

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

**FINANCIAL STATEMENTS**

**For the Year Ended 31 March 2014**

**Industrial and Provident Society Number 30446R**

**Tenant Services Authority Number L4526**

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

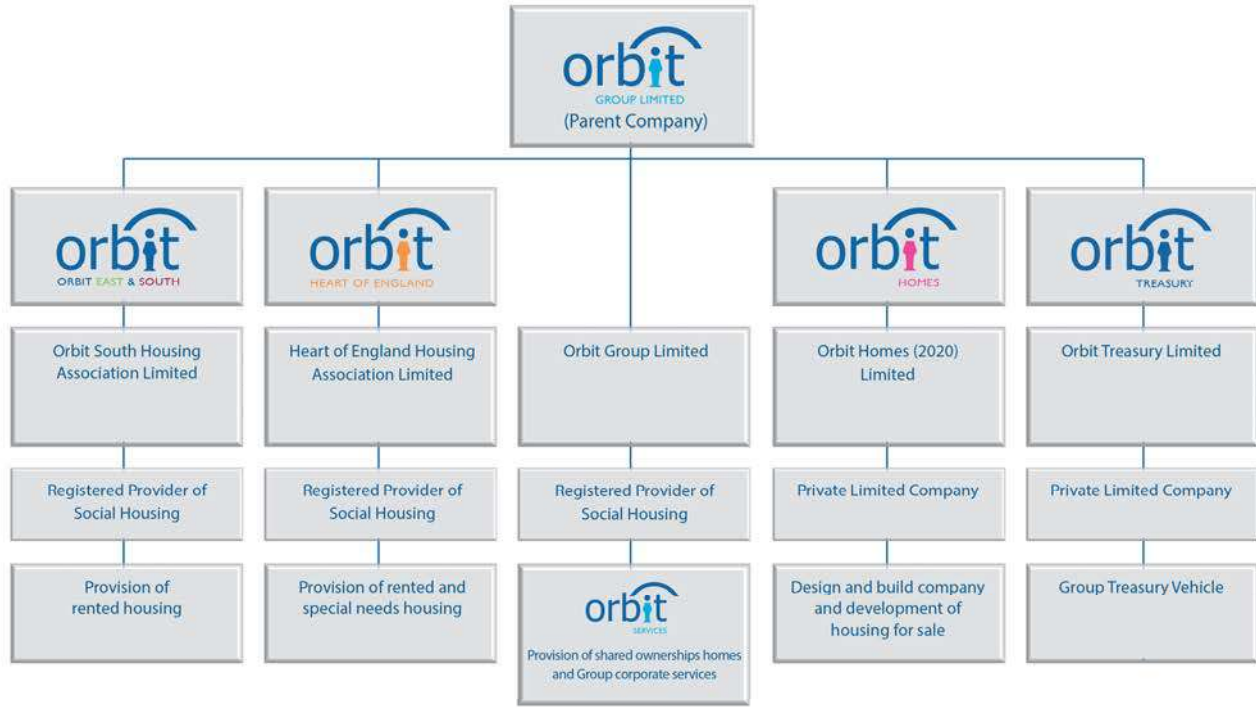
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# Heart of England Housing Association Limited (Trading as Orbit Heart of England) Operating and Financial Review

## Structure & Overview

Heart of England Housing Association Limited was formed on 1 April 2008 from an amalgamation of South Warwickshire Housing Association and Heart of England Housing Group Limited. Simultaneously it joined Orbit as a subsidiary of Orbit Group Limited, and operates under the name 'Orbit Heart of England.'



## What we do

Both of the Group's operating associations, Orbit South and Orbit Heart of England, provide frontline services, working directly within our communities and forging strong relationships with our residents and others. Orbit Independent Living (OIL) provides accommodation and services which enable people to live more independent lives, including the provision of sheltered and supported housing. Orbit South and Orbit Heart of England are managed as one business with a consistent way of working delivering efficient and effective services.

## Heart of England Housing Association Limited (Trading as Orbit Heart of England) Operating and Financial Review

### Board Members, Executive Officers and Auditors

The two legal entities – Orbit Heart of England and Orbit South – each have their own separate Strategic Board, but since 1 April 2013 members come together under a shared board arrangement which allows meetings to be held concurrently. Membership of the legal entity boards is shown below:

| Name                           | Role  | Appointed<br>Orbit Heart of<br>England | Appointed<br>Orbit South  | Retired                      |
|--------------------------------|-------|--|---------------------------|------------------------------|
| <b>Fran Beckett</b>            | Chair | 1st April 2013                         | 1st April 2011            |                              |
| <b>Jane Ball</b>               | I     | 16th April 2013                        | 19th November 2009        |                              |
| <b>Lindsay Dennish</b>         | I     | 1st December 2011                      | 16th April 2013           | 31 <sup>st</sup> August 2013 |
| <b>Jacqui Dickinson</b>        | R     | 14th October 2009                      | -                         |                              |
| <b>Julie Hopes</b>             | I     | 16th April 2013                        | 18th April 2012           |                              |
| <b>Glyn Kyle</b>               | I     | -                                      | 11th February 2009        |                              |
| <b>Sam Margrave</b>            | R     | 9 <sup>th</sup> July 2013              | -                         |                              |
| <b>Terry McGlone</b>           | I     | 16th April 2013                        | 23rd February 2006        | 31 <sup>st</sup> March 2014  |
| <b>Vanessa Nicholls</b>        | R     | -                                      | 1st October 2007          |                              |
| <b>Grant Richardson</b>        | I     | 1st February 2013                      | -                         |                              |
| <b>Michael Robertson-Smith</b> | I     | 1st April 2008                         | 16th April 2013           | 31 <sup>st</sup> March 2014  |
| <b>Alan Squirrell</b>          | I     | 16th April 2013                        | 10th March 2010           |                              |
| <b>Kathy Strong</b>            | R     | -                                      | 9 <sup>th</sup> July 2013 |                              |

#### Key:

I = Independent Member

R = Resident Member

## Heart of England Housing Association Limited (Trading as Orbit Heart of England) Operating and Financial Review

### Executive Directors - Orbit Living Senior Management Team

| Executive Director | Role   |
|--------------------|--|
| Vivien Knibbs      | Executive Director – Orbit Living  |
| Elaine Johnston    | Director of Operations, Orbit Heart of England                             |
| Jon Kanareck       | Director of Operations, Orbit East & South (3 June 2013 – 31 January 2014) |
| Keith Edwards      | Director of Operations, Orbit East & South (from 3 February 2014)          |
| David Collick      | Director of Property Services  |
| Vicky Harwood      | Director of Orbit Independent Living                                       |
| Louise Oakley      | Director of Service Excellence   |
| Jane Cook          | Finance Director (to 10 June 2013)   |
| Neil Martin        | Finance Director (from 11 June 2013)                                       |

Additionally, Human Resources and Development business partners work in collaboration as part of the Senior Management Team.

The Executive officers are members of the Senior Management Team of Orbit Living. They are employed by Orbit Group Limited and their services are provided to Orbit Heart of England via an Intra Group agreement.

|         | Independent Auditors  | Principal Solicitors  |
|---------|---|---|
| Address | PricewaterhouseCoopers<br>LLP<br>Cornwall Court<br>19 Cornwall Street<br>Birmingham<br>B3 2DT | Trowers and Hamblins LLP<br>3 Bunhill Row<br>London<br>EC1Y 8YZ |

|         | Registered Office  |
|---------|--|
| Address | 10 Greenhill Street<br>Stratford-upon-Avon<br>Warwickshire<br>CV37 6LG |

# Heart of England Housing Association Limited (Trading as Orbit Heart of England) Operating and Financial Review

## Objectives and Strategy

We have a compelling social purpose; to improve the social, economic and environmental prospects of people and communities. We break this down into three key areas:

### Vision

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

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

Our focus in 2014/15 will remain on delivering new homes to address the on-going housing crisis, and ensuring we provide good core services to our existing customers.

We have set a number of ambitious targets to achieve between now and 2020, and 2014/15 will see us further build on our achievements so far towards these.

# Heart of England Housing Association Limited (Trading as Orbit Heart of England) Operating and Financial Review

## Objectives and Strategy

Orbit's key priorities in 2014/15 will be:

|  | 2014/15 priorities   | 2020 outcome  |
|--|--|---|
| <b>Housing Choice:<br/>Providing a wide range of homes to meet needs and aspirations</b> | Maximising financial return from assets – managing our portfolio to best financial yield   | Deliver 12,000 homes  |
|  | Expanding the tenure offer – ensuring new housing option offers are developed  | Provide a full range of home rental and ownership options   |
|  | Retrofit investment – improving the energy efficiency of our homes   | Provide a flexible housing journey for customers  |
| <b>Community Investment:<br/>Creating thriving and empowered communities</b>             | Delivering capacity building, training and support – to support empowerment, opportunity, skills development and employment outcomes | Provide 10,000 training and capacity building activities to support empowerment, opportunities and jobs |
|  | Investing for the future – developing longer term community investment prospectuses and plans for our priority investment themes     | Deliver £30m of investment into communities, including external funding                                 |
| <b>Customer offer: Enabling customers to make choices and take control</b>               | Getting it right – improving satisfaction with, and effectiveness of, core customer services.  | Achieve a minimum energy rating of Band C in our homes (delivery date subject to Government funding)    |
|  | Developing self service – improving our online offer and supporting customers to be ready for a digital by default world             | Ensure 75% of customer contacts are online  |
|  | Supporting financial resilience – expanding our added value services to enable customers to better manage household finances.        | Provide a range of tailored services which satisfy 90% of customers                                     |
|  |  | Provide financial and energy efficiency advice to 20,000 people   |

These priorities form the basis of the Orbit Heart of England Business Plan. The Board approves the business plan, and subsequently monitors progress against the detailed delivery plans via regular performance reports.

## Heart of England Housing Association Limited (Trading as Orbit Heart of England) Operating and Financial Review

Our business planning cycle has been developed around three phases to achieve our objectives by 2020, 2014/15 being the final stage of phase 1:

1. **Creating the platform 2013-2015:** Simplification and consistency and getting the basics right to create the platform we will need to deliver our 2020 targets.
2. **Growth and delivery 2015-2017:** Driving forward our plans as we start to achieve the 2020 targets while continuing to evolve and develop to meet new challenges and opportunities.
3. **Achieving our vision 2017-2020:** Delivering our 2020 targets by maximising our organisational potential and performance to deliver the nine outcomes we set in 2013.

Orbit Heart of England, is part of a group wide major two-year organisational transformation programme in order to create the culture, systems and processes we will need to deliver our long-term targets. Delivery of our 2020 vision will be achieved through a culture which is driven by 'Profit for a Purpose' – we have defined this as maximising efficiency and resources through a commercial approach; harnessing insight and innovation; and investing in our people to create a dynamic culture of trust, enterprise and achievement.

Underpinning our commercial approach of 'Profit for a Purpose' is our values of honesty, respect, excellence, partnership and innovation which is the way we do things across every part of the organisation.

We also have a number of strategic objectives around our organisational delivery, in particular the operational restructure across Orbit South and Orbit Heart of England, which commenced in February 2014, which will fundamentally change the way we are structured and deliver services to customers.

### External Environment

The external environment in 2014/15 will continue to provide a range of challenges and opportunities to Orbit. Although economic growth forecasts are now more positive, increasing costs of food and fuel, the impact of welfare reform and other pressures on the cost of living mean many of our customers still face difficult circumstances. In 2014/15 we will therefore continue our work to address the key issues facing our customers, including financial hardship, access to training and jobs and fuel poverty as part of our commitment to investing in our communities.

The recovering housing market and on-going growth in the private rented sector provide both challenge and opportunity, as we seek to contribute to redressing the underlying shortfall in housing supply. There is strong underlying demand for housing, driven by this annual shortfall in new homes, but many face continuing difficulties in accessing mortgage funding.

Some of the key issues currently facing Orbit as we look to 2014/15 and beyond are:

**Affordable Rents** - Our current development contract with the HCA means we are seeing increasing numbers of affordable (up to 80% market rent) homes within our portfolio. Not only are many of our new homes being let on affordable tenancies, but we are also converting some of our older homes to affordable as well. We now have over 1,100 affordable tenancies, making up around 4% of our rented stock.

While these are an increasing trend, it should be noted Orbit operates in a number of areas where affordable rents are less than or very similar to social rents. Conversely, in some areas where affordable is considerably more than social rents, we have taken a decision to apply 65% of market rents only, to ensure the properties remain affordable for our core customer base.



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**Welfare Reform Strategy** - Our preparations and response to welfare reform has been extensive and enabled us to adapt our business plans and face the challenges head on a year before the Welfare Reform Act came into operation. We are widely recognised as a leader in the field, have been nominated for numerous awards and had our communication materials adopted by many other organisations. Our strategy focuses on:

- Prevention of arrears and early interventions, seeing our investment paying off many times over
- Vetting all potential customers to ensure they can afford and sustain their tenancy. This leads to support referrals where we identify any risk factors. Where a customer cannot afford the tenancy, any offer is withdrawn
- A relentless information campaign enabling customers to make informed choices and maximise their income, or downsize to ensure they can afford their home and prevent losses to the business
- By maximising the potential of our IT systems, customers falling behind with their rent are contacted immediately and referred to an internal specialist advice team if necessary
- Preparations for direct payment of benefits to customers are underway and we have reviewed our payment services provider to offer a broad range of innovative payment options.

Our arrears have decreased during 2013/14 despite the impact of the removal of the spare room subsidy (bedroom tax) and the overall cap on benefits.

**Regulatory changes** - The HCA is the regulatory body for registered providers (RPs) of social housing in England. With a statutory duty to minimise interference, it operates a system based on the principles of co-regulation. More information on this can be found in the Orbit Group financial statements.

Orbit is currently undergoing a major two year organisational transformation programme to ensure we are able to respond to these challenges and opportunities, and define our position as a values based organisation with a commercial approach which delivers a 'profit for a purpose.'

## Heart of England Housing Association Limited (Trading as Orbit Heart of England) Operating and Financial Review

### Risk Management

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

The most recent review undertaken of our operating environment has identified the following 'Business Critical Risks' which are considered by the Group Board every six months:

| <b>Risk</b>  | <b>Description and mitigation</b>  |
|--|--|
| <b>Failure to deliver against government development contracts</b> | Delivery of HCA/GLA contract targets is key to achieving our 12,000 homes ambition. The risk is mitigated through identification of schemes to meet contract targets and regular monitoring of progress against delivery of these.                       |
| <b>Non achievement of housing sales</b>                            | It is increasingly important to deliver our targeted housing property sales in an environment of reducing grant levels. The risks around non-delivery of sales are mitigated by management of the supply of units and regular monitoring of performance. |
| <b>Failure to deliver financial assumptions</b>                    | Failure to meet financial plan targets could impact on the viability of the Group and ability to deliver our targets. This is mitigated by regular financial monitoring and maintaining sufficient headroom against loan covenants.                      |
| <b>Failure to mitigate against the impact of welfare reform</b>    | The potential impact of welfare reform on income and arrears levels is managed by a designated project group, with close monitoring of the impact on income and arrears levels. An efficiency review has also been completed of processes in this area.  |

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

1. Failure to deliver 2 year transition plan
2. Inability to deliver repairs service, including effective transition to outsource provider
3. Lack of skills and knowledge to diversify
4. Ineffective management of key health and safety risks
5. Orbit does not embrace need for cultural change and commerciality
6. Ineffective governance and leadership leading to poor business decisions

## Heart of England Housing Association Limited (Trading as Orbit Heart of England) Operating and Financial Review

### Performance for the year

#### Operational

In 2013/14 we completed the first year of our transformation programme towards our 2020 vision. Orbit's key achievements this year were:

|  | 2013/14 achievements   | 2020 outcome  |
|--|--|---|
| <b>Housing Choice:<br/>Providing a wide range of homes to meet needs and aspirations</b> | We delivered 865 new homes   | Deliver 12,000 homes  |
|  | We started to explore our options to develop private rented homes  | Provide a full range of home rental and ownership options   |
|  | We started exploring a new way for people to move from renting to owning a share of their home                             | Provide a flexible housing journey for customers  |
| <b>Community Investment:<br/>Creating thriving and empowered communities</b>             | We provided nearly 1,000 training places, against a target of 600, and hit our target of providing 100 employment outcomes | Provide 10,000 training and capacity building activities to support empowerment, opportunities and jobs |
|  | We achieved our target of investing £1.6 million into our communities  | Deliver £30 million of investment into communities, including external funding                          |
|  | We started to put in place funding arrangements which will help to upgrade many of our homes in 2014-15                    | Achieve a minimum energy rating of Band C in our homes (delivery date subject to Government funding)    |
| <b>Customer offer:<br/>Enabling customers to make choices and take control</b>           | We began developing a new customer-friendly website to go live in Summer 2014  | Ensure 75% of customer contacts are online  |
|  |  | Provide a range of tailored services which satisfy 90% of customers                                     |
|  | We achieved our target of providing fuel poverty advice to 500 customers and financial inclusion advice to 1000 customers  | Provide financial and energy efficiency advice to 20,000 people   |

## Heart of England Housing Association Limited (Trading as Orbit Heart of England) Operating and Financial Review

For Orbit Heart of England, performance against the key performance indicators (KPIs) which are monitored by the SMT and Board was as follows:

|                                       | <b>Target<br/>2013/14</b> | <b>Target<br/>achieved</b> | <b>Actual<br/>2013/14</b> | <b>Actual<br/>2012/13</b> | <b>Actual<br/>2011/12</b> |
|---------------------------------------|---------------------------|----------------------------|---------------------------|---------------------------|---------------------------|
| 1. Customer satisfaction with repairs | 85%                       | No                         | 77.5%                     | 82.6%                     | 82%                       |
| 2. Gas safety                         | 100%                      | Yes                        | 100%                      | 99.8%                     | 99.7%                     |
| 3. Customer satisfaction with CSC     | 85%                       | Yes                        | 93.6%                     | 90.8%                     | N/A                       |
| 4. Average relet time (days)          | 23.5                      | No                         | 26.5                      | 22.2                      | 25.6                      |
| 5. Net arrears                        | 3%                        | Yes                        | 2.4%                      | 2.5%                      | 2.4%                      |

In total there are 17 KPIs which are monitored. In 2013/14 we have achieved 9 of the 17. Of the indicators illustrated above:

- Customer satisfaction with repairs has fallen during the year. There have been changes made in service provision, with Property Matters (the in-house maintenance provider in Orbit Heart of England) ceasing to operate on 31st March 2014 and a new service provider in place from April 2014, to ensure improved performance via a single, consistent way of working across Orbit.
- 100% compliance with gas servicing has been achieved across the Group for the first time this year
- The 'Right first time' indicator measures the percentage of calls received by our Customer Service Centre where the customer's desired outcome is achieved from their call. Key progress in this area in the year has been around calls relating to payment of rent and booking of repairs appointments.
- Relet performance was impacted by issues in the first half of the year with contractor performance but has improved, with quarter 4 performance of 23.8 only marginally above target.
- Arrears performance has exceeded target and improved from last year despite the impact of bedroom tax and continuing financial pressures for many of our customers, due to our on-going work to address the impact of welfare reform and process improvements made in the year.

In addition to these measures, our annual customer survey (STAR) rated customer satisfaction at 76.6% (2013: 79.3%.) Whilst it is disappointing to see a decline, the changes made in 2013/14 around provision of the maintenance service put us in a better position to deliver excellent services to customers in the future.

Other highlights in the year include;

- The acquisition of 268 units in one of our key operating areas – Stratford upon Avon - from The Guinness Partnership
- Completion of the work to identify and profile our key nine community hubs – Coventry, Warwick, Stratford upon Avon, Norwich, Rugby, Bexley, Hastings, Thanet and Northants. These are the areas where we are able to play a leading or significant role in the local housing and community landscape and this work will be vital in informing our future plans
- Developing our approach to community investment to allow us to deliver our target for 2020
- Implementing a new rewards and benefits system in response to staff feedback.

## Heart of England Housing Association Limited (Trading as Orbit Heart of England) Operating and Financial Review

### Financial summary

| Income & Expenditure Account                | 2013/14<br>£m | 2012/13<br>£m | 2011/12<br>£m | 2010/11<br>£m |
|---|---------------|---------------|---------------|---------------|
| Turnover                                    | 76            | 74            | 69            | 67            |
| Operating surplus                           | 27            | 23            | 21            | 20            |
| Operating margin                            | 35%           | 32%           | 30%           | 30%           |
|   |               |               |               |               |
| Profit on sale of housing properties        | 6             | 14            | 10            | -             |
| Surplus as % of turnover                    | 16%           | 24%           | 20%           | 11%           |
| Surplus excluding interest as % of turnover | 36%           | 44%           | 43%           | 30%           |

| Balance sheet                                | 2013/14<br>£m | 2012/13<br>£m | 2011/12<br>£m | 2010/11<br>£m |
|--|---------------|---------------|---------------|---------------|
| Tangible fixed assets                        | 400           | 363           | 355           | 336           |
| Net current liabilities                      | (32)          | (16)          | (16)          | (13)          |
| <b>Total assets less current liabilities</b> | <b>368</b>    | <b>347</b>    | <b>339</b>    | <b>323</b>    |
|  |               |               |               |               |
| Non-current liabilities                      | 317           | 308           | 317           | 313           |
| Designated reserves                          | 3             | 3             | 3             | 2             |
| Revenue reserves                             | 47            | 36            | 19            | 8             |
|  | <b>368</b>    | <b>347</b>    | <b>339</b>    | <b>323</b>    |

Performance in the year has exceeded budget, delivering an overall surplus for the year of £12m (2013: £18m.) Operating surplus has increased to £27m (2013: £23m.) Turnover was £76m, an increase of £2m from 2013. Our key financial indicators have all been achieved for the year and exceeded targeted levels. Further detail on these can be found in the Orbit Group Limited financial statements.

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

The balance sheet has also increased in strength with assets increasing to £400m (2013: £363m) and reserves to £51m (2013: £39m), with a total of 15,672 properties in management (2013: 15,367)

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

# Heart of England Housing Association Limited (Trading as Orbit Heart of England) Operating and Financial Review

## VALUE FOR MONEY

### STATEMENT FROM THE BOARD

As the Board, we have ultimate accountability for driving and embedding value for money (VFM) across the business. We have been pleased with progress so far, but know there is a lot more work to do. We have really seen the VFM culture develop particularly over the last two years through the delivery of the 'Making it Count!' framework.

In particular, we have been pleased to see staff embracing the agenda through recording local savings and our staff complete honest self-assessments to help drive continual improvement. We have also seen a much stronger focus on understanding costs and begun to see impacts emerging.

VFM is now at the heart of our business plans and as a Board, we will be challenging the business to demonstrate strong delivery and transparency to our key stakeholders in the year ahead, building on the solid foundations already in place.

We receive regular reports providing performance against targets and Key Performance Indicators (KPIs). We have recognised room for improvement the Board will specifically review and discuss VFM every six months in line with our Making it Count! VFM Action Plan 2014/15. This action plan demonstrates our drive and commitment to meet future objectives in the coming year.

To ensure we are open and transparent with self-assessments, we have sought challenge from our customers who will actively review our assessments.

In 2014/15, we aim to develop customer knowledge and further their involvement in our VFM activities by implementing a Customer VFM Group. This will be a further opportunity for customers to hold us to account on our VFM approach and activities, ensuring we are doing what we say we will do.

Taking into account the information in this self-assessment, we feel we have demonstrated our current plans and approach to VFM and therefore comply with the current HCA VFM Standard.

### OUR STRATEGIC APPROACH TO VFM

The Orbit Group Limited<sup>1</sup> ("Orbit") definition of VFM is "to fully satisfy agreed customer requirements, at the lowest internal cost" achieved by:

- Reducing our costs to get the same outputs
- Reducing other resources and inputs for the same outputs
- Getting greater outputs with improved quality for the same inputs

Orbit's strategic approach to VFM is outlined in our Making it Count! Value for Money framework. This guides our staff to obtain the maximum benefit from the products and services we procure or provide, with the resources available.

The Making it Count! Value for Money Framework can be found on our website [www.orbit.org.uk](http://www.orbit.org.uk).

The framework aligns key stages of effective business delivery to ensure Orbit's 2020 vision, laying the platform for VFM to play an integral role to ensure the 'right' activities, assets, deliverables and outcomes.

There was a strong theme of VFM running through our 2013/14 Business Plan with clear VFM commitments.

Our 'Organisation' Group Business Commitments stated, "We recognise the need for efficiency and the most effective use of resources which will be reflected in work undertaken throughout the Group. In particular we will be focused in the year on increasing income, driving down costs and establishing more effective ways of undertaking services".

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1 The company is a subsidiary of Orbit Group Limited collectively referred to as Orbit

## **Heart of England Housing Association Limited (Trading as Orbit Heart of England) Operating and Financial Review**

VFM will remain a key priority in our future business plans as we develop and deliver our 2020 vision. We will focus on achieving top quartile performance, high levels of customer satisfaction with our services and deliver greater efficiency.

We produce an annual VFM Map that documents a programme of activity linked to our strategic objectives setting out clear targets and the value gains we have made. It also identifies objectives for generating income to fund key business priorities. The Senior Management Team own and monitor the Map.

The Making it Count! VFM Framework and our 2014-15 business plan can be found on our website [www.orbit.org.uk](http://www.orbit.org.uk).

### **ORGANISATIONAL ARRANGEMENTS TO ENSURE DELIVERY OF VFM**

#### **Governance**

As a Board, we are responsible for our assets and resources and set our VFM strategy. We monitor progress against this through operational and financial performance, VFM actions plans and annual assessment. The Group Board oversees VFM with delegated authorities devolved to:

- Orbit Homes (build, development and sales)
- Orbit Living; a trading name identifying the activities of the company and Orbit South and East Limited (Landlord Services including housing management and repairs)
- Strategic Support Services and Orbit Services (Corporate support centre) for the Group and external housing providers.
- Orbit Treasury Limited (tasked with achieving funding needs to meet growth aspirations).

All Board reports include a specific section relating to VFM helping to ensure that VFM is a key consideration in our thinking and decision-making.

Our VFM Governance Framework can be found on our website [www.orbit.org.uk](http://www.orbit.org.uk).

#### **Embedding VFM throughout the organisation**

VFM is embedded within our culture and many staff have individual targets in their Personal Development Reviews for achieving and recording VFM gains.

Teams contribute to generate local savings and we will continue to improve our methods of recording savings.

We produce an internal staff e-zine 'Making a Difference' which promotes our local VFM gains. It includes savings updates, along with articles written by staff on how they have achieved VFM for their customers. We also record and celebrate savings on a VFM Money Tree.

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

## Operating and Financial Review

### Customer Involvement

Following a full service review in 2012/13, our approach to Customer Involvement further evolved in 2013/14.

Customers are now at the heart of what we do and we are determined to ensure we shape our services for them by gaining their input and perspectives of their experiences. We have a long way to go, but we have made some progress including:

- Customer Involvement Service Improvement Group (SIG) – Holds the involvement service to account on a quarterly basis by monitoring spend against budget and reviewing impact assessments for all involvement activities. This provides customers with an ongoing opportunity to challenge our delivery outcomes and costs to ensure our involvement activities are as cost effective as possible. We plan to replicate the working principles of this group in other service areas during 2014-15, starting with the responsive repairs service in Q2.
- Procurement of goods and services – Trained customers were involved in the shortlisting, recruitment and selection of new contractors for the responsive repairs contract, heating contract and website developers contract during 2013-14.
- Community Investment Funding Allocation – Trained customers have been involved in the evaluation and assessment of all fund applications during 13-14, to ensure that funds were allocated appropriately to sources which would deliver cost effective outcomes. We will be reviewing our approach to this process in 2014/15.
- Governance – through our Board, Operations Committee and Scrutiny structures, customers have the opportunity to influence and challenge on value for money matters. Regular information relating to costs is provided to the Customer Scrutiny Panel which supports the approach in an open and transparent way. Further information on scrutiny structures can be found later in this document under 'Resident Involvement'.

As part of delivering our plans for embedding VFM into our all involvement activities during 2014-15, we will also be establishing a dedicated customer group to focus on value for money, to provide customers with opportunities to challenge us, hold us to account and drive improvements in the future.

### Performance Management

We have a comprehensive suite of business wide performance indicators (PIs). A number of our financial PIs help ensure VFM is part of day-to-day and strategic performance management, including void loss and gross arrears.

We use Geographic Information System (GIS) to enhance our ability to monitor performance more effectively. Staff have used the GIS system to produce a large number of maps to provide demographic, social, economic and housing market profiles of Orbit owned areas. Staff also use GIS to confirm operational analysis – such as repairs and ASB hotspots, to help managers understand where service resources are being drawn.

We have developed a Data and Reporting Tool (DART) to improve performance management across Orbit and to streamline the use of data to maximise its transparency and comparability.

DART allows us to be more efficient in the way we collate and present data, by increasing the automation of reporting and reducing the need for manual input, particularly in the production of standard monthly KPIs for Board and management reporting. The DART dashboards will be fully implemented during 2014/15 and provide real time information to enable staff to understand current performance.



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

## **Operating and Financial Review**

### **Portfolio Management Group**

We actively manage our portfolio; one stream of activity is focused on asset performance and we have a high-level stock appraisal system to inform our stock rationalisation, disposal and development strategies.

We have developed an innovative knowledge database to help us to deliver this which pulls together all we know about our property, the customers who live in our properties and the local community and financial performance including planned investment. This helps us to make consistently good decisions to benefit our customers and enables us to value our properties using Net Present Value techniques. Management operate analytical procedures to focus on both economic and social value to determine the drivers of current and future performance to inform our investment and divestment strategies.

### **Staff Reward Strategy**

To ensure we drive efficient and effective behaviours from our staff to deliver our VFM approach successfully, we operate a recognition policy, which enables managers to reward their staff, where they have:

- Improved levels of customer service
- Shown an innovative approach in solving a problem
- Far exceeded expectations with regard to a specific service.

Operating performance incentives based on individual targets reward the right behaviours and leads to significant VFM gains.

### **Making it Count! Approach**

Towards the end of 2013/14, we revised and improved our Project Management Framework to ensure we achieve VFM from our projects. Driving efficiencies through this agenda is vital to achieving our 2020 vision. We need to ensure we are aware of the costs and the benefits from the outset and measure our success effectively.

Our Project Management Framework provides guidance and a rigorous approach to ensure we focus our investment in both cash and time management; identifying the elements of a project, which add the greatest value:

- A Great Idea form is submitted to the Project Management Office for all improvement/change projects
- Projects need a solid business case showing clear benefits to the business; the business case will be reviewed and challenged
- The benefits from all significant projects are monitored and validated by our internal audit team
- Significant variances from the audit are reviewed and a feedback loop increases our business planning skills for the future.

Our staff receive training and support in project management; for example, staff are offered support to identify and value the benefits which arise from their Great Idea.

# Heart of England Housing Association Limited (Trading as Orbit Heart of England) Operating and Financial Review

## Operational Re-structure

We are redesigning the way we will deliver our services to improve the efficiency and impact of available resources. This means moving as many of our highest volume of interactions with customers (simple service, advice and information requests currently handled by our telephone Customer Service Centre and directly by members of staff) to 'self service' online channels, which are more convenient for many of our customers. We will continue to provide important services through the existing channels in parallel.

This then frees up resources to ensure that where more time and expertise is needed to provide customers with a service, or information or advice, staff can be more usefully targeted to be available to help and work with customers who need face to face or intensive service support.

## VFM ACHIEVEMENTS AND SUCCESSES

### VFM Gains

In 2013/14, Orbit achieved over £4.2m VFM gains including:

|   | Efficiency<br>£000 | How  |
|---|--------------------|--|
| Repairs                                       | 2,010              | Better procurement and improved productivity           |
| Procurement                                   | 996                | Procurement led gains                                  |
| Recovery of overcharges                       | 257                | Improved processes                                     |
| Interest and other charges                    | 223                | Focused treasury management                            |
| Replacement customer incentive                | 400                | More targeted incentives to drive the right behaviours |
| Boiler replacements and green energy projects | 35                 | More efficient   |
| Tax relief                                    | 275                | Better tax planning                                    |

There are other non-cashable and softer gains including:

- (i) Advertising value equivalent through in house production of articles for adoption by the media.
- (ii) Reduction in net arrears since 2012/13 at no additional cost, due to system changes notwithstanding the effect welfare reform is having on our customers.

## **Heart of England Housing Association Limited (Trading as Orbit Heart of England) Operating and Financial Review**

### **What we are doing with the money we save**

We reinvest our cashable VFM gains in our products and services, building new homes and investing in our communities.

Our headline reinvestment is in building new homes. In 2013/14, Orbit built 600 new homes without grant, made £0.2m initial investment in EERP (Energy Efficiency Renewal Programme) in our homes and an additional £1.6m in community investment and customer advice services.

### **Improving Social Value**

Impact measurement is an integral part of delivering our 2020 vision and we will adhere to the following principles:

- We do not use impact measurement as a 'PR tool', therefore, where we use methodologies which monetise outcomes (e.g. social return on investment), we are open about what our assumptions are based on, and do not overclaim programme effects.
- We are committed to establishing a culture of impact measurement across the organisation and an impact measurement champion is responsible for driving this agenda. In 2014/15, in order to gain buy-in and foster ownership, staff will receive training and support to carry out evaluations.

During the year, we implemented a Social Impact Measurement Framework, which outlines the principles and our commitment to impact measurement across the organisation.

Social impact now features in our Project Management Framework and is supported by a comprehensive tool kit. This will improve our capability to more accurately assess VFM in our community investment.

Orbit appreciates the social, economic and environmental impact of its decisions and activities. We want to make a real difference to people and the places where they live. See the website for our report on our headline impacts in 2013-14 entitled 'Building Communities'.

### **Customer Satisfaction Results**

The latest STAR (Survey of Tenants and Residents) results show overall customer satisfaction with Orbit as their landlord at 77% (2012/13: 79.3%) which places us in the lower quartile (against peer group).

Compared to twelve months ago there has been a general decline in satisfaction (STAR survey 2014). Like most housing providers, a key driver relates to the repairs maintenance service. During the year, we took the decision to decommission the company's Direct Labour Organisation (Property Matters). We outsourced the service on 1 April 2014. The Board is targeting significant improvements in customer satisfaction with repairs in 2014/15.

# Heart of England Housing Association Limited (Trading as Orbit Heart of England) Operating and Financial Review

## **PROJECTED IMPROVEMENTS/ACHIEVEMENTS**

### **Strategic and Operational Reviews**

In 2013/14, management carried out reviews of two key service areas in Orbit – income services, and repairs contracting arrangements. The income services review has led to major change in the structure of the team, replacing two teams with different practices with one team that can deal with income collection activities in a more consistent and efficient way. This has freed up resources to expand our money advice and tenancy support services. These and other structural changes have achieved a net reduction in people costs £0.3m.

After three years in operation, the 'Pro Points' tenant reward scheme has ended, and will be replaced with targeted incentives for customers resulting in annual savings of £0.4m.

We expect the outsourcing of repairs to improve customer satisfaction, and generate recurring savings of £0.6m per annum from 2014/15 over the remainder of the 5-year contract period.

In 2014/15, Orbit's other VFM gains will include:

- Increased income from refurbished garages
- Increased income from feed-in tariffs
- Increased usage of webinars and video conferencing to reduce travel
- Increased efficiency from investment in new Human Resources system, e.g. electronic payslips and greater self-serve
- Reduced waste in processes through lean reviews

Beyond 2014/15 VFM will continue to grow, due to:

- Increasing the number and proportion of customer interactions on line e.g. introduce a repairs online service.
- Reduce the overall cost of developing a home through a series of connected lean reviews.

### **Digital by default**

Our 2020 vision sets an ambition for 75% of our interactions with customers being online, rather than by telephone. Whilst around 65% of our customers are already 'digital ready' and use the internet for everyday transactions, around a third do not have access or the skills to confidently use the internet. This puts them at risk of being increasingly disadvantaged, as the world moves to a more 'digital by default' or 'everything's online' way of working and communicating.

We are expanding the range of services accessed from our website, rather than customers having to phone the Customer Service Centre, or visit an office to request information or a service. We are also investing in projects to help customers improve their digital skills and enable access to the internet.

## Heart of England Housing Association Limited (Trading as Orbit Heart of England) Operating and Financial Review

### Procurement projects

Orbit has a procurement team, which provides services to both external and internal customers. This provides the business with assurance over robust procurement delivering VFM.

Orbit's procurement led VFM gains include:

|  | £000 |
|--|------|
| Repairs and maintenance materials            | 323  |
| Development consultancy                      | 615  |
| Fuel costs                                   | 34   |
| Grounds maintenance services (for residents) | 24   |

### Making it Count! Value for Money Action Plan

The Orbit Living Making it Count! VFM Action Plan is an important part of our VFM Strategy. The plan addresses our weaknesses and provides a range of objectives to improve VFM.

We have structured proposed actions using the regulators key areas of assurance with each individual area colour coded to indicate our current level of self-assessed compliance. The ratings in brackets are taken from our self-assessment 2012/13.

- Understanding the cost of delivering specific services and how these relate to benchmarks – **AMBER** (2013: **AMBER**)
- The efficiency gains which have been and will be made and how these will be realised – **AMBER** (2013: **AMBER**)
- A rigorous approach to assessing options for VFM improvements including potential benefits from alternative delivery models – **GREEN** (2013: **AMBER**)
- Performance management and scrutiny functions are effective at driving and delivering improved performance with outcomes and outputs clearly measured – **GREEN** (2013: **AMBER**)
- A robust approach to decision making on the use of resources, including an understanding of opportunity costs and clear evidence of delivery – **GREEN** (2013: **GREEN**)
- An understanding of the return on assets and a strategy for maximising future returns – **GREEN** (2013: **GREEN**)

**Key:**

- Green** – full assurance
- Amber** – partial assurance i.e. we can demonstrate consistency and/or it is not fully embedded
- Red** – cannot provide assurance

The action plan is SMART (Specific, Measurable, Attainable, Realistic, Time bound) and contains agreed PIs to measure achievements.

# Heart of England Housing Association Limited (Trading as Orbit Heart of England) Operating and Financial Review

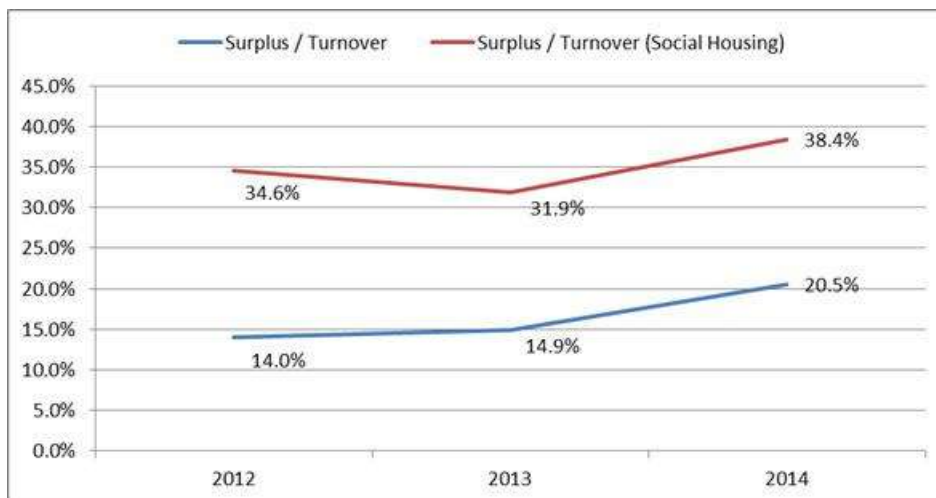
## FINANCIAL OVERVIEW

Orbit's finance team is structured to ensure that our financial systems are managed effectively and resources are allocated and spent in line with Business Plan objectives to enable us to achieve our VFM targets.

Our finance team regularly reviews our key financial processes and we prepare our accounts and have them audited within six months of the year-end. We then post them onto our website.

We report financial performance throughout the year to all levels within the organisation and financial performance forms part of the PI's monitored by our Board. Management monitor financial parameters at all levels of the organisation, via delegated responsibility to budget holders. Budget holders set and approve the budgets, before being approved by the SMT, the Executive Team and the Board. At each stage in the budgeting process, there is challenge to ensure VFM. The following charts set out Orbit's financial performance.

### Performance 3 year trend

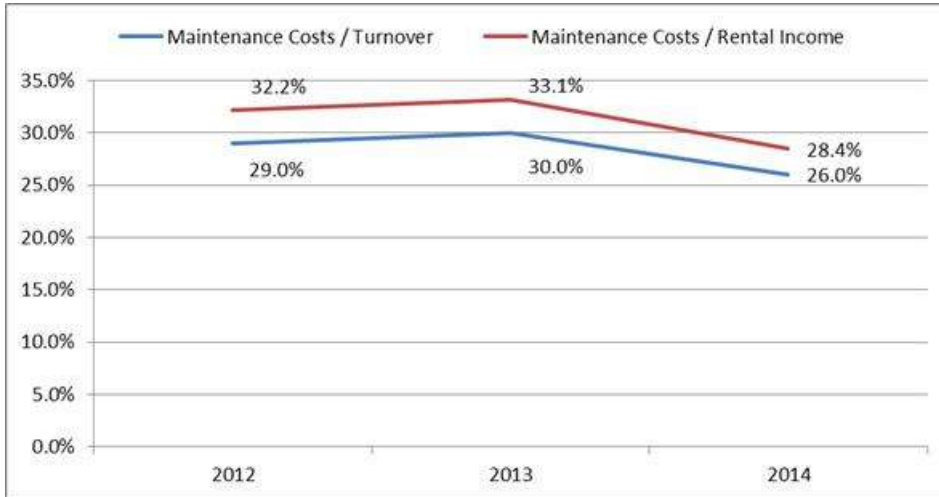


Orbit's surplus % has improved in 2014 primarily due to lower planned maintenance and management costs.

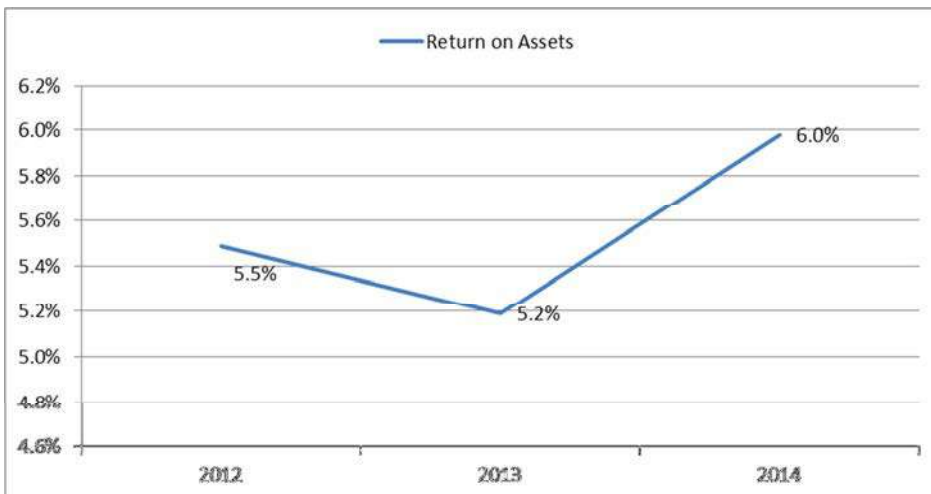


The steady reduction in management costs % evidences growing efficiency.

**Heart of England Housing Association Limited (Trading as Orbit Heart of England)  
Operating and Financial Review**



Overall, there is a slight improvement in maintenance costs % driven from VFM gains and relatively low levels of planned maintenance. In 2014/15, the maintenance % is expected to increase due to planned maintenance and cyclical improvements.



The increase in ROA<sup>1</sup> is attributable to a number of factors; the increase in rental income compared to cost inflation, efficiencies, low levels of planned maintenance and growing commercial income all contribute.

ROA is sensitive to new development and schemes in their early years will reduce the total business ROA.

The above three year trend information evidences a strong business on a journey of improving efficiency. We are determined to maximise VFM and our plan to 2020 shows there is a long way to go.

**Benchmarking**

We benchmark and compare our costs and performance through HouseMark, M6 Benchmarking and other groups outside of the sector. This ensures we set challenging targets and learn from sector good practice.

In 2014/15, we will investigate and pilot collaboration between Orbit and other Midlands based housing associations

<sup>i</sup> Operating surplus as % of Net Book Value of social housing lettings property

## Heart of England Housing Association Limited (Trading as Orbit Heart of England) Operating and Financial Review

Management utilise benchmarking across the business. Management use a bespoke benchmark group of 40 comparable organisations using Housemark data. Three areas we reviewed in the year using Housemark core 2012/13 data are:

- (i) **Responsive Repairs**  
Our responsive repairs performance was shown as high cost, at £1,065 per property compared to a lower quartile of £861 per property within our bespoke benchmark group. Timeliness in dealing with repairs was identified as a key area for improvement, with the average number of days to complete a repair being 10.8 days compared to an upper quartile benchmark of 6.4 days. Customer satisfaction with the repairs service was around the median at 82.6% and this declined in 2013-14. We expect outsourcing repairs in 2014-15 to reduce cost and deliver greater customer satisfaction.
- (ii) **Housing Management**  
We found our performance is mixed. The total cost per property at £437 is third quartile compared to our bespoke group. Overall satisfaction with service at 75.2% places us in the lower quartile, However performance on relets at 22.2 days is just short of upper quartile. We reviewed this service in 2013-14 and we expect our restructure in 2014-15 to increase efficiency and improve customer satisfaction as we strengthen our focus on service areas that are important to our customers.
- (iii) **Income Collection**  
Overall Orbits income collection is high cost, £170 compared to the median of £120 per property across our bespoke group. Current arrears of 3.1% place us just above the median for our group.. More recent performance is stronger. We have seen a reduction in the level of arrears and we continue to support customers experiencing financial difficulty in the face of the cumulative pressure of welfare reform. Orbit offers various advice and support including money advice. We are targeting greater efficiency and effectiveness in 2014-15 through continuous improvement.

### **LOOKING FORWARDS**

Our business plan reflects income growth through organic growth in our core housing offer and our commercial offer comprising market sale, shared ownership and professional services. Through our VFM strategy in 2014/15, we are targeting increases in surplus using the following key value opportunities:

- (i) Doing more for the same
- (ii) Benefits realised from strategic projects
- (iii) More focused portfolio management
- (iv) Procurement
- (v) Reduction of waste through lean reviews
- (vi) Growing our income from our external sales

Our 2014/15 budget reflects challenging efficiency targets and our business plan targets progressive improvements in operating margin over the next three years. These value gains will be delivered through procurement savings and establishing more efficient processes through strategic reviews and continuous improvement.

Savings have already been reflected in our budget due to restructures (£0.3m) and a new tenant incentive scheme (£0.4m). Overall, Orbit's management costs will increase to £48.7m (2013/14 - £47m; an increase of £1.7m – 3.6%) which is compared to a 3.5% increase in the number of units in management on top of inflationary pressures. Maintenance will benefit from £0.6m savings arising from outsourcing the repairs and maintenance service. However, planned maintenance will grow significantly in 2014/15 due to an increase in the level of cyclical works and as the group pushes forward in its ambition to ensure all properties reach a minimum ECO rating benefiting our customers.

We expect ROA to reduce in 2014/15 as the increase in planned maintenance exceeds the benefit of real-terms cost reduction in operating costs.

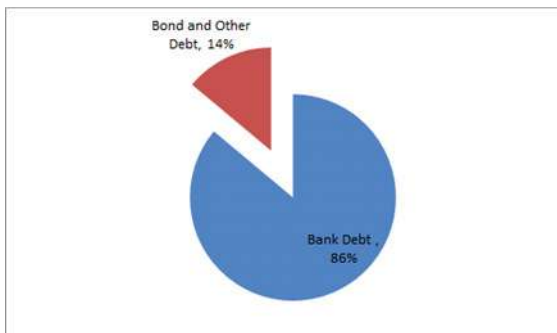


# Heart of England Housing Association Limited (Trading as Orbit Heart of England) Operating and Financial Review

## Capital structure and Treasury Policy

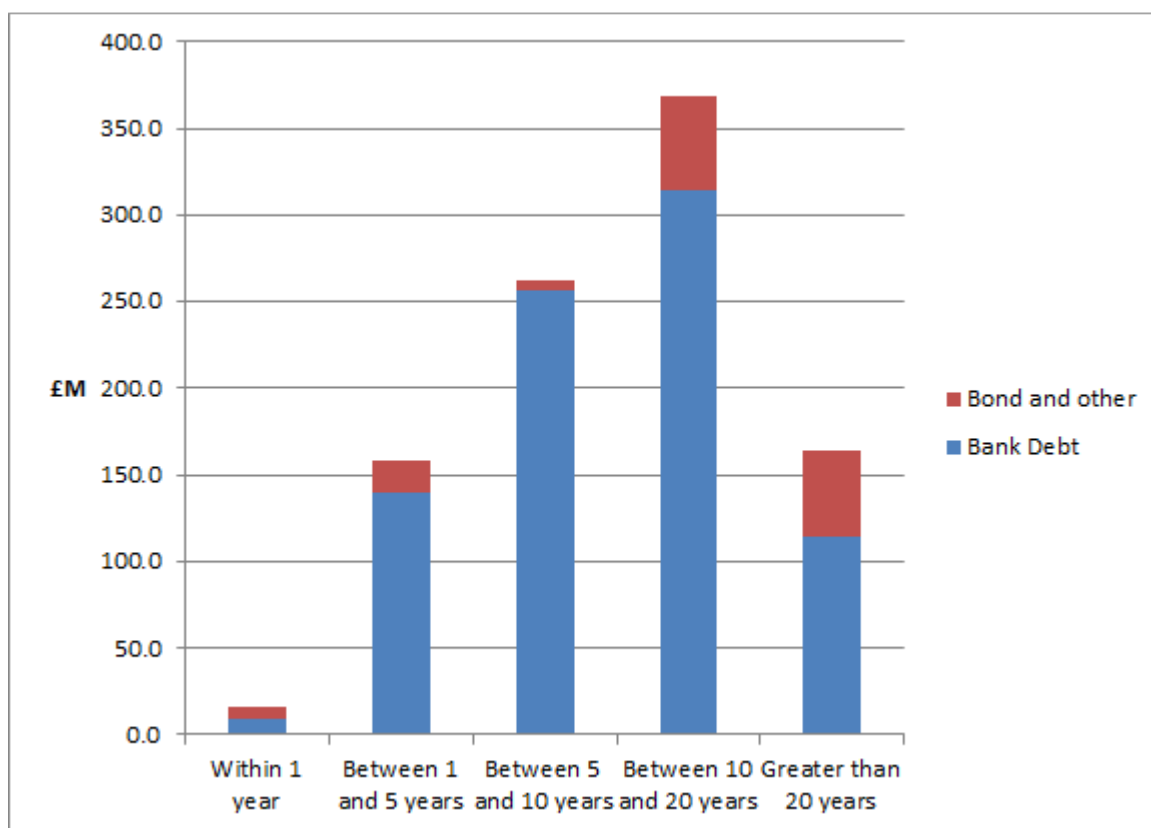
The loans of all Orbit members are routed through a group treasury company, Orbit Treasury Limited. As at 31 March 2014, the Group had £969m of committed debt funding, of which drawn funding totalled £759m, a small increase from 2013 (£748m.) The Group seeks to maintain diversification in its funding sources with 86% coming from 6 banks and building societies and 14% from capital markets.

### Bank vs Other Debt



The group’s re-financing risk in the next five years is £174m, (18% of loan facilities) with over 82% of the Groups debt maturing after 5 years.

### Debt repayment profile



As at 31 March 2014, the Group maintained £210m of committed undrawn facilities available for immediate drawing and £12.4m of cash in hand, representing total liquidity of £239.5m. These resources are considered sufficient to fund over two years’ worth of commitments.

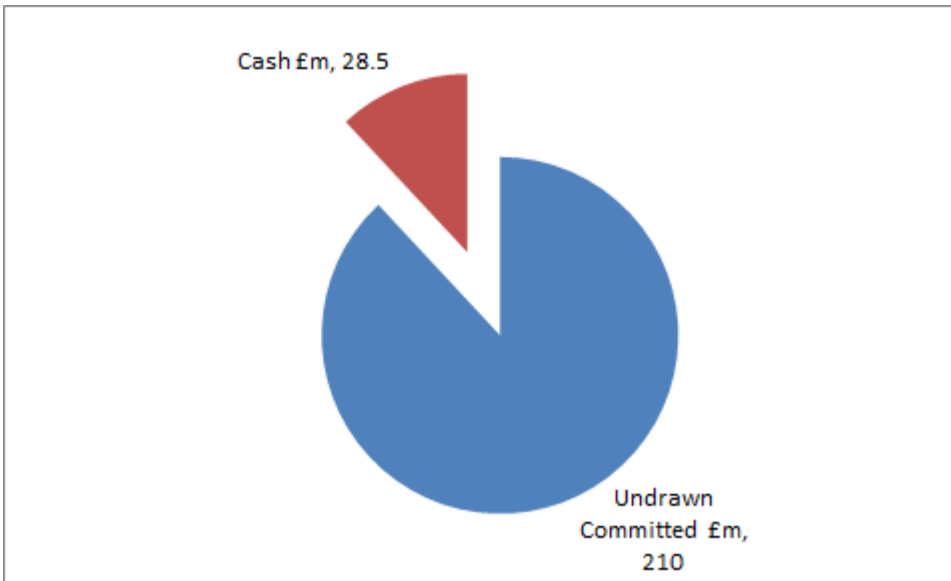
## Heart of England Housing Association Limited (Trading as Orbit Heart of England) Operating and Financial Review

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

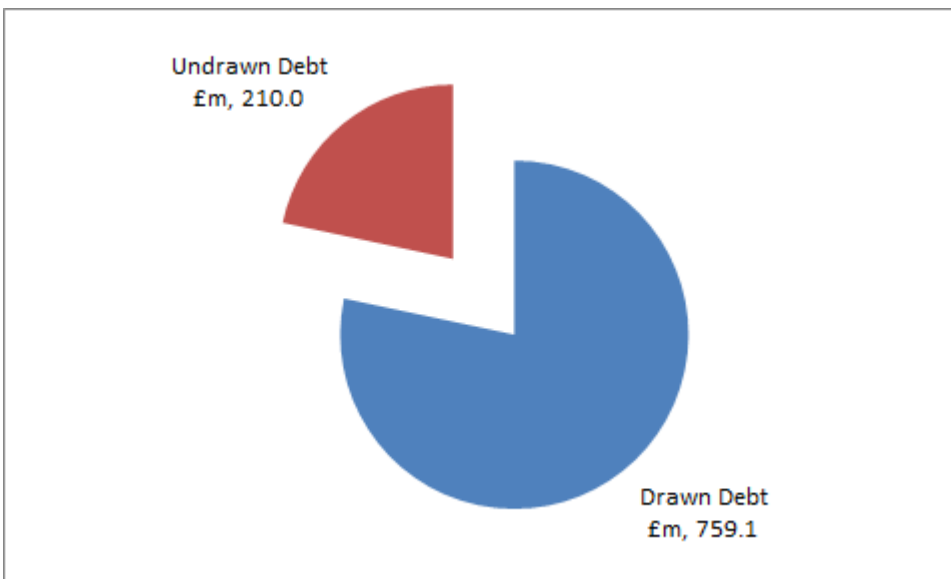
- i. Sufficient cash to cover the next three months' forecast cash requirements
- ii. Sufficient cash and secured loan facilities to cover the net twelve months' forecast cash requirement; and
- iii. Sufficient cash and committed loan facilities (secured and unsecured) to cover the higher of committed development spend and the next eighteen months' net forecast cash requirement.

All committed facilities are secured by fixed charges. At the year end the Group held approximately 11,700 unencumbered properties available for use for new loans. These properties are conservatively estimated to provide potential security for a further £600m of new loans. This ability to raise new loans may enable us to develop a significant number of new homes in the future.

### Available liquidity



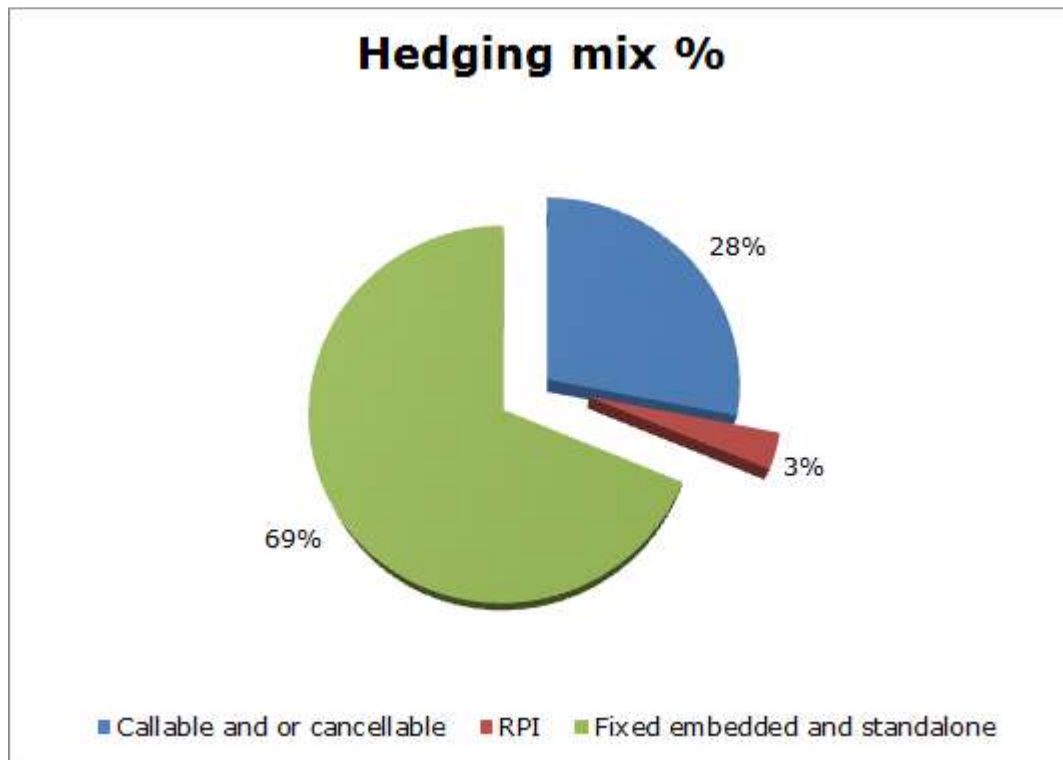
### Total committed funding



The Group continues to be risk averse in its approach to interest rate management. Borrowing related to cash in hand is held at floating rates of interest. The Group targets a flexible policy of hedging 50% to 80% of its debt with predominantly fixed rate instruments and a small proportion of index linked instruments, with flexibility to depart from these parameters if circumstances make this appropriate.

## Heart of England Housing Association Limited (Trading as Orbit Heart of England) Operating and Financial Review

During the year renegotiation with banks converted part of their Term loan into a Revolving Credit Facility (RCF) allowing cash balances to repay drawn loans. At the year end this policy resulted in a portfolio that was 83% fixed, slightly higher than the normal level of c.80% following the drawdown of our private placement facility and repayment of variable rate revolving facilities. The Groups average interest cost for the year is 4.36% reflecting the fixed rate hedging noted above. The Group does not have any non-sterling or exchange rate exposures.



The Group maintains a desired interest rate profile through a mixture of embedded instruments (including fixed rate bank loans and bonds) and stand-alone swaps (including fixed and index linked derivatives with bank counterparties). As at the year-end, 69% of the Groups hedged activities were undertaken through embedded instruments and stand-alone swaps.

The Groups weighted average hedge duration is just under 16 years. This limits the impact of an increase in interest rates.

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

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

The Group's treasury strategy is reviewed and approved annually to ensure it underpins the budget and longer term financial plan. The Group reduces volatility in cash flows and interest payable through the use of a managed interest rate risk hedging programme.

### Cash flows

For Orbit Heart of England as an individual association, the net cash inflow from operating activities during the year was £46.0 million (2013: £32.8 million). The principal sources of both cash inflow and outflow were that of income from the provision of housing accommodation and associated operating costs and the proceeds from the sale of properties under stock rationalisation and void sale programmes.

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

## Housing Association Governance

### Governance

The Board Members of the Association during the year ended 31 March 2014 are listed on page 2.

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

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

The other two members of the Group are non-charitable wholly-owned subsidiaries of Orbit Group Limited. Orbit Treasury Limited (OTL) co-ordinates borrowing across the Group and offers advantageous interest charges to Group members. Orbit Homes (2020) Limited builds houses for the Group's Registered Providers across a wide range of tenures.

All Members of the Group remunerate their Board Members for undertaking their duties and responsibilities. The Boards delegate the day-to-day management of Orbit to the Group Chief Executive and the Executive Directors who form the Executive Team (ET). The ET met monthly throughout 2013/14 and the Directors attend meetings of the Group Board and subsidiary Boards.

### Code of Governance

The Group has adopted the National Housing Federation's (NHF) 'Excellence in Governance' Code as the Code of Governance for its Registered Providers. Whilst our non-charitable subsidiaries are not required to comply with the Code, they undertake to adhere to the spirit of the Code. Orbit Group Limited complies with the Code of Governance in all material aspects. In those areas where we do not comply fully with the Code, we have provided a Statement to our Regulator. The Group has developed its own Probity and Severance policy which picks up the key principles of the NHF's 'Excellence in Standards of Conduct' Code. In addition to this policy, the Group has its own Code of Conduct for Board Members.

### Shareholding Policy

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

### Committees of the Board

The Group Board is supported by two committees with specific responsibilities

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

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

### Housing Association Governance

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

#### Resident Involvement

Orbit Heart of England is committed to involving customers in decisions affecting their homes. There is representation from customers on the Strategic Board/Operations Committee, and an independent customer scrutiny function has been developed as part of the co-regulation agenda. This ensures Orbit Heart of England meets regulatory requirements and good practice in terms of governance and customer involvement.

While the Customer Scrutiny panel reviews areas of the business and reports directly to the Operations Committee, a wider customer involvement programme is also in place, providing customers with a range of opportunities to examine, challenge, feed back and get involved in shaping improvements within the organisation. Moment of Truth surveys are regularly undertaken, with feedback from customers being used to drive service improvements. In addition, the Orbit Complaints and Compliments procedure is used to capture customer feedback more effectively and apply the learning.

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

#### Post Balance Sheet Event

Heart of England Housing Association Limited has been involved in a dispute relating to its properties. A settlement was reached in June 2014 and the association will receive the sum of £3.6m during 2014/15.

#### Going concern

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

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



**Alan Squirrell**  
Deputy Chair

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

## Housing Association Governance

### Responsibility for the System of Internal Control

The Orbit Heart of England Board has responsibility to review the internal control environment within their business and for establishing and maintaining the whole system of internal control and for reviewing its effectiveness.

### 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 assets and interests of Orbit Heart of England.

### Orbit Assurance Framework

The information pertaining to the effectiveness of the control environment comes from a number of sources from across Orbit.

At a high level, the assurance framework brings together information from all significant parts of Orbit's business, including the Subsidiary Associations. The framework comprises of different sources of assurance, the more significant ones being the Internal Audit Team, the Audit & Risk Assurance Committee (ARAC), External Audit and the Executive Team (ET).

In addition, a major component of this assessment is the Internal Regulatory Framework (IRF). Orbit has an IRF process as a means to internally regulate itself. The IRF process is split into three stages; desktop review, visits to boards and reporting. The IRF broadly covers an assessment of financial viability, governance and performance. The findings from this are reported to the Board.

The Sources of assurance are briefly outlined below:

**Internal Audit Team** - An Internal Audit Plan is approved and monitored by the Executive Team and Audit & Risk Assurance Committee.

This includes the provision of 'specialist audits' using experts in areas such as Treasury and IT audit. The plan covers financial and non financial areas and the Internal Audit Team provides independent assurances in all of the significant areas of Orbit's business.

Formal procedures have been established for instituting appropriate action to correct weaknesses identified from these reports. Additionally, as part of each audit review, the Internal Audit Team follow up the previous year's recommendations and the extent to which these have been implemented and these form part of the Audit Report.

**Audit & Risk Assurance Committee** - The Audit & Risk Assurance Committee reviews reports from management, internal auditors and external auditors to provide reasonable assurance that control procedures are being followed.

**Governance** - The Board retains responsibility for a defined range of issues covering strategic, operational, financial and compliance issues including treasury strategy and 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.

**Internal Regulatory Framework (IRF)** - In respect of Operating Associations, the Board also confirms that as part of the IRF the relevant Managing Director reported their Internal Controls Assurance within their IRF Report. The Managing Director, Orbit Services, presented a similar report on behalf of the Group to the July 2014 Audit & Risk Assurance Committee within the IRF report.

In addition the Executive Team (ET) forms a key part in the governance process. It is also confirmed that all Boards and the ET met on a regular basis to discuss and conduct their own individual affairs during 2013/14 and the business has been formally documented in minutes of the meetings.

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

## Housing Association Governance

**Risk Management** - Orbit has a Risk Management Strategy & Framework, which is based on good practice.

The control environment to manage risks is continually evaluated and monitored by Audit & Risk Assurance Committee on behalf of the Board. The Audit & Risk Assurance Committee monitors the implementation of the Orbit Strategy and plan for Risk Management.

The overall responsibility for risk management across Orbit remains with the Group Board. The subsidiaries are required to implement the Orbit framework for risk management and provide reports to their respective Boards.

The adequacy of this implementation and reporting is monitored by the Audit & Risk Assurance Committee. The Group Board confirms that Orbit's Strategic Risk Map is reviewed by the ET and Group Board on a regular basis throughout the year.

The 2013/14 Risk Map has been formulated and takes account of the changing operating environment, Government policy and Orbit's ambitions.

**Culture** - Orbit recognises that the culture of an organisation is of significant importance to an effective control environment.

Consequently over the last few years, Orbit has invested significantly in staff and the development of managers in their leadership and management skills. The development has been centred on the Orbit 2020 vision and more importantly the values, which include excellence, integrity and honesty. In addition, a number of measures are in place to instil and encourage a suitable culture of effective internal control including:

- Orbit has adopted the NHF Excellence in Governance Code 2010 and policies around probity to replace Schedule 1 of the Housing Act.
- Orbit Group Standing Orders, which include appropriate delegations of authority, signatories and mandates.
- Annual appraisal procedures have been established and appropriate training and development opportunities are offered to all staff to maintain standards of performance.
- Forecasts and budgets are prepared which allow the Orbit Board, Operating Association Boards and management to monitor the key business risks and financial objectives.
- Management accounts are prepared to provide relevant and up-to-date financial and other information. Significant variances from budgets are investigated and reported.

Relevant policies and procedures cover the range of activity within Orbit from Finance, IT and HR through to housing-related functions.

## Fraud

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

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

### **Housing Association Governance**

#### **Board's Conclusion**

The Board has received the Annual Report on Internal Controls Assurance (incorporated as part of the IRF Report) and has conducted its annual review of the effectiveness of the system of internal control. In addition, the 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 is on going 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.

Furthermore, there have been no fundamental weaknesses identified which required disclosure in the financial statements.

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



**Alan Squirrell**  
**Deputy Chair**



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

## Report of the Board

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

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

The Friendly and Industrial and Provident Societies Act 1968 and registered social housing legislation require the Board to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Association and of the surplus for that period. In preparing these financial statements, the Board is required to:

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

The Board is responsible for keeping proper accounting records that are sufficient to show and explain the Association's transactions and disclose with reasonable accuracy at any time the financial position of the Association and to enable it to ensure the financial statements comply with the Friendly and Industrial and Provident Societies Act 1968, the Housing and Regeneration Act 2008 and the Accounting Direction for Social Landlords in England from April 2012. It is also responsible for safeguarding the assets of the Association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Orbit Group Limited Board is responsible for the maintenance and integrity of the society's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

### Annual General Meeting

The annual general meeting will be held on 4 September 2014 at the Marriott Hotel, 1 Broadway, Bexleyheath, Kent, DA6 7JZ.

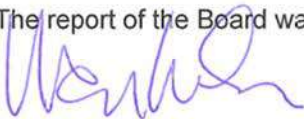
### Disclosure of information to Auditors

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

### Independent Auditors

A resolution to re-appoint PricewaterhouseCoopers LLP as the Association's auditors for external audit services will be proposed at the Annual General Meeting.

The report of the Board was approved on 31 July 2014 and signed on its behalf by:



**Vivien Knibbs**  
Secretary

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

### **Independent Auditors' Report to the members of Heart of England Housing Association Limited (Trading as Orbit Heart of England)**

#### **Report on the financial statements**

##### **Our opinion**

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the association's affairs as at 31<sup>st</sup> March 2014 and of the association's surplus and cash flows for the year then ended; and
- have been properly prepared in accordance with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Social Housing in England 2012.

This opinion is to be read in the context of what we say in the remainder of this report.

##### **What we have audited**

The association financial statements (the "financial statements"), which are prepared by Heart of England Housing Association Limited, comprise:

- the association balance sheet as at 31<sup>st</sup> March 2014;
- the association income and expenditure account and statement of total recognised surpluses and deficits for the year then ended;
- the association statement of historical cost surpluses and deficits for the year then ended;
- the association cash flow statement for the year then ended;
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the Board has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

##### **What an audit of financial statements involves**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the association's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the board; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Heart of England Housing Association Limited Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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

### Independent Auditors' Report to the members of Heart of England Housing Association Limited (Trading as Orbit Heart of England)

#### Other matters on which we are required to report by exception

#### Adequacy of accounting records, system of internal control and information and explanations received

Under the Co-operative and Community Benefit Societies Act 2014 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

#### Responsibilities for the financial statements and the audit

##### Our responsibilities and those of the board

As explained more fully in the Statement of Board's Responsibilities set out on page 31, the Board is responsible for the preparation of the financial statements and for being satisfied that they 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 ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the registered provider's members as a body in accordance with Section 87 (2) and Section 98(7) of the Co-operative and Community Benefit Societies Act 2014 and the Housing and Regeneration Act 2008 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.



Richard Bacon (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Birmingham

Date: 14 August 2014

- (a) The maintenance and integrity of the Orbit Group Limited's website on which Heart of England Housing Association Limited's financial statements may be disclosed is the responsibility of the board; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.
- (c) The Co-operative and Community Benefit Societies Act 2014 ("the new Act") was effective from 1 August 2014, and consequently is referred to in our audit opinion above. The new Act replaces the Industrial & Provident Societies Acts 1965-2002, which were effective until 31 July 2014, and all societies that were incorporated under the Industrial & Provident Societies Act 1965 ("I&PS Act 1965") became Co-operative or Community Benefit Societies under the new Act. The change in Act has no impact on the form and content of the financial statements which were prepared in accordance with the Industrial & Provident Societies Acts 1965-2002, or on our audit work.

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

## Income and Expenditure Account

For the Year Ended 31 March 2014

|  | Note | 2014<br>£000    | 2013<br>£000 |
|--|------|-----------------|--------------|
| <b>Turnover</b>  | 2    | <b>75,785</b>   | 73,701       |
| Operating costs  | 2    | <b>(49,152)</b> | (50,352)     |
| <b>Operating surplus</b>                                     | 4    | <b>26,633</b>   | 23,349       |
| Profit on sale of fixed assets                               | 5    | <b>5,867</b>    | 14,109       |
| Interest receivable and similar income                       | 8    | <b>7</b>        | 8            |
| Interest payable and similar charges                         | 9    | <b>(15,177)</b> | (15,008)     |
| Financing costs  | 10   | <b>-</b>        | (151)        |
| Surplus on ordinary activities before donations and taxation |      | <b>17,330</b>   | 22,307       |
| Donation payable   | 4    | <b>(5,259)</b>  | (4,728)      |
| <b>Surplus on ordinary activities before taxation</b>        |      | <b>12,071</b>   | 17,579       |
| Tax on surplus on ordinary activities                        | 11   | <b>-</b>        | -            |
| <b>Surplus for the year</b>                                  |      | <b>12,071</b>   | 17,579       |
| Transfer to designated reserves                              | 24   | <b>(559)</b>    | (140)        |
| <b>Surplus for the year after transfer to reserves</b>       |      | <b>11,512</b>   | 17,439       |
| Revenue reserve at 1 April                                   | 25   | <b>35,876</b>   | 19,287       |
| Actuarial losses taken to reserves                           | 10   | <b>-</b>        | (850)        |
| <b>Revenue reserve at 31 March</b>                           |      | <b>47,388</b>   | 35,876       |

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

**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 2014**

|  | <b>Note</b> | <b>2014<br/>£000</b> | <b>2013<br/>£000</b> |
|--|-------------|----------------------|----------------------|
| <b>Surplus for the financial year</b>                          |             | <b>12,071</b>        | 17,579               |
| Actuarial return less expected return on pension scheme assets | 10          | -                    | 989                  |
| Losses arising on pension scheme liabilities                   | 10          | -                    | (1,839)              |
| <b>Total surplus recognised</b>                                |             | <b>12,071</b>        | 16,729               |

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

## Balance Sheet

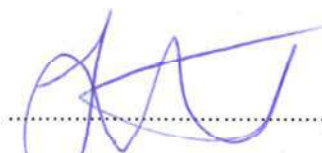
As at 31 March 2014

|  | Note | 2014<br>£000    | 2013<br>£000    |
|--|------|-----------------|-----------------|
| <b>Fixed Assets</b>  |      |                 |                 |
| Housing properties at cost                                     | 12   | 667,457         | 617,874         |
| Social housing grants  | 12   | (255,709)       | (243,950)       |
| Other capital grants   | 12   | (14,702)        | (14,702)        |
| <b>Net book value of housing properties</b>                    |      | <b>397,046</b>  | <b>359,222</b>  |
| Fixed asset investments  | 14   | 800             | 800             |
| Other fixed assets   | 13   | 2,465           | 2,992           |
| <b>Total fixed assets</b>                                      |      | <b>400,311</b>  | <b>363,014</b>  |
| <b>Current assets</b>  |      |                 |                 |
| Stocks   | 15   | -               | 139             |
| Debtors  | 16   | 4,423           | 4,094           |
| Short term investments   | 17   | -               | 104             |
| Cash at bank and in hand                                       |      | 1,240           | 903             |
|  |      | <b>5,663</b>    | <b>5,240</b>    |
| <b>Creditors: Amounts falling due within one year</b>          | 18   | <b>(37,986)</b> | <b>(21,650)</b> |
| <b>NET CURRENT (LIABILITIES)</b>                               |      | <b>(32,323)</b> | <b>(16,410)</b> |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>                   |      | <b>367,988</b>  | <b>346,604</b>  |
|  | 20   | <b>316,910</b>  | <b>302,073</b>  |
| <b>Creditors: amounts falling due after more than one year</b> |      |                 |                 |
| <b>Provisions for liabilities and charges</b>                  | 22   | <b>200</b>      | -               |
| <b>Pension liability</b>                                       | 10   | -               | 5,709           |
| <b>Capital and reserves</b>                                    |      |                 |                 |
| Designated reserves  | 24   | 3,490           | 2,946           |
| Revenue reserve  | 25   | 47,388          | 35,876          |
|  |      | <b>50,878</b>   | <b>38,822</b>   |
|  |      | <b>367,988</b>  | <b>346,604</b>  |

The financial statements on pages 34 to 64 were approved by the Board on 31 July 2014 and signed on its behalf by:



Alan Squirrell  
DEPUTY CHAIR



BOARD MEMBER



Vivien Knibbs  
SECRETARY

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

## Cash Flow Statement

For the Year Ended 31 March 2014

|   | Note | 2014<br>£000    | 2013<br>£000 |
|---|------|-----------------|--------------|
| <b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>  | 28   | <b>45,962</b>   | 32,832       |
| <b>Returns on investments and servicing of finance</b>  |      |                 |              |
| Interest received   |      | 7               | 8            |
| Interest paid   |      | (15,004)        | (16,574)     |
| <b>Net cash outflow from returns on investments and servicing of finance</b>                  |      | <b>(14,997)</b> | (16,566)     |
| Donation  |      | (5,259)         | (4,728)      |
| Taxation paid   |      | -               | -            |
| <b>Net cash outflow from donation &amp; taxation</b>  |      | <b>(5,259)</b>  | (4,728)      |
| <b>Capital expenditure and financial investment</b>   |      |                 |              |
| Acquisition and construction of housing properties  |      | (61,946)        | (30,716)     |
| Sale of housing properties  |      | 8,749           | 21,321       |
| Grants received   |      | 12,306          | 9,991        |
| Purchase of other fixed assets  |      | (54)            | (323)        |
| Settlement of LGPS pension liability  |      | (5,010)         | -            |
| Sale of other fixed assets  |      | 232             | 7            |
| <b>Net cash (outflow)/inflow from capital expenditure and financial investment activities</b> |      | <b>(45,723)</b> | 280          |
| <b>Net Cash (outflow)/inflow before management of liquid resources and financing</b>          |      | <b>(20,017)</b> | 11,818       |
| <b>Management of Liquid Resources and Financing</b>   |      |                 |              |
| <u>(i) Liquid resources</u>   |      |                 |              |
| Decrease / (increase) in bank deposits  | 29.  | 104             | (104)        |
| <u>(ii) Financing</u>   |      |                 |              |
| Loans received  | 29   | 61,779          | 42,886       |
| Housing loans repaid  | 29   | (41,529)        | (54,500)     |
|   |      | <b>20,250</b>   | (11,614)     |
| <b>NET CASH INFLOW / (OUTFLOW) FROM MANAGEMENT OF LIQUID RESOURCES AND FINANCING</b>          |      | <b>20,354</b>   | (11,718)     |
| <b>INCREASE IN CASH AT BANK AND IN HAND</b>   | 30   | <b>337</b>      | 100          |

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

## Notes to the Financial Statements

### For the Year Ended 31 March 2014

#### 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 and Regeneration Act 2008. The parent body from the beginning of the year was Orbit Group Limited.

##### **Basis of accounting**

The financial statements have been prepared on a going concern basis, under the historical cost basis of accounting except as modified by the revaluation of freehold and leasehold offices, in accordance with United Kingdom applicable Accounting Standards including the Accounting for Registered Social Landlords Statement of Recommended Practice 2010. The financial statements comply with the Industrial and Provident Societies Acts 1965 to 2002, the Accounting Requirements for Registered Social Landlords General Determination 2006, and the Statement of Recommended Practice (SORP) published by the National Housing Federation in 2010 "Accounting for Registered Social Landlords" (SORP 2010). The principal accounting policies, which have been consistently applied unless otherwise stated throughout the year, are set out below.

##### **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 in the year, 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.

##### **Revenue recognition**

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

##### **Operating costs**

Direct employee, administration and operating costs are apportioned to either the 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.



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

## Notes to the Financial Statements

### For the Year Ended 31 March 2014

#### 1. Principal Accounting Policies (continued)

##### Housing properties

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

| <b>Housing property components</b> | <b>Depreciation life</b> |
|------------------------------------|--------------------------|
| Kitchens                           | 20 years                 |
| Bathrooms                          | 30 years                 |
| Windows & doors                    | 30 years                 |
| Boilers                            | 15 years                 |
| PV panels                          | 25 years                 |
| Roof                               | 60 years                 |
| Structure (rehabilitated)          | 60 years                 |
| Structure (new stock)              | 100 years                |

Freehold land and the associated element of grant is not depreciated.

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

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

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

Shared ownership properties are split proportionately between current and fixed assets based on the element relating to expected first tranche sales. The first tranche proportion is classed as a current asset and related sales proceeds are included in turnover. The remaining element is classed as a fixed asset, and included in housing properties at cost, less any provisions needed for depreciation or impairment.

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

##### 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 Homes & Communities Agency. However, SHG may have to be repaid if certain conditions are not met and, in that event, is a subordinated unsecured repayable debt. The net SHG received and not spent is included in current liabilities, taking into account all properties under construction.

##### Capitalisation of interest and administration costs

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

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

## Notes to the Financial Statements

### For the Year Ended 31 March 2014

#### 1. Principal Accounting Policies (continued)

##### Other tangible fixed assets and depreciation

Tangible fixed assets are stated at cost, less accumulated depreciation. Depreciation is provided to write off the cost on a straight line basis over the expected economic useful lives of the assets at the following annual rates:

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

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

##### Leased assets

Where assets are financed by leasing agreements that give rights approximating to ownership, they are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as obligations to the lessor. Lease payments are treated as consisting of capital and interest elements and the interest is charged to the 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 funded pension 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 operated by Warwickshire County Council. The requirements of FRS17 Retirement Benefits are fully reflected in the financial statements and associated notes. Note 10 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. They 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 further details can be found in the Orbit Group Limited financial statements. The cost of providing retirement pensions and related benefits is charged to management expenses. The disclosures in the financial statements follow the requirements of FRS17.

##### Impairment

Reviews for impairment of housing properties are carried out on a twice-yearly basis and any impairment in an income generating unit is recognised by a charge to the 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. Impairment is written back on disposal.

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

## Notes to the Financial Statements

### For the Year Ended 31 March 2014

#### 1. Principal Accounting Policies (continued)

##### **Disposals of housing properties**

Proceeds from sales are shown net of discounts given under the provisions of the Right to Buy and the Right to Acquire. The cost of properties sold is written off to the 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. The Association has two designated reserves as follows:

##### ***Renewal reserve***

The Association 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.

##### ***Community Investment Fund***

This designated reserve has been set aside for investment in our communities to deliver Orbit Living's long term community investment prospectuses and plans for priority investment by 2020.

##### **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 (SHG) is recycled 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.

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

## Notes to the Financial Statements

### For the Year Ended 31 March 2014

#### 1. Accounting policies (continued)

##### **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.

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

Orbit uses derivative financial instruments to reduce exposure to interest rate movements. Orbit does not hold or issue derivative financial instruments for speculative purposes. For an interest rate swap to be treated as a hedge the instrument must be related to actual assets or liabilities or a probable commitment and must change the nature of the interest rate by converting a fixed rate to a variable rate or vice versa. Interest differentials under these swaps are recognised by adjusting net interest payable over the periods of the contracts. If an instrument ceases to be accounted for as a hedge, for example because the underlying hedged position is eliminated, the instrument is marked to market and any resulting profit or loss recognised at that time.

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

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

##### **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.

##### **Investments**

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

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

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

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

Service charge sinking funds are dealt with as creditors.

##### **Liquid resources**

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

##### **Stocks**

Stocks are stated at value.

##### **Deferred Income**

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

##### **Accrued Income**

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

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

## Notes to the Financial Statements

### For the Year Ended 31 March 2014

#### 1. Accounting policies (continued)

##### Provisions

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

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

##### Current Year

|  | Turnover<br>£000 | Operating<br>costs<br>£000 | Operating<br>Surplus/<br>(Deficit)<br>£000 |
|--|------------------|----------------------------|--|
| <b>Social Housing Lettings</b>                       | 70,933           | (43,964)                   | 26,969                                     |
| <b>Other Social Housing Activities</b>               |                  |                            |  |
| Services to group members                            | 574              | (685)                      | (111)                                      |
| Home Ownership services                              | 1,097            | (1,043)                    | 54   |
| Charges for support services                         | 1,472            | (2,000)                    | (528)                                      |
| Surplus arising on settlement of pension liabilities | -                | 699                        | 699  |
| Other  | 732              | (1,160)                    | (428)                                      |
|  | <b>3,875</b>     | <b>(4,189)</b>             | <b>(314)</b>                               |
| Non-social housing activities                        | 977              | (999)                      | (22)                                       |
|  | <b>75,785</b>    | <b>(49,152)</b>            | <b>26,633</b>                              |

##### Prior Year

|  | Turnover<br>£000 | Operating<br>costs<br>£000 | Operating<br>Surplus/<br>(Deficit)<br>£000 |
|--|------------------|----------------------------|--|
| <b>Social Housing Lettings</b>         | 68,211           | (43,687)                   | 24,524                                     |
| <b>Other Social Housing Activities</b> |                  |                            |  |
| Managed on behalf of others            | 132              | (88)                       | 44   |
| Services to group members              | 584              | (1,207)                    | (623)                                      |
| Home Ownership services                | 956              | (1,088)                    | (132)                                      |
| Charges for support services           | 1,927            | (2,454)                    | (527)                                      |
| Other                                  | 673              | (331)                      | 342  |
|  | <b>4,272</b>     | <b>(5,168)</b>             | <b>(896)</b>                               |
| Non-social housing activities          | 1,218            | (1,497)                    | (279)                                      |
|  | <b>73,701</b>    | <b>(50,352)</b>            | <b>23,349</b>                              |

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

Notes to the Financial Statements

For the Year Ended 31 March 2014

3. Income and Expenditure from Social Housing Lettings

|   | General<br>Needs<br>Housing<br>£000 | Supported<br>Housing<br>£000 | 2014<br>£000    | 2013<br>£000    |
|---|-------------------------------------|------------------------------|-----------------|-----------------|
| Rent receivable net of voids                        | 60,868                              | 6,062                        | 66,930          | 64,540          |
| Service charge income                               | 1,905                               | 2,098                        | 4,003           | 3,671           |
| <b>Turnover from social housing lettings</b>        | <b>62,773</b>                       | <b>8,160</b>                 | <b>70,933</b>   | <b>68,211</b>   |
| <b>Expenditure</b>                                  |                                     |                              |                 |                 |
| Services  | (2,389)                             | (1,987)                      | (4,376)         | (4,039)         |
| Management  | (7,257)                             | (1,166)                      | (8,423)         | (8,851)         |
| Routine maintenance                                 | (15,356)                            | (1,118)                      | (16,474)        | (14,597)        |
| Planned maintenance                                 | (4,565)                             | (278)                        | (4,843)         | (7,766)         |
| Bad debts   | (510)                               | (75)                         | (585)           | (468)           |
| Depreciation of housing properties                  | (7,584)                             | (673)                        | (8,257)         | (7,773)         |
| Impairment of housing properties                    | (465)                               | (219)                        | (684)           | -               |
| Other costs   | (322)                               | -                            | (322)           | (193)           |
| <b>Operating costs on social housing lettings</b>   | <b>(38,448)</b>                     | <b>(5,516)</b>               | <b>(43,964)</b> | <b>(43,687)</b> |
| <b>Operating surplus on social housing lettings</b> | <b>24,325</b>                       | <b>2,644</b>                 | <b>26,969</b>   | <b>24,524</b>   |
| Void losses   | 892                                 | 259                          | 1,151           | 875             |

Depreciation on Housing Properties includes £810k written off due to components being replaced earlier than the expected life of those components (2013: £733k).

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

## Notes to the Financial Statements

### For the Year Ended 31 March 2014

#### 4. Operating surplus

|   | 2014  | 2013  |
|---|-------|-------|
|   | £000  | £000  |
| <b>Operating Surplus is stated after charging/(crediting)</b> |       |       |
| <b>Housing Properties: -</b>                                  |       |       |
| - Depreciation charge   | 7,446 | 7,040 |
| - Impairment  | 684   | -     |
| <b>Other Fixed Assets:</b>                                    |       |       |
| - Depreciation - Owned Assets                                 | 89    | 389   |
| - Depreciation - Leased Assets                                | 177   | 174   |
| <b>Auditors' Remuneration:</b>                                |       |       |
| - In their capacity as Auditors                               | 27    | 25    |
| - In respect of other services                                | 3     | 8     |
| <b>Other Auditors' Remuneration:</b>                          |       |       |
| <b>Operating Leases:</b>                                      |       |       |
| - Plant and machinery   | 106   | 53    |
| - Other   | 32    | 513   |

A donation of £5,259k (2013: £4,728k) was made to Orbit Group Limited in accordance with the Orbit wide agreement to support development funding. Auditors' Remuneration and Other Auditors' Remuneration are shown exclusive of VAT in accordance with the Accounting Direction for Private Registered Providers of Social Housing April 2012.

#### 5. Profit on sale of fixed assets

|   | 2014         | 2013          |
|---|--------------|---------------|
|   | £000         | £000          |
| <b>Sale of housing properties</b>               |              |               |
| Proceeds from disposal                          | 9,913        | 22,111        |
| Cost of sales                                   | (4,252)      | (7,999)       |
| <b>Profit on sale of housing properties</b>     | <b>5,661</b> | <b>14,112</b> |
| <b>Sale of fixed assets</b>                     |              |               |
| Surplus / (deficit) on disposal of fixed assets | 206          | (3)           |
| <b>Profit on sale of fixed assets</b>           | <b>5,867</b> | <b>14,109</b> |

Right to Buy claw back relates to arrangements between Stratford-on-Avon District Council and Orbit Heart of England, whereby the proceeds from sales of the original housing properties made under the Preserved Right to Buy legislation are shared. The method of sharing is set out in a pre-agreed formula. There were 19 sales under this agreement in the year ended 31 March 2014 (2013: 7 sales).

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

## Notes to the Financial Statements

### For the Year Ended 31 March 2014

#### 6. Directors emoluments

The Directors of the Association are its Board Members. Certain of the Board Members are tenants/leaseholders of the Association or the Group. Their tenancies/leases are on normal commercial terms and the Members cannot use their position to their advantage. Payments made to Board Members are shown below. Expenses paid during the year to Board Members amounted to £7k (2013: £4k). Payments made to the Chair of Heart of England Housing Association Limited in his role as an Orbit Board Member are disclosed in the financial statements of Orbit Group Limited. No compensation was paid to Directors for loss of office.

|  | <b>2014</b> | <b>2013</b> |
|--|-------------|-------------|
|  | <b>£000</b> | <b>£000</b> |
| Aggregate emoluments paid to or received by Directors who are not executive staff members including salaries, honoraria or other benefits: |             |             |
| Jane Ball  | 4           | -           |
| Lindsay Dennish  | 2           | 4           |
| Jacqui Dickinson   | 4           | 4           |
| Denise Kelly   | -           | 1           |
| Michael Lawrence   | -           | 4           |
| Michael Robertson-Smith  | 4           | 4           |
| Grant Richardson   | 4           | 1           |
| S Margrave   | 3           | -           |
| Margaret Wellington  | -           | 4           |
| Valerie Williamson   | -           | 4           |
| <b>Total</b>   | <b>21</b>   | <b>26</b>   |

#### 7. Staff costs

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

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

|                                | <b>2014</b>   | <b>2013</b>            |
|--------------------------------|---------------|------------------------|
|                                | <b>Number</b> | <b>Restated Number</b> |
| <b>Average Number Employed</b> |               |                        |
| Office Staff                   | 19            | 23                     |
| Scheme Staff                   | 7             | 10                     |
| Operatives                     | 1             | 2                      |
|                                | <b>27</b>     | <b>35</b>              |
| Full-time                      | 19            | 26                     |
| Part-time                      | 8             | 9                      |
|                                | <b>27</b>     | <b>35</b>              |

The number of employees reduced during 2013/14 in line with Orbit Heart of England's aim that all employees will be employed by Orbit Group Limited.



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

## Notes to the Financial Statements

### For the Year Ended 31 March 2014

#### 7. Staff costs (continued)

|                                | 2014<br>Number | 2013<br>Restated<br>Number |
|--------------------------------|----------------|----------------------------|
| <b>Full-time equivalents *</b> |                |                            |
| Office Staff                   | 19             | 23                         |
| Scheme Staff                   | 5              | 6                          |
| Operatives                     | 1              | 2                          |
|                                | <b>25</b>      | <b>31</b>                  |

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

|                                  | 2014<br>£000 | 2013<br>£000 |
|----------------------------------|--------------|--------------|
| <b>Staff Costs for the Above</b> |              |              |
| Wages and Salaries               | 678          | 716          |
| Social Security Costs            | 64           | 49           |
| Other Pension Costs              | 56           | 152          |
|                                  | <b>798</b>   | <b>917</b>   |

#### Senior staff emoluments

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

|           | 2014<br>Number | 2013<br>Number |
|-----------|----------------|----------------|
| Over £70k | 1              | 1              |

#### 8. Interest receivable and similar income

|   | 2014<br>£000 | 2013<br>£000 |
|---|--------------|--------------|
| Interest receivable from unlisted investments | 7            | 8            |

#### 9. Interest payable and similar charges

|   | 2014<br>£000  | 2013<br>£000  |
|---|---------------|---------------|
| <b>On Bank Loans, Overdrafts and Other Loans</b>                |               |               |
| Repayable by instalments wholly or partly, in more than 5 years | 12,807        | 12,625        |
| Repayable, other than by instalments, in more than 5 years      | 1,550         | 1,550         |
|   | <b>14,357</b> | <b>14,175</b> |
| Other interest  | 1,059         | 1,034         |
| Capitalised interest  | (125)         | (87)          |
| Deferred income credit (See Note 21b)                           | (114)         | (114)         |
|   | <b>15,177</b> | <b>15,008</b> |

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

## Notes to the Financial Statements

### For the Year Ended 31 March 2014

#### 10. Pensions

##### (A) Social Housing Pension Scheme – Defined Contribution Scheme

From 1 October 2010, Orbit has operated a defined contribution scheme with SHPS, which is open to existing and new members of staff. As at 31 March 2014, there were no active members of the Scheme employed by Orbit Heart of England. Employees who were members during the year either left Orbit or transferred to be employed by Orbit Group Limited before the year end.

##### B) Local Government Pension Scheme (Warwickshire County Council) Scheme

During the year the Association recognised a multi-employer defined benefit scheme for staff, the assets of which are held in separately administered funds under the Local Government Superannuation Scheme operated by Warwickshire County Council.

During 2012/13 the Association made a decision to exit the Local Government Scheme operated by Warwickshire County Council, with effect from 31 March 2013. The final settlement of £5,010k was paid in 2013/14 releasing a surplus of £699k to the income & expenditure account (note 2). The Association has no further liabilities in respect of this scheme. Prior year comparatives are included in this note for information.

The financial assumptions underlying the valuation were as follows:

|                             | 2014 | 2013  | 2012  |
|-----------------------------|------|-------|-------|
| Pension Increase Rate       | -%   | 2.80% | 2.50% |
| Salary Increase Rate *      | -%   | 5.10% | 4.80% |
| Expected Return on Assets   | -%   | 5.20% | 5.50% |
| Discount Rate               | -%   | 4.50% | 4.80% |
| Retail Price Inflation      | -%   | 3.20% | -%    |
| Consumer Prices Index (CPI) | -%   | 2.40% | 2.50% |

\* Salary increases are assumed to be 1% p.a. until 31 March 2015 reverting to the long term assumption shown thereafter.

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

## Notes to the Financial Statements

### For the Year Ended 31 March 2014

#### 10. Pensions (continued)

##### Commutation

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre April 2008 service and 50% of the maximum tax-free limits for post April 2008 service.

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 in the following table:

|              | Value at<br>31 March<br>2014<br>£000 | Value at<br>31 March<br>2013<br>£000 | Value at<br>31 March<br>2012<br>£000 |
|--------------|--------------------------------------|--------------------------------------|--------------------------------------|
| Equities     | -                                    | 8,781                                | 7,620                                |
| Bonds        | -                                    | 2,165                                | 2,039                                |
| Property     | -                                    | 1,083                                | 1,073                                |
| <b>Total</b> | <b>-</b>                             | <b>12,029</b>                        | <b>10,732</b>                        |

##### Expected Rates of return at 31 March

|                | 2014     | 2013         | 2012         |
|----------------|----------|--------------|--------------|
| Equities       | %        | 5.80%        | 6.30%        |
| Bonds          | %        | 3.50%        | 3.90%        |
| Property       | %        | 3.90%        | 4.40%        |
| Cash/Liquidity | %        | 3.00%        | 3.50%        |
| <b>Total</b>   | <b>%</b> | <b>5.20%</b> | <b>5.70%</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:

|                                   | 2014<br>£000 | 2013<br>£000 | 2012<br>£000 | 2011<br>£000 |
|-----------------------------------|--------------|--------------|--------------|--------------|
| Share of assets in the Fund       | -            | 12,029       | 10,732       | 11,184       |
| Estimated liabilities in the Fund | -            | (17,738)     | (15,402)     | (14,366)     |
| Share of deficit in the Fund      | -            | (5,709)      | (4,670)      | (3,182)      |

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

## Notes to the Financial Statements

### For the Year Ended 31 March 2014

#### 10. Pensions (continued)

Reconciliation of fair value of assets is shown below:

|  | 2014<br>£000 | 2013<br>£000 | 2012<br>£000 |
|--|--------------|--------------|--------------|
| Opening fair value of scheme assets                  | -            | 10,732       | 11,184       |
| Expected return on scheme assets                     | -            | 583          | 711          |
| Contributions from members                           | -            | 53           | 56           |
| Contributions by employer                            | -            | 153          | 146          |
| Actuarial gains/(losses)                             | -            | 989          | (843)        |
| Estimated benefits paid                              | -            | (481)        | (522)        |
| Fair value of scheme assets at the end of the period | -            | 12,029       | 10,732       |

Reconciliation of present value of scheme liabilities is shown below:

|                                    | 2014<br>£000 | 2013<br>£000 | 2012<br>£000 |
|------------------------------------|--------------|--------------|--------------|
| Opening defined benefit obligation | -            | 15,402       | 14,366       |
| Current service cost               | -            | 191          | 162          |
| Interest on obligation             | -            | 734          | 782          |
| Contributions by members           | -            | 53           | 56           |
| Actuarial losses                   | -            | 1,839        | 558          |
| Estimated benefits paid            | -            | (481)        | (522)        |
| Closing defined benefit obligation | -            | 17,738       | 15,402       |

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

|   | 2014<br>£000 | 2013<br>£000 |
|---|--------------|--------------|
| Net deficit in pension scheme at 1 April  | (5,709)      | (4,670)      |
| <b>Movement in the year</b>               |              |              |
| Operating charge - current service cost   | -            | (191)        |
| Settlement of liabilities                 | 5,010        | -            |
| Contributions                             | -            | 153          |
| <b>Finance Income</b>                     |              |              |
| Expected return on Pension Fund assets    | -            | 583          |
| Interest on Pension scheme liabilities    | -            | (734)        |
| <b>Total finance income</b>               | -            | (151)        |
| Actuarial loss                            | -            | (850)        |
| Gain arising on settlement of liabilities | 699          | -            |
| <b>Net deficit at 31 March</b>            | -            | (5,709)      |

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

## Notes to the Financial Statements

### For the Year Ended 31 March 2014

#### 10. Pensions (continued)

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

|  | 2014<br>£000 | 2013<br>£000 | 2012<br>£000 |
|--|--------------|--------------|--------------|
| Actuarial gain/(losses) on pension scheme assets | -            | 989          | (843)        |
| Experience losses arising on scheme liabilities  | -            | (1,839)      | (558)        |
|  | -            | (850)        | (1,401)      |

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

|  | 2014<br>£000 | 2013<br>£000 | 2012<br>£000 |
|--|--------------|--------------|--------------|
| <b>Net Assets</b>  |              |              |              |
| Net assets excluding pension liability                     | -            | 44,531       | 26,763       |
| Pension liability  | -            | (5,709)      | (4,670)      |
| Net assets including pension liability                     | -            | 38,822       | 22,093       |
| <b>Reserves</b>  |              |              |              |
| Income and expenditure reserve excluding pension liability | -            | 41,585       | 23,957       |
| Pension liability  | -            | (5,709)      | (4,670)      |
| Income and expenditure reserve including pension liability | -            | 35,876       | 19,287       |

|   | 2014<br>£000 | 2013<br>£000 | 2012<br>£000 | 2011<br>£000 | 2010<br>£000 | 2009<br>£000 |
|---|--------------|--------------|--------------|--------------|--------------|--------------|
| Difference between the expected and actual return on scheme assets: |              |              |              |              |              |              |
| Amount £000   | -            | 989          | (843)        | 514          | 2,140        | (2,481)      |
| Percentage of scheme assets   | -            | 8.2%         | (7.9)%       | 4.6%         | 21.0%        | (32.4)%      |
| Experience gains and losses arising on the scheme liabilities:      |              |              |              |              |              |              |
| Amount £000   | -            | (1,839)      | (558)        | 913          | (3,594)      | 2,844        |
| Percentage of scheme liabilities                                    | -            | 10.4%        | 3.6%         | (6.4)%       | 23.2%        | (25.3)%      |
| Total amount recognised gains and losses                            |              |              |              |              |              |              |
| Amount £000   | -            | (850)        | (1,401)      | 1,427        | (1,454)      | 363          |
| Percentage of scheme liabilities                                    | -            | 4.8%         | 9.1%         | (9.9)%       | 9.4%         | (3.2)%       |

#### 11. Tax on surplus on ordinary activities

The Association was accepted as a charity for tax purposes by HMRC with effect from 1 April 2008. No 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.

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

Notes to the Financial Statements

For the Year Ended 31 March 2014

12. Housing properties at cost

|                                 | Housing Properties for Letting | Supported Housing | Low Cost Home Ownership | Non-social Housing | Total        |                  |
|---------------------------------|--------------------------------|-------------------|-------------------------|--------------------|--------------|------------------|
|                                 | Complete                       | In Development    | Complete                | Complete           | Complete     |                  |
|                                 | £000                           | £000              | £000                    | £000               | £000         |                  |
| <b>Cost</b>                     |                                |                   |                         |                    |              |                  |
| At 1 April 2013                 | 613,124                        | 22,331            | 33,309                  | 2,523              | 1,318        | 672,605          |
| Reclassifications               | (129)                          | 63                | -                       | -                  | -            | (66)             |
| Additions                       | 29,835                         | 31,204            | 724                     | -                  | -            | 61,763           |
| Transfer on completion          | 14,879                         | (14,879)          | -                       | -                  | -            | -                |
| Disposals                       | (5,015)                        | -                 | (612)                   | (55)               | -            | (5,682)          |
| <b>At 31 March 2014</b>         | <b>652,694</b>                 | <b>38,719</b>     | <b>33,421</b>           | <b>2,468</b>       | <b>1,318</b> | <b>728,620</b>   |
| <b>Less: grants</b>             |                                |                   |                         |                    |              |                  |
| At 1 April 2013                 | (235,399)                      | (8,392)           | (13,424)                | (1,437)            | -            | (258,652)        |
| Reclassifications               | 68                             | -                 | (2)                     | -                  | -            | 66               |
| Receivable                      | (6,889)                        | (4,887)           | (21)                    | -                  | -            | (11,797)         |
| Disposals                       | 1,030                          | -                 | 2                       | 36                 | -            | 1,068            |
| Transfer on completion          | (5,799)                        | 5,799             | -                       | -                  | -            | -                |
| Transfer to/(from) RCGF and DPF | -                              | (1,096)           | -                       | -                  | -            | (1,096)          |
| <b>At 31 March 2014</b>         | <b>(246,989)</b>               | <b>(8,576)</b>    | <b>(13,445)</b>         | <b>(1,401)</b>     | <b>-</b>     | <b>(270,411)</b> |

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

### Notes to the Financial Statements

#### For the Year Ended 31 March 2014

#### 12. Housing properties at cost (continued)

|  | Housing Properties for Letting | Supported Housing | Low Cost Home Ownership | Non-social Housing | Total        |                 |
|--|--------------------------------|-------------------|-------------------------|--------------------|--------------|-----------------|
|  | Complete                       | In Development    | Complete                | Complete           | Complete     |                 |
|  | £000                           | £000              | £000                    | £000               | £000         |                 |
| <b>Less: accumulated depreciation</b>  |                                |                   |                         |                    |              |                 |
| At 1 April 2013                        | (49,726)                       | -                 | (4,882)                 | (11)               | (112)        | (54,731)        |
| Eliminated on disposals                | 1,513                          | -                 | 185                     | -                  | -            | 1,698           |
| Depreciation                           | (6,882)                        | -                 | (544)                   | (11)               | (9)          | (7,446)         |
| <b>At 31 March 2014</b>                | <b>(55,095)</b>                | <b>-</b>          | <b>(5,241)</b>          | <b>(22)</b>        | <b>(121)</b> | <b>(60,479)</b> |
| <b>Less: provisions for impairment</b> |                                |                   |                         |                    |              |                 |
| At 1 April 2013                        | -                              | -                 | -                       | -                  | -            | -               |
| Charge for the year                    | (219)                          | (465)             | -                       | -                  | -            | (684)           |
| <b>At 31 March 2014</b>                | <b>(219)</b>                   | <b>(465)</b>      | <b>-</b>                | <b>-</b>           | <b>-</b>     | <b>(684)</b>    |
| <b><u>Net Book Amount</u></b>          |                                |                   |                         |                    |              |                 |
| <b>31 March 2014</b>                   | <b>350,391</b>                 | <b>29,678</b>     | <b>14,735</b>           | <b>1,045</b>       | <b>1,197</b> | <b>397,046</b>  |
| <b>31 March 2013</b>                   | <b>327,999</b>                 | <b>13,939</b>     | <b>15,003</b>           | <b>1,075</b>       | <b>1,206</b> | <b>359,222</b>  |

During the year total expenditure on works to existing properties was £21.3m (2013: £22.4m) of this £6.5m (2013: £6.3m) has been capitalised.

Additions to properties during the year include capitalised interest and finance costs of £125k (2013: £87k) and development administration costs/project management fees of £1,129k (2013: £963k).

The Association reviewed its properties for impairment and there was a charge of £684k to the Income and Expenditure Account for 2014 (2013: £Nil k) in respect of properties that were demolished and new developments acquired.

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

## Notes to the Financial Statements

### For the Year Ended 31 March 2014

#### 12. Housing properties at cost (continued)

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:

|  | 2014<br>£000   | 2013<br>£000   |
|--|----------------|----------------|
| Within Housing Properties and Stocks   | 11,797         | 7,376          |
| <b>The Net Book Value of Housing and Other Properties (Note 13) comprises:</b> |                |                |
| Freehold Land and Buildings  | 396,693        | 358,866        |
| Long Leasehold Land and Buildings  | 2,103          | 2,236          |
| Short Leasehold Land and Buildings   | 343            | 419            |
|  | <b>399,139</b> | <b>361,521</b> |

Housing stocks are stated at the lower of cost and net realisable value. Cost includes land, build costs, applicable overheads and interest. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal.

#### 13. Other fixed assets

|                                       | Freehold<br>Offices<br>£000 | Leasehold<br>Offices<br>£000 | Commercial<br>Premises<br>£000 | Motor<br>Vehicles<br>£000 | Furniture,<br>Fixtures &<br>Equipment<br>£000 | Total<br>£000  |
|---------------------------------------|-----------------------------|------------------------------|--------------------------------|---------------------------|---|----------------|
| <b>Cost</b>                           |                             |                              |                                |                           |   |                |
| At 1 April 2013                       | 17                          | 3,329                        | 449                            | 33                        | 2,948   | 6,776          |
| Additions                             | -                           | 13                           | -                              | -                         | 41  | 54             |
| Disposals                             | -                           | -                            | (47)                           | (33)                      | (645)   | (725)          |
| Transfers to group members            | -                           | -                            | -                              | -                         | (5)   | (5)            |
| <b>At 31 March 2014</b>               | <b>17</b>                   | <b>3,342</b>                 | <b>402</b>                     | <b>-</b>                  | <b>2,339</b>                                  | <b>6,100</b>   |
| <b>Less: accumulated depreciation</b> |                             |                              |                                |                           |   |                |
| At 1 April 2013                       | (17)                        | (1,368)                      | (111)                          | (33)                      | (2,255)                                       | (3,784)        |
| Charge for year                       | -                           | (177)                        | (15)                           | -                         | (74)  | (266)          |
| Eliminated on disposal                | -                           | -                            | 21                             | 33                        | 359   | 413            |
| Transfers to group members            | -                           | -                            | -                              | -                         | 2   | 2              |
| <b>At 31 March 2014</b>               | <b>(17)</b>                 | <b>(1,545)</b>               | <b>(105)</b>                   | <b>-</b>                  | <b>(1,968)</b>                                | <b>(3,635)</b> |
| <b>Net book amount</b>                |                             |                              |                                |                           |   |                |
| <b>At 31 March 2014</b>               | <b>-</b>                    | <b>1,797</b>                 | <b>297</b>                     | <b>-</b>                  | <b>371</b>                                    | <b>2,465</b>   |
| <b>At 31 March 2013</b>               | <b>-</b>                    | <b>1,961</b>                 | <b>338</b>                     | <b>-</b>                  | <b>693</b>                                    | <b>2,992</b>   |



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

## Notes to the Financial Statements

### For the Year Ended 31 March 2014

#### 14. Fixed Asset Investments

|   | 2014 | 2013 |
|---|------|------|
|   | £000 | £000 |
| Monies deposited with Funding for Homes Ltd | 800  | 800  |

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

#### 15. Stocks

|                   | 2014 | 2013 |
|-------------------|------|------|
|                   | £000 | £000 |
| Consumable Stocks | -    | 139  |

#### 16. Debtors

|  | 2014    | 2013    |
|--|---------|---------|
|  | £000    | £000    |
| Rental debtors   | 2,760   | 3,310   |
| Less: provision for doubtful debts                     | (1,140) | (1,163) |
|  | 1,620   | 2,147   |
| Prepayments and accrued income                         | 314     | 553     |
| SHG receivable   | 1,105   | -       |
| Other debtors  | 1,591   | 1,541   |
| Provision for bad debts                                | (207)   | (147)   |
|  | 4,423   | 4,094   |
| Debtors after one year included in other debtors above | 181     | 188     |

#### 17. Short Term Investments

|  | 2014 | 2013 |
|--|------|------|
|  | £000 | £000 |
| <b>Cash Short Term Deposits comprise Unlisted Investments: Bank Deposits</b> |      |      |
| - Maturing in excess of 7 days   | -    | 104  |
| <b>Total</b>   | -    | 104  |

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

## Notes to the Financial Statements

### For the Year Ended 31 March 2014

#### 18. Creditors: Amounts Falling Due Within One Year

|   | 2014<br>£000  | 2013<br>£000  |
|---|---------------|---------------|
| Housing Loans (net of loan arrangement fees) (Note 21)      | 10,242        | 4,463         |
| Amounts due to other group members                          | 18,765        | 10,075        |
| Other creditors   | 983           | 1,136         |
| Grants received in advance                                  | 1,980         | 832           |
| Accruals & deferred income                                  | 4,193         | 3,919         |
| Rents received in advance                                   | 1,276         | 1,225         |
| Disposals proceeds and recycled capital grant fund (Note19) | 547           | -             |
| <b>Total</b>  | <b>37,986</b> | <b>21,650</b> |

Housing loans shown above are net of £Nil loan arrangement fees carried forward (2013: £Nil).

#### 19. Disposal proceeds and recycled capital grant funds

|                         | RCGF<br>£000 | DPF<br>£000 | 2014<br>TOTAL<br>£000 |
|-------------------------|--------------|-------------|-----------------------|
| <b>At 1 April 2013</b>  | <b>1,388</b> | <b>-</b>    | <b>1,388</b>          |
| Grants recycled         | 933          | 198         | 1,131                 |
| Interest accrued        | 9            | -           | 9                     |
| <b>At 31 March 2014</b> | <b>2,330</b> | <b>198</b>  | <b>2,528</b>          |

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

|                              | RCGF<br>£000 | DPF<br>£000 | 2014<br>TOTAL<br>£000 |
|------------------------------|--------------|-------------|-----------------------|
| Due within one year          | 547          | -           | 547                   |
| Due after more than one year | 1,783        | 198         | 1,981                 |
| <b>At 31 March 2014</b>      | <b>2,330</b> | <b>198</b>  | <b>2,528</b>          |

#### 20. Creditors: Amounts falling due after more than one year

|   | 2014<br>£000   | 2013<br>£000   |
|---|----------------|----------------|
| Housing Loans (Note 21)                                     | 16,000         | 16,000         |
| Loans inter company (note 21)                               | 297,022        | 282,551        |
| Deferred income credit (Note 21b part)                      | 450            | 564            |
| Leaseholder maintenance provision                           | 898            | 796            |
| Disposal proceeds and recycled capital grant funds (Note19) | 1,981          | 1,388          |
| Other creditors   | 559            | 774            |
|   | <b>316,910</b> | <b>302,073</b> |

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

## Notes to the Financial Statements

### For the Year Ended 31 March 2014

#### 21. Housing loans and finance lease obligations

##### Note (a)

|   | 2014<br>£000 | 2013<br>£000 |
|---|--------------|--------------|
| <b>Due within one year</b>                  |              |              |
| Orbit Treasury Limited                      | 10,242       | 4,463        |
|   | 10,242       | 4,463        |
| <b>Due after more than one year</b>         |              |              |
| Orbit Treasury Limited                      | 297,022      | 282,551      |
| Debenture Stock - Funding for Homes Limited | 16,000       | 16,000       |
|   | 313,022      | 298,551      |
| <b>Total Housing Loans</b>                  | 323,264      | 303,014      |

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

On joining Orbit in April 2008, existing Heart of England Group loans were transferred into OTL and Orbit Heart of England entered into the cross-collateralised structure. The loan from OTL is secured by fixed charges on individual properties. The interest rates ranged between 4.10% and 5.15% for the year ended 31 March 2014.

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

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

## Notes to the Financial Statements

### For the Year Ended 31 March 2014

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

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

|   | 2014<br>£000   | 2013<br>£000   |
|---|----------------|----------------|
| In one year or less, or on demand                     | 10,242         | 4,463          |
| <b>Repayable by instalments:</b>                      |                |                |
| - more than one year but not more than two years      | 10,242         | 4,463          |
| - In more than two years but not more than five years | 30,726         | 13,389         |
| - In more than 5 years                                | 256,054        | 264,699        |
|   | <b>297,022</b> | <b>282,551</b> |
| <b>Repayable other than by instalments:</b>           |                |                |
| - In more than two years but not more than five years | 16,000         | -              |
| - In more than 5 years                                | -              | 16,000         |
|   | <b>323,264</b> | <b>303,014</b> |

#### Note (b)

As a result of raising loans totalling £16 million through the financial intermediary Funding for Homes Ltd, the Association received an additional sum of £2.8 million, representing a net discount on the market price of the stock on issue. This is shown as deferred income credit and is being released to the 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 £450k in 2014 (2013: £564k.)

|   | Total<br>£000  | Variable<br>rate<br>£000 | Fixed<br>rate<br>£000 | Weighted<br>Average<br>Rate<br>% | Weighted<br>average term<br>of fixing in<br>years |
|---|----------------|--------------------------|-----------------------|----------------------------------|---|
| <b>The interest rate profile of the Association at 31 March 2014 was:</b> |                |                          |                       |                                  |   |
| Instalment loans  | 307,264        | 147,368                  | 159,896               | 4.28%                            | 24  |
| Non-instalment loans  | 16,000         | -                        | 16,000                | 10.10%                           | 4   |
|   | <b>323,264</b> | <b>147,368</b>           | <b>175,896</b>        | <b>4.60%</b>                     | <b>22</b>   |

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

## Notes to the Financial Statements

### For the Year Ended 31 March 2014

#### 22. Provisions for liabilities and charges

|               | <b>2014</b> | <b>2013</b> |
|---------------|-------------|-------------|
|               | <b>£000</b> | <b>£000</b> |
| Restructuring | <b>200</b>  | -           |
| <b>Total</b>  | <b>200</b>  | -           |

The restructuring provision reflects costs to be incurred in respect of committed restructuring programmes.

#### 23. Called up share capital

|   | <b>2014</b> | <b>2013</b> |
|---|-------------|-------------|
|   | <b>No.</b>  | <b>No.</b>  |
|   | <b>£</b>    | <b>£</b>    |
| <b>Shares of £1 each, allotted, issued and fully paid</b> |             |             |
| <b>At 1 April</b>   | <b>5</b>    | 8           |
| Issued during the year                                    | <b>6</b>    | 1           |
| Cancelled during the year                                 | <b>(3)</b>  | (4)         |
| <b>At 31 March</b>  | <b>8</b>    | 5           |

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

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

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

## Notes to the Financial Statements

### For the Year Ended 31 March 2014

#### 24. Designated reserves

|                                    | At 1 April<br>2013<br>£000 | Transfer<br>(to)/from I&E<br>account<br>£000 | Release of<br>provision<br>during the<br>year<br>£000 | At 31 March<br>2014<br>£000 |
|------------------------------------|----------------------------|--|---|-----------------------------|
| Renewal of furniture and equipment | 2,350                      | 199  | (15)  | 2,534                       |
| Community investment               | 596                        | 360  | -   | 956                         |
| <b>Total</b>                       | <b>2,946</b>               | <b>559</b>                                   | <b>(15)</b>   | <b>3,490</b>                |

#### 25. Revenue Reserve

|                                    | 2014<br>£000  | 2013<br>£000 |
|------------------------------------|---------------|--------------|
| <b>Opening balance</b>             | <b>35,876</b> | 19,287       |
| Surplus for the financial year     | 12,071        | 17,579       |
| Actuarial losses on pension scheme | -             | (850)        |
| Transfer to designated reserves    | (559)         | (140)        |
| <b>Closing balance</b>             | <b>47,388</b> | 35,876       |

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

#### 26. Capital commitments

|   | 2014<br>£000  | 2013<br>£000 |
|---|---------------|--------------|
| Capital Expenditure which has been contracted for but has not been provided for in the financial statements         | 50,804        | 32,266       |
| Capital Expenditure which has been authorised under authority from the Orbit Board but has yet to be contracted for | 42,501        | 45,466       |
|   | <b>93,305</b> | 77,732       |

The Association expects these commitments to be financed with:

|  | 2014<br>£000  | 2013<br>£000 |
|--|---------------|--------------|
| Social Housing Grant                               | 11,548        | 9,026        |
| Committed loan facilities (Orbit Treasury Limited) | 81,757        | 68,706       |
|  | <b>93,305</b> | 77,732       |

#### 27. Contingent Liabilities

There were no contingent liabilities at 31 March 2014. There was a contingent liability at 31 March 2013 in relation to remedial costs on properties identified as having substandard acoustic construction and the associated legal costs. A settlement was reached in June 2014 towards legal costs and the cost of remedial works and the court proceedings have been brought to an end.

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

## Notes to the Financial Statements

### For the Year Ended 31 March 2014

#### 28. Reconciliation of operating surplus to net cash outflow from operating activities

|  | 2014<br>£000  | 2013<br>£000  |
|--|---------------|---------------|
| Operating surplus                                | 26,633        | 23,349        |
| Depreciation - other fixed assets                | 266           | 580           |
| Depreciation - housing properties                | 8,257         | 7,040         |
| Impairment - housing properties                  | 684           | -             |
| Increase / (decrease) in provisions              | 237           | (227)         |
| Decrease / (increase) in stocks                  | 139           | (75)          |
| Difference between pension charge and paid       | -             | 38            |
| Decrease / (increase) in debtors                 | (406)         | (180)         |
| Settlement of pension liability                  | (699)         | -             |
| Increase in creditors                            | 10,577        | 2,307         |
| Release of designated reserves to I&E            | (17)          | -             |
| Other fixed assets written off                   | 291           | -             |
| <b>Net cash inflow from operating activities</b> | <b>45,962</b> | <b>32,832</b> |

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

|  | 2014<br>£000     | 2013<br>£000     |
|--|------------------|------------------|
| Increase in cash in the year   | 337              | 100              |
| (Decrease) / increase in bank deposits (with a maturity in excess of 24 hours) | (104)            | 104              |
| Loans received   | (61,779)         | (43,000)         |
| Loans redeemed   | 41,529           | 54,500           |
| Loan pool premium reserve FFH  | 114              | 114              |
| <b>Change in net debt</b>  | <b>(19,903)</b>  | <b>11,818</b>    |
| Net debt at 1 April  | (302,571)        | (314,389)        |
| <b>Net debt at 31 March</b>  | <b>(322,474)</b> | <b>(302,571)</b> |

#### 30. Analysis of changes in net debt

|                                    | At beginning<br>of the year<br>£000 | Cash Flows<br>£000 | Other<br>Changes<br>£000 | At end of the<br>year<br>£000 |
|------------------------------------|-------------------------------------|--------------------|--------------------------|-------------------------------|
| Cash at bank and in hand           | 903                                 | 337                | -                        | 1,240                         |
| Bank deposits - more than 24 hours | 104                                 | (104)              | -                        | -                             |
| Housing loans due within one year  | (4,463)                             | -                  | (5,779)                  | (10,242)                      |
| Housing loans due after one year   | (298,551)                           | (20,250)           | 5,779                    | (313,022)                     |
| Loan pool premium reserve FFH      | (564)                               | -                  | 114                      | (450)                         |
|                                    | (302,571)                           | (20,017)           | 114                      | (322,474)                     |

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

## Notes to the Financial Statements

### For the Year Ended 31 March 2014

#### 31. Financial Commitments

##### Operating Leases

At 31 March 2014 the Association was committed to making the following payments during the next year in respect of operating leases other than land and buildings:

|                            | <b>2014</b> | <b>2013</b> |
|----------------------------|-------------|-------------|
|                            | <b>£000</b> | <b>£000</b> |
| <b>Leases which Expire</b> |             |             |
| Within 1 year              | <b>9</b>    | 40          |
| Within 2 - 5 years         | <b>144</b>  | 526         |
| <b>Total</b>               | <b>153</b>  | <b>566</b>  |

#### 32. Ultimate Parent Entity

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

Orbit Group Limited is the parent undertaking of the only group of undertakings to consolidate these financial statements at 31 March 2014.

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

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



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

## Notes to the Financial Statements

### For the Year Ended 31 March 2014

#### 33. Property portfolio

|  | 2014          | Restated<br>2013 |
|--|---------------|------------------|
|  | No.           | No.              |
| General needs                                    | 12,386        | 12,166           |
| Affordable rent                                  | 211           | 156              |
| Intermediate rent                                | 74            | 120              |
| Low cost home ownership                          | 12            | 12               |
| Supported housing                                | 1,748         | 1,698            |
| <b>Total Owned by Orbit Heart of England</b>     | <b>14,431</b> | <b>14,152</b>    |
| Leasehold  | 751           | 725              |
| Private retirement schemes                       | 458           | 458              |
| Owned  | 5             | 6                |
| Managed on behalf of others                      | 2             | 2                |
| <b>Leasehold and managed on behalf of others</b> | <b>1,216</b>  | <b>1,191</b>     |
| <b>Total social housing properties</b>           | <b>15,647</b> | <b>15,343</b>    |
| Market rent                                      | 10            | 10               |
| Commercial                                       | 15            | 14               |
| <b>Total non social housing properties</b>       | <b>25</b>     | <b>24</b>        |
| <b>Total properties</b>                          | <b>15,672</b> | <b>15,367</b>    |

The restatement of the comparative reflects re-classification between tenure types. The total number of properties at the 31 March 2013 remains unchanged.

|   | 2014       | 2013       |
|---|------------|------------|
|   | No.        | No.        |
| <b>Stock in Development at 31 March</b> |            |            |
| General Needs                           | 580        | 262        |
| Supported                               | -          | -          |
|   | <b>580</b> | <b>262</b> |

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

## Notes to the Financial Statements

### For the Year Ended 31 March 2014

#### 34. Related Party Transactions

Heart of England Housing Association Limited is a subsidiary of Orbit Group Limited (the Parent). Shares are held by serving Board Members and the Parent. Under the Association's rules the Parent has the right at any time to appoint or remove any or all of the Members of the Board. On this basis the Association considers itself to be wholly owned and has chosen to take advantage of the exemption not to disclose transactions with group entities as defined by paragraph 3(c) FRS8 (Related Party Disclosures). There were no other related party transactions to disclose under FRS8.

#### 35. Transactions with non-regulated group members

During the year the Association has transacted with two fellow group subsidiaries not regulated by the HCA, Orbit Homes (2020) Ltd and Orbit Treasury Ltd.

Orbit Homes (2020) Ltd provides design and build services to the group. During the year the association made payments totalling £22.4m to Orbit Homes (2020) Ltd (2013: £16m) for the purchase of Housing Property assets and has an outstanding creditor balance with Orbit Homes (2020) Ltd of £nil m (2013: £1.9m).

Orbit Treasury Ltd provides a funding on-lending service to the group. During the year the Association paid interest costs totalling £12.8m (2013: £12.6m) and fees of £1m (2013: £1m). The allocation of these costs is based upon the level of debt required and secured by the Housing Property held in the Association.