONTINUED)**

**History of experience gains and losses at end of year**

	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Difference between the expected and actual return on scheme assets:					
Amount £000	514	2,140	(2,481)	(991)	(74)
Percentage of scheme assets	4.6	21.0	(32.4)	(10.5)	(0.77)
Experience gains and losses arising on the scheme liabilities:					
Amount £000	913	(3,594)	2,844	57	0
Percentage of scheme liabilities	(6.4)	23.2	(25.3)	(0.4)	0
Total amount recognised gains and losses:					
Amount £000	1,427	(1,454)	363	(934)	603
Percentage of scheme liabilities	(9.9)	9.4	(3.2)	7.1	(4.95)

**8 INTEREST RECEIVABLE AND SIMILAR INCOME**

	<b>2011 £'000</b>	<b>2010 £'000</b>
Interest Receivable from Unlisted Investments	<u>12</u>	<u>46</u>

**9 INTEREST PAYABLE AND SIMILAR CHARGES**

	<b>2011 £'000</b>	<b>2010 £'000</b>
<b>On Bank Loans, Overdrafts and Other Loans</b>		
Repayable within 5 years, not by instalments		-
Repayable by instalments wholly or partly, in more than 5 years	10,624	10,958
Repayable, other than by instalments, in more than 5 years	1,550	1,546
Other Interest	581	378
Loan Refinancing Costs	<u>-</u>	<u>-</u>
	12,755	12,882
Capitalised Interest	(48)	(8)
Deferred Income Credit (See note 20b)	<u>(114)</u>	<u>(228)</u>
	<u>12,593</u>	<u>12,646</u>



**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
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**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 March 2011**

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**10 TAXATION**

The Association was accepted as a charity for tax purposes by HMRC with effect from 1 April 2008. No liability for taxation is anticipated in the year. The Board is not aware of any circumstances which will affect the future taxation status of the Association.

	<b>2011</b>	<b>2010</b>
	<b>£'000</b>	<b>£'000</b>
<b>(i) Analysis of tax charge on ordinary activities</b>		
<b>United Kingdom Corporation Tax at 28% (2010: 28%)</b>		
Current	-	-
<b>Deferred Tax</b>		
Origination and reversal of timing differences	-	-
	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>

The tax assessed on the surplus for the year is lower than the standard rate of corporation tax in the UK of 28% (2010: 28%). The differences are explained below.

	<b>2011</b>	<b>2010</b>
	<b>£'000</b>	<b>£'000</b>
<b>(ii) Factors affecting tax charge for current year</b>		
Surplus on ordinary activities before tax	<u>4,224</u>	<u>1,984</u>
Tax credit at 28% (2010: 28%) thereon	-	-
Non taxable deficits (primarily charitable exemptions)	-	-
Deferred tax asset written back	-	-
Current tax charge / (credit) for year	<u>-</u>	<u>-</u>

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended 31 March 2011**

**11 HOUSING PROPERTIES**

	Housing Properties for Letting		Supported Housing		Care Estab.	Non-Social Housing	Total £'000
	Complete £'000	In Development £'000	Complete £'000	In Development £'000	£'000	£'000	
<b>COST</b>							
At 1 April 2010	471,775	34,800	28,023	-	644	1,318	536,560
Additions	3,517	35,544	6	-	-	-	39,067
Transfer on Completion	44,765	(44,765)	-	-	-	-	-
Disposals	(98)	-	-	-	(644)	-	(742)
Additions from OGL	1,688	-	-	-	-	-	1,688
<b>At 31 March 2011</b>	<b>521,647</b>	<b>25,579</b>	<b>28,029</b>	<b>-</b>	<b>-</b>	<b>1,318</b>	<b>576,573</b>
<b>LESS: GRANTS</b>							
At 1 April 2010	(200,484)	(13,071)	(13,624)	-	(151)	-	(227,330)
SHG Receivable and Other Public Subsidies	(1,877)	(20,556)	-	-	-	-	(22,433)
Transfer on Completion	(19,793)	19,793	-	-	-	-	-
Additions from OGL	(994)	-	-	-	-	-	(994)
Disposals	-	-	-	-	151	-	151
Transfer from RCGF and DPF	(91)	(470)	-	-	-	-	(561)
<b>At 31 March 2011</b>	<b>(223,239)</b>	<b>(14,304)</b>	<b>(13,624)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(251,167)</b>

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
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**NOTES TO THE FINANCIAL STATEMENTS  
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**11 HOUSING PROPERTIES (CONTINUED)**

	Housing Properties for Letting		Supported Housing		Care Estab.	Non-Social Housing	Total
	Complete £'000	In Development £'000	Complete £'000	In Development £'000	£'000	£'000	£'000
<b>LESS: DEPRECIATION</b>							
At 31 March 2010	(16,675)	-	(797)	-	(53)	(82)	(17,607)
Depreciation	(2,570)	-	(93)	-	(5)	(10)	(2,678)
Eliminated on Disposals	3	-	-	-	58	-	61
<b>At 31 March 2011</b>	<b>(19,242)</b>	<b>-</b>	<b>(890)</b>	<b>-</b>	<b>-</b>	<b>(92)</b>	<b>(20,224)</b>
<b>LESS: PROVISIONS FOR IMPAIRMENT</b>							
At 1 April 2010	(73)	-	-	-	-	-	(73)
<b>At 31 March 2011</b>	<b>(73)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(73)</b>
<b>NET BOOK AMOUNT</b>							
At 31 March 2011	279,093	11,275	13,515	-	-	1,226	305,109
At 31 March 2010	254,543	21,729	13,602	-	440	1,236	291,550

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
(TRADING AS ORBIT HEART OF ENGLAND)**

**NOTES TO THE FINANCIAL STATEMENTS  
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**11 HOUSING PROPERTIES (CONTINUED)**

Additions to properties during the year include capitalised interest and finance costs of £48k (2010: £158k) and development administration costs of £1,518k (2010: £856k). The Association reviewed its properties for impairment and there was no charge to the Income and Expenditure Account for 2011 (2010: £NIL).

Grants stated in the note overleaf comprise primarily Social Housing Grants but also grants received towards development costs from other public bodies. The total amount of Social Housing Grant received during the year was as follows:

	<b>2011 £'000</b>	<b>2010 £'000</b>
Within Housing Properties	<u>22,433</u>	<u>15,596</u>
<b>The Net Book Value of Housing and Other Properties (Note 12) Comprises:</b>		
Freehold Land and Buildings	304,669	291,110
Long Leasehold Land and Buildings	2,351	2,447
Short Leasehold Land and Buildings	<u>517</u>	<u>594</u>
	<u><u>307,537</u></u>	<u><u>294,151</u></u>

Housing Stocks are stated at the lower of cost and net realisable value. Cost includes land, build costs, applicable overheads and interest.

**12 OTHER TANGIBLE FIXED ASSETS**

	<b>Freehold Offices £'000</b>	<b>Leasehold Offices £'000</b>	<b>Commercial Premises £'000</b>	<b>Motor Vehicles £'000</b>	<b>Furniture Fixtures &amp; Equipment £'000</b>	<b>Total £'000</b>
<b>COST</b>						
At 1 April 2010	17	3,087	449	210	2,441	6,204
Additions	-	-	-	-	320	320
Disposals	-	-	-	-	(302)	(302)
<b>At 31 March 2011</b>	<u>17</u>	<u>3,087</u>	<u>449</u>	<u>210</u>	<u>2,459</u>	<u>6,222</u>
<b>LESS: DEPRECIATION</b>						
At 31 March 2010	(17)	(873)	(62)	(209)	(1,850)	(3,011)
Charge for Year	-	(155)	(16)	(1)	(191)	(363)
Eliminated on Disposal	-	-	-	-	310	310
<b>At 31 March 2011</b>	<u>(17)</u>	<u>(1,028)</u>	<u>(78)</u>	<u>(210)</u>	<u>(1,731)</u>	<u>(3,064)</u>
<b>NET BOOK AMOUNT</b>						
At 31 March 2011	<u>-</u>	<u>2,059</u>	<u>371</u>	<u>-</u>	<u>728</u>	<u>3,158</u>
At 31 March 2010	<u>-</u>	<u>2,214</u>	<u>387</u>	<u>1</u>	<u>591</u>	<u>3,193</u>

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
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**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 March 2011**

**13 FIXED INVESTMENTS**

	<b>2011 £'000</b>	<b>2010 £'000</b>
Monies deposited with Funding for Homes Ltd	<u>800</u>	<u>800</u>

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

**14 STOCKS**

	<b>2011 £'000</b>	<b>2010 £'000</b>
Consumable stocks	<u>61</u>	<u>49</u>

**15 DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<b>2011 £'000</b>	<b>2010 £'000</b>
Rental Debtors	3,531	3,591
Less provision for doubtful debts	<u>(1,205)</u>	<u>(1,041)</u>
	2,326	2,550
Amounts Due from other Group Members	-	2,100
Prepayments and Accrued Income	372	201
SHG Receivable	922	-
Other Debtors	2,016	1,263
Provision for Bad Debts	<u>(148)</u>	<u>(110)</u>
	<u>5,488</u>	<u>6,004</u>
Debtors after one year included in Other Debtors above	<u>237</u>	<u>240</u>

The Amounts Due from other Group Members in 2010 related to the monies outstanding for the purchase of the care homes due from Heart of England Housing and Care Ltd. This was repaid in 2011 when Heart of England Housing and Care Ltd was transferred to the Sanctuary Group.

**16 OTHER INVESTMENTS AND SHORT TERM DEPOSITS**

	<b>2011 £'000</b>	<b>2010 £'000</b>
Cash Short Term Deposits Comprise		
Unlisted Investments: Bank Deposits		
- Maturing in excess of 7 days	<u>1,753</u>	<u>1,753</u>

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
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**NOTES TO THE FINANCIAL STATEMENTS  
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**17 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<b>2011 £'000</b>	<b>2010 £'000</b>
Housing Loans (Note 20)	4,695	4,980
Bank Overdraft (unsecured)	-	-
Trade Creditors	3,341	3,816
Amounts Due to Other Group Members	8,734	27,937
Other Creditors	1,786	1,183
Accruals and Deferred Income	2,020	916
Rents received in advance	1,189	860
Disposals Proceeds and Recycled Capital Grant Fund (Note 18)	-	269
	<u>21,765</u>	<u>39,961</u>

Housing loans shown above are net of £0k loan arrangement fees carried forward.

**18 DISPOSAL PROCEEDS AND RECYCLED CAPITAL GRANT FUNDS**

	<b>RCGF £000</b>	<b>DPF £000</b>	<b>TOTAL £000</b>
At 1 April 2010	29	386	415
Grants Recycled	38	-	38
Interest Accrued	-	1	1
Transfers to other Group members	(55)	(227)	(282)
New Build	-	(160)	(160)
	<u>12</u>	<u>-</u>	<u>12</u>
At 31 March 2011	<u>12</u>	<u>-</u>	<u>12</u>
RCGF and DPF Creditors within one year	-	-	-
RCGF and DPF Creditors more than one year	12	-	12
	<u>12</u>	<u>-</u>	<u>12</u>
At 31 March 2011	<u>12</u>	<u>-</u>	<u>12</u>

**19 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	<b>2011 £'000</b>	<b>2010 £'000</b>
Housing Loans (Note 20)	16,000	16,000
Loans Inter Company (Note 20)	292,320	257,784
Development Creditors Inter Company	164	7,004
Deferred Income Credit (Note 20b)	896	906
Leaseholder maintenance provision	204	147
Disposals Proceeds and Recycled Capital Grant Fund (Note 18)	12	146
Other	407	265
	<u>310,003</u>	<u>282,252</u>

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
(TRADING AS ORBIT HEART OF ENGLAND)**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 March 2011**

**20 HOUSING LOANS AND FINANCE LEASE OBLIGATIONS**

**Note (a)**

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

	<b>2011 £'000</b>	<b>2010 £'000</b>
<b>Due Within One Year:</b>		
Orbit Treasury Limited	<u>4,695</u>	<u>4,980</u>
<b>Due After More Than One Year:</b>		
Orbit Treasury Limited	292,320	257,784
Debenture Stock – Funding for Homes Ltd	<u>16,000</u>	<u>16,000</u>
	<u>308,320</u>	<u>273,784</u>
<b>Total Housing Loans</b>	<u>313,015</u>	<u>278,764</u>

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

On joining Orbit in April 2008, existing Heart of England Group loans were transferred into OTL and Orbit Heart of England entered into the cross-collateralised structure.

The loan from Orbit Treasury Limited is secured by fixed charges on individual properties. The interest rates ranged between 1.7% and 5.15% for the year ended 31 March 2011.

The loan from Funding for Homes Limited was transferred to Orbit Heart of England on 1 April 2008. The loan is secured by fixed charges on individual properties and cash. The loan is repayable in 2018. The interest rate is 10.125%.

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

	<b>2011 £'000</b>	<b>2010 £'000</b>
In One Year or Less, or on Demand	<u>4,695</u>	<u>4,980</u>
Repayable by Instalments:		
- In more than One Year but not more than Two Years	4,695	4,980
- In more than Two Years but not more than Five Years	14,085	14,940
- In more than Five Years	<u>273,540</u>	<u>237,864</u>
	<u>292,320</u>	<u>257,784</u>
Repayable Other than by Instalments:		
- In more than Five Years	<u>16,000</u>	<u>16,000</u>
	<u>313,015</u>	<u>278,764</u>

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
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**NOTES TO THE FINANCIAL STATEMENTS  
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**20 HOUSING LOANS AND FINANCE LEASE OBLIGATIONS (CONTINUED)**

**Note (b)**

As a result of raising a loan totalling £16 million through Funding for Homes Limited, the Association received an additional sum of £2.8 million representing a net discount on the market price of the stock on issue. This is shown as deferred income credit and is being released to the Income and Expenditure Account to offset loan interest charges over the life of the loan (25 years from October 1993). The balance shown as deferred income credit is £792k in 2011 (2010: £906k.)

The interest rate profile of the Association at 31 March 2011 was:

	<b>Total £'000</b>	<b>Variable £'000</b>	<b>Fixed £'000</b>	<b>Weighted Average Rate %</b>	<b>Weighted Average Term of Fixed Loan in Years</b>
Instalment Loan	297,015	123,496	173,519	3.7	27
Non Instalment Loan	<u>16,000</u>	<u>-</u>	<u>16,000</u>	<u>10.1</u>	<u>7</u>
	<u>313,015</u>	<u>123,496</u>	<u>189,519</u>	<u>4.0</u>	<u>25</u>

The interest rate profile of the Association at 31 March 2010 was:

	<b>Total £'000</b>	<b>Variable £'000</b>	<b>Fixed £'000</b>	<b>Weighted Average Rate %</b>	<b>Weighted Average Term of Fixed Loan in Years</b>
Instalment Loan	262,764	81,903	180,861	4.3%	28
Non Instalment Loan	<u>16,000</u>	<u>-</u>	<u>16,000</u>	<u>10.1%</u>	<u>8</u>
	<u>278,764</u>	<u>81,903</u>	<u>196,861</u>	<u>4.6%</u>	<u>26</u>

**21 CALLED UP SHARE CAPITAL**

	<b>2011 £</b>	<b>2010 £</b>
<b>Shares of £1 Each, allotted, issued and fully paid</b>		
At 1 April 2010	14	11
Issued during the year	-	4
Cancelled during the year	(3)	(1)
	<u>11</u>	<u>14</u>
<b>At 31 March 2011</b>	<u>11</u>	<u>14</u>

The share capital of Heart of England Housing Association Limited is raised by the issue of shares with a nominal value of £1 each. Because of the Association's Industrial and Provident Society status, the maximum shareholding permitted per member is 1 share. There is no Authorised Share Capital and the Heart of England Housing Association Board may issue as many £1 shares as it wishes. However, the Board operate a restricted shareholding policy with all shares currently held by serving Board Members, Parent Body and Honorary Life Members. The Association's shares carry no right to interest, dividend or bonus. Shares are not capable of being withdrawn or transferred and cannot be held jointly. Shareholders have the right to attend (or to vote by proxy) at any general, special general or extraordinary meeting of Heart of England Housing Association.



**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
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**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 March 2011**

**22 DESIGNATED RESERVES**

	<b>At 1 April 2010 £'000</b>	<b>Transfer (to) / from I&amp;E Account £'000</b>	<b>At 31 March 2011 £'000</b>
Renewal of Furniture and Equipment	<u>1,418</u>	<u>357</u>	<u>1,775</u>

**23 RECONCILIATION OF MOVEMENTS IN ASSOCIATION'S FUNDS**

	<b>2011 £'000</b>	<b>2010 £'000</b>
<b>Opening Funds</b>	(24,650)	(25,581)
Surplus for the financial year	4,224	2,574
Actuarial Gain / (Loss) on pension scheme	1,427	(1,454)
Transfer to designated reserves	<u>(357)</u>	<u>(189)</u>
<b>Closing Funds</b>	<u>(19,356)</u>	<u>(24,650)</u>

Funds are stated with the effect of implementation of FRS17 'Retirement Benefits'.

**24 CAPITAL COMMITMENTS**

	<b>2011 £'000</b>	<b>2010 £'000</b>
Capital Expenditure which has been contracted for but has not been provided for in the financial statements	34,873	13,650
Capital Expenditure which has been authorised under authority from the Board but has yet to be contracted for	<u>483</u>	<u>27,018</u>
	<u>35,356</u>	<u>40,668</u>

The Association expects these commitments to be financed with:

Social Housing Grant	15,766	24,314
Committed Loan Facilities	<u>19,590</u>	<u>16,354</u>
	<u>35,356</u>	<u>40,668</u>

**25 CONTINGENT LIABILITIES**

There were contingent liabilities at 31 March 2011 of £1.5 million in relation to remedial costs on properties identified as having substandard acoustic construction (2010: £1.5 million).

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
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**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 March 2011**

**26 RECONCILIATION OF OPERATING SURPLUS TO NET CASH INFLOW FROM OPERATING ACTIVITIES**

	<b>2011 £'000</b>	<b>2010 £'000</b>
Operating Surplus	16,787	14,700
Depreciation – Other Fixed Assets	363	433
Depreciation – Housing Properties	2,678	2,453
Movement in Provisions	(38)	1
(Increase) / decrease in Stocks	(12)	11
Difference between pension charge and paid	(926)	(23)
Decrease / (increase) in Debtors	1,497	(322)
(Decrease) / increase in Creditors	<u>(17,568)</u>	<u>18,363</u>
Net Cash Inflow from Operating Activities	<u>2,781</u>	<u>35,616</u>

**27 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT**

	<b>2011 £'000</b>	<b>2010 £'000</b>
Increase in cash in the year	56	613
Decrease in Bank Deposits (with a Maturity in Excess of 24 Hours)	-	(3,955)
Loans received	(77,695)	(92,429)
Loans redeemed	43,445	58,229
Loan Pool Premium Reserve FFH	<u>114</u>	<u>228</u>
Change in Net Debt (Increase)	(34,080)	(37,314)
Net Debt at 1 April 2010	<u>(276,973)</u>	<u>(239,659)</u>
<b>Net Debt at 31 March 2011</b>	<u>(311,053)</u>	<u>(276,973)</u>

**28 ANALYSIS OF CHANGES IN NET DEBT**

	<b>At Beginning of the Year £'000</b>	<b>Cash Flows £'000</b>	<b>Other Changes £'000</b>	<b>At End of the Year £'000</b>
Cash at Bank and in Hand	944	56	-	1,000
Bank Overdraft	-	-	-	-
	<u>944</u>	<u>56</u>	<u>-</u>	<u>1,000</u>
Bank Deposits – More than 24 Hours	1,753	-	-	1,753
Housing Loans Due Within One Year	(4,980)	285	-	(4,695)
Housing Loans Due After One Year	(273,784)	(34,535)	-	(308,319)
Loan Pool Premium Reserve FFH	<u>(906)</u>	<u>-</u>	<u>114</u>	<u>(792)</u>
	<u>(276,973)</u>	<u>(34,194)</u>	<u>114</u>	<u>(311,053)</u>

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
(TRADING AS ORBIT HEART OF ENGLAND)**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 March 2011**

**29 FINANCIAL COMMITMENTS**

**Operating Leases**

As at 31 March 2011 the Association was committed to making the following payments during the year in respect of operating leases other than land and buildings.

	<b>2011</b>	<b>2010</b>
	<b>£'000</b>	<b>£'000</b>
<b>Leases which Expire</b>		
Within 1 year	-	23
Within 2 - 5 years	357	197
More than 5 years	-	-
	<u>357</u>	<u>220</u>

**30 PROPERTY PORTFOLIO - OWNED AND MANAGED STOCK**

	<b>2011</b>	<b>2010</b>
	<b>No.</b>	<b>No.</b>
General Needs	12,498	12,233
Supported Housing	1,635	1,634
Registered Care Home	-	23
<b>Total Owned by Orbit Heart of England</b>	<u>14,133</u>	<u>13,890</u>
Leasehold	403	403
Managed on behalf of Others	359	360
<b>Leasehold and Other Managed</b>	<u>762</u>	<u>763</u>
<b>Total Social Housing Units</b>	<u>14,895</u>	<u>14,653</u>
Commercial Units	14	14
Market Rent	10	10
<b>Total Non-Social Housing Units</b>	<u>24</u>	<u>24</u>
<b>Total Units</b>	<u>14,919</u>	<u>14,677</u>
<b>Stock in Development as at 31 March 2011</b>		
General Needs	425	245
Supported	-	-
	<u>425</u>	<u>245</u>

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
(TRADING AS ORBIT HEART OF ENGLAND)**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 March 2011**

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**31 ULTIMATE PARENT ENTITY**

The ultimate parent entity and controlling entity of Orbit Heart of England is Orbit Group Limited, an Industrial and Provident Society incorporated in the United Kingdom.

The results of Orbit Heart of England are included in the Group financial statements of its parent entity which are published on the Orbit Group website [www.orbit.org.uk](http://www.orbit.org.uk) and are also available from Orbit Housing Group Limited, Garden Court, Harry Weston Road, Binley Business Park, Binley, Coventry, CV3 2SU.

**32 RELATED PARTY TRANSACTIONS**

The Association is taking advantage of the exemption per FRS 8 available to wholly owned subsidiaries from disclosing transactions with other Orbit Group companies.