

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

FINANCIAL STATEMENTS

For The Year Ended 31 March 2015

Co-operative and Community Benefit Society Number 30446R

Homes and Communities Agency Number L4526

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

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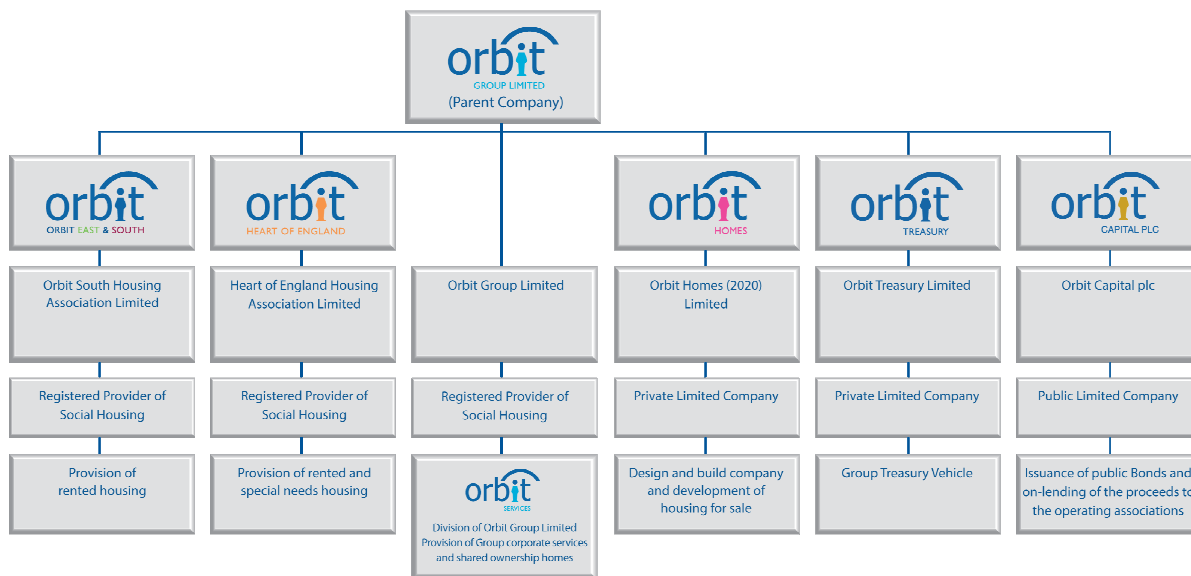
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Heart of England Housing Association Limited (Trading as Orbit Heart of England)

Operating and Financial Review

Group 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

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Objectives and Strategy

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

Vision

Purpose (why we exist)	Building Communities By working together to improve the social, economic and environmental prospects of people and communities		
Passion (What we do)	Housing Choice Providing a wide range of homes to meet needs and aspirations	Community Investment Creating thriving and empowered communities	Customer Offer Enabling customers to make choices and take control
Resources (How we do it)	People Investing in our people, creating a dynamic culture of trust, enterprise and achievement	Value Maximising efficiency and resources through a commercial approach	Futures Harnessing insight, innovation and technology to create solutions
Principles	Live our Values Lead and influence Disciplined, open and accountable	Be 'One Team' Simplify and be consistent Make profits to re-invest	Innovate & change Learn from others 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 business planning cycle has been developed around three phases to achieve our objectives by 2020. 2014-15 was the final year of phase 1, creating the platform, and we are now looking forward to the next stage of our plan in 2015-16 – delivery and growth:

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. We have now completed this phase of the plan.
2. **Delivery and growth 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

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2014-15 Highlights

Despite a challenging operating environment, we have delivered strong performance during the year, meeting or exceeding 88% of the targets set within the 2014-15 Business Plan and exceeding target by delivering a Group surplus of £45.4m. We continued to make good progress towards our 2020 targets during the year.

We delivered a significant and successful transformation programme while completing the country's third largest Affordable Homes Programme pipeline, continuing to deliver good service levels to customers, and reducing management costs with efficiency savings of £1.8m.

We also delivered a £1.8m community investment programme, beating targets by helping over 200 people into employment, providing training and support to over 1,500 people and have now given energy and budgeting advice to almost 9,000 people.

Other highlights for the year include:

- Delivering 1,521 new homes - a 100% increase on last year
- Achieving a sales surplus of £3.2m - surpassing our annual targets
- Maintaining strong arrears performance at 3%, despite welfare reforms
- Securing our first ever Bond of £250m to fund further homes
- Increasing online transactions to 11% from a base of below 5%

Our 2014-15 Business Plan committed to delivering a range of outcomes and targets around Housing Choice, Customer Offer, Community Investment and Organisation. These are summarised below.

Housing Choice

Orbit Homes enjoyed very strong performance during the year, exceeding its affordable homes target of 843 to deliver 1,031 homes. It also delivered 342 Shared Ownership homes against a target of 303 and achieved profits of £3.2m on market sale against a target of £2.9m

Our first Private Rented site was acquired at St Anne's Wharf in Norwich and good progress was made on contracts and planning at the second in Stratford-upon-Avon. We also clarified our product range and completed market research on a new product, which we aim to implement in 2015-16.

Orbit also delivered a highly-successful campaign promoting Shared Ownership which resulted in a Government consultation - Shared Ownership 2.0 – Towards a Fourth Mainstream Tenure (available at <http://www.cih.org>).

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Customer Offer

Performance on core services such as gas was exceptional with only 2 of our homes without a gas certificate at year end, both of which were completed in early April. Although we did not deliver our repairs service satisfaction target of 85%, within the context of declining satisfaction generally and contractor challenges, our year end performance of 80.3% was fair and is continuing to improve. This will remain a key focus for the business during 2015-16.

At 3% our arrears performance was strong given major structural changes in the teams and significant changes and pressures around welfare reform.

Delivery of a new website and innovations such as 'Live Chat' - a housing first - saw the number of online transactions rise to 11.3% by the end of the year, beating our target.

Community Investment

Our performance in this area was very strong with the majority of targets surpassed with a new team in place and a more strategic and ambitious approach. In total, Orbit invested £1.8m against the priorities identified in the new community profiles developed for the first time this year.

The team exceeded many of its targets, providing 1,530 employment and training places against a target of 850 and helping 224 people into work against a target of 135. Almost 1,000 people were given training on digital engagement. Orbit also secured almost £1.2m of external funding through the Home Improvement Agencies and negotiated an Energy Company Obligation funding deal worth up to £2m.

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Organisation

Orbit completed an ambitious and wide-ranging two-year transformation programme, successfully delivering 97% of the projects identified in 2013 and implementing major structural changes within Orbit Living.

Our focus on efficiency saw procurement savings of £1.1m and other savings of almost £0.7m as management costs as a percentage of income fell again. We began to embed our 'profit for purpose' culture and successfully launched refreshed value behaviours shaped by staff.

Finally, the successful launch of a £250m Bond was a real endorsement of our financial strength, track record of delivery, strong governance, growing reputation and clear future plans.

Priorities and targets – 2015-16

Our focus for the next two years will now move to 'Delivery and Growth'. We will do this by focussing on four strategic priorities:

1. Providing **quality services** to our customers;
2. Delivering 3,600 affordable **new homes**
3. Improving our efficiency to generate **increased profits** for investment into new homes and services; and
4. Continued development of our **people and organisation** so we can do more and better

Our targets for 2015-16 as we move towards achieving our overall 2020 targets are:

	2015-16 targets	2020 outcome
Housing Choice: Providing a wide range of homes to meet needs and aspirations	917 general needs homes for rent	Deliver 12,000 homes
	319 Shared ownership homes	Provide a full range of home rental and ownership options
	250 Market sale homes	Provide a flexible housing journey for customers
	Deliver private rented product	
	Rethink housing product plan	
Community Investment: Creating thriving and empowered communities	1,150 capacity and training places	Provide 10,000 training and capacity building activities to support empowerment, opportunities and jobs
	160 employment outcomes	
	£1.9m Orbit investment	Deliver £30 million of investment into communities, including external funding
	£400k external and £1.5m ECO funding secured	
	Increase number of homes at Band C by 1,119	Achieve a minimum energy rating of Band C in our homes (delivery date subject to Government funding)
Customer offer: Enabling customers to make choices and take control	79% rented customer satisfaction 20% of customer	Ensure 75% of customer contacts are online

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	transactions online	Provide a range of tailored services which satisfy 90% of customers
	Financial and fuel poverty advice to 2,500 people	Provide financial and energy efficiency advice to 20,000 people

These priorities form the basis of the Group Business Plan, and drive the operating plans of each of the Group members. Each Board approves its own operating plan, and subsequently monitors progress against the detailed delivery plans via regular performance reports.

Delivery of our 2020 vision and outcomes 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. By April 2017 we aim to deliver a staff engagement score of 74% by putting people at the heart of the business and we are developing an integrated engagement plan to ensure managers are equipped to engage their teams, as we know that enhancing staff engagement and driving a more dynamic and commercial culture will be critical to our success.

Underpinning our commercial approach of 'Profit for a Purpose' are our values of honesty, respect, excellence, partnership and innovation which are required of all staff across every part of the organisation.

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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 Orbit Heart of England	Appointed Orbit South	Retired
Fran Beckett	Chair	1st April 2013	1st April 2011	
Jane Ball	I	16th April 2013	19th November 2009	
Kerry Bolister	I	1 st March 2015	1 st March 2015	
Jacqui Dickinson	R	14th October 2009	-	
Julie Hopes	I	16th April 2013	18th April 2012	
Glyn Kyle	I	-	11th February 2009	
Sam Margrave	R	9 th July 2013	-	
Vanessa Nicholls	R	-	1st October 2007	30 th September 2014
Grant Richardson	I	1st February 2013	-	
Alan Squirrell	I	16th April 2013	10th March 2010	31 st December 2014
Andrew Stanford	I	9 th July 2014	9 th July 2014	31 st March 2015
Kathy Strong	R	-	9 th July 2013	
Shubhankar Sumar	R	-	15 th July 2014	
Bill Yardley	I	15 th July 2014	15 th July 2014	

Key

I = Independent Member

R = Resident Member

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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
Keith Edwards	Director of Operations, Orbit East & South
David Collick	Director of Property Services
Vicky Harwood	Director of Orbit Independent Living
Louise Oakley	Director of Service Excellence
Neil Martin	Finance Director (to 31 st January 2015)

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

	Registered Office
Address	10 Greenhill St Stratford-upon-Avon Warwickshire CV37 6LG

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Performance for the year – 2014-15

	2014-15 achievements	2020 outcome
Housing Choice: Providing a wide range of homes to meet needs and aspirations	We delivered over 1,500 new homes	Deliver 12,000 homes
	We started to develop schemes for private rented homes	Provide a full range of home rental and ownership options
	We are creating a product to enable people to move from renting to owning a share of their home	Provide a flexible housing journey for customers
Community Investment: Creating thriving and empowered communities	We provided over 1,500 employment related training and support opportunities and supported 224 people into jobs.	Provide 10,000 training and capacity building activities to support empowerment, opportunities and jobs
	We achieved our target of investing £1.8 million into our communities	Deliver £30 million of investment into communities, including external funding
	We started works on our programme to ensure all properties reach Band C.	Achieve a minimum energy rating of Band C in our homes (delivery date subject to Government funding)
Customer offer: Enabling customers to make choices and take control	We developed our online offer, achieving 11% of contacts online and supported customers through digital inclusion activities.	Ensure 75% of customer contacts are online
	We completed a major restructure to transform how we provide services and focused on improving satisfaction with our repairs service.	Provide a range of tailored services which satisfy 90% of customers
	We achieved our target of providing fuel poverty and financial inclusion advice to over 2,000 customers	Provide financial and energy efficiency advice to 20,000 people

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

	Target 2014/15	Actual 2014/15	Actual 2013/14	Actual 2012/13
1. Customer satisfaction with repairs	85.2%	78.8%	77.5%	82.6%
2. Gas safety	100%	100%	100%	99.8%
3. Customer satisfaction with CSC	90%	93.1%	93.6%	90.8%
4. Average relet time (days)	24.5	24.8	26.5	22.2
5. Net arrears	2.5%	2.8%	2.4%	2.5%

In total there are 24 KPIs which are monitored. In 2014-15 we have achieved 12 of the 24. For those 12 which were not achieved, these have been reviewed to ensure plans are in place to improve performance in 2015/16. Of the indicators illustrated above:

- Customer satisfaction with repairs has improved compared to the previous year, although has not achieved targeted level. There have been changes made in service provision during the year, with 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, maintaining the excellent performance in the previous year
- The customer satisfaction indicator measures the percentage of calls received by our Customer Service Centre where the customer's desired outcome is achieved from their call, which has continued to perform strongly this year
- Relet performance was impacted by issues with contractor performance but has improved throughout the year, being only marginally above target and improved from the previous year.
- Arrears performance is below target, however has not significantly deteriorated year on 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.

In addition to these measures, our annual customer survey (STAR) rated customer satisfaction at 81.1% (2014: 76.6%). This is extremely positive, showing an increase across all our operating areas and reflecting the improvements implemented during the year.

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Performance for the year - financial

Financial summary

Income & Expenditure Account	2014/15 £m	2013/14 £m	2012/13 £m	2011/12 £m
Turnover	84	76	74	69
Operating surplus	25	27	23	21
Operating margin	30%	35%	32%	30%
Profit on sale of housing properties	6	6	14	10
Surplus as % turnover	11%	16%	24%	20%
Surplus excluding interest as % of turnover	31%	36%	44%	43%

Balance sheet	2014/15 £m	2013/14 £m	2012/13 £m	2011/12 £m
Tangible fixed assets	450	400	363	355
Net current liabilities	(35)	(32)	(16)	(16)
Total assets less current liabilities	415	368	347	339
Non-current liabilities	355	317	308	317
Designated reserves	4	3	3	3
Revenue reserves	56	47	36	19
	415	368	347	339

2014-15 saw a continuing strong financial position, delivering an overall surplus for the year of £9 million (2014: £12 million.) Operating surplus was £25 million (2014: £27 million). Turnover was £84 million, increasing £8 million from 2014. 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 profit generated will allow us to continue to reinvest; firstly in our existing properties through our annual maintenance 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 fixed assets increasing to £450 million (2014: £400 million) and reserves to £60 million (2014: £51 million), with a total of 15,999 homes in management.

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.

External Environment

The external environment in 2015-16 will continue to provide a range of challenges and opportunities to Orbit. In particular, the further savings to be made from benefits expenditure and the potential impact this will have on our customers, who have already seen their household budgets squeezed over the last five years. We will therefore continue our work to address the key issues facing our customers, including financial hardship, improving access to training and jobs and awareness of 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 continues to be strong demand for housing reflected in increasing house prices and driven by the continuing annual shortfall in new homes, but many face continuing difficulties in accessing mortgage funding. We will seek to address these issues through delivery of our targeted number of new homes and developing alternative products for those unable to buy homes outright.

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The proposed extension of the Right to Buy policy to a wider range of our customers is another challenge we need to understand and respond to in the forthcoming year. We will undertake work to model the impact of this policy on our plans once further details are available as well as working with others to understand and implement this in the context of our aspiration to develop as many affordable homes as possible.

Affordable Rents - Our 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. We now have over 2,000 affordable tenancies, making up around 7% 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.

Welfare Reform Strategy – We have continued with our preparations and response to welfare reform, adapting our business plans and facing the challenges. 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 efforts and achievements this year and into 2015-16 are focussed on:

- Prevention of arrears and early interventions, 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;
- Maximising the potential of our IT systems, so that customers falling behind with their rent are contacted immediately and referred to an internal specialist advice team if necessary; and
- Offering a broad range of innovative payment options.
- We have obtained trusted partner status with the Department for Work and Pensions
- We participated in, and helped shape, various Universal Credit trials in a number of different boroughs.
- We are continuing to monitor the external environment for future changes, compiling risk maps for areas such as the reduced benefit cap and withdrawal of benefit to those aged under 21

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. Under this system, RPs are required to meet both consumer and economic standards as set out in the Regulatory Framework, with the responsibility firmly lying with Boards. The regulator may intervene where there is a breach or potential breach of a consumer standard, which leads to the risk of 'serious detriment' to tenants.

A more proactive role is taken with regards to the economic standards, with assurance sought that they are adhered to. Periodically published regulatory judgements ensure the confidence of lenders and the like is maintained. The regulator will also identify RPs at greater risk of failure and intervene accordingly. Tenants' role in the co-regulatory approach is to hold Boards to account via scrutiny panels set up by their landlords. In recent times we have seen a diversification of the sector in terms of the services offered, with many RPs venturing into new business areas. This has prompted the HCA to revise its regulatory framework to ensure historic government subsidy is protected. The revised regulatory framework coming into effect for 2015-16 will mean adapting to changing requirements, specifically around how we maintain records of assets and liabilities and conduct stress testing of our financial plan to ensure we are aware of the impact of different scenarios on our business.

Risk Management

The Orbit Board maintains overall responsibility for strategic risk management. There are systems in place to ensure the Board and Executive Team can analyse, understand, manage and mitigate key strategic and business critical risks.

Our approach to risk management is based on good practice and the control environment to manage risk is continually reviewed and monitored by the Audit, Risk and Compliance Committee (ARAC) on behalf of the Orbit

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Board. All of our subsidiaries are required to implement the Orbit risk management framework and provide reports to their respective Boards.

We have identified four 'Business Critical Risks', which are actively managed, and a further five 'Strategic Risks' which are monitored.

Risk	Description and mitigation
Inability to keep Orbit's employees, customers and key stakeholders safe from harm	Following the re-organisation within Orbit Living and the bedding in of new roles and structures, the risk of failing to deliver statutory health and safety has increased. This is mitigated through assurance provided by the Health and Safety Team and Internal Audit that the Compliance service within Orbit Living is operating effectively.
House sales income variations due to the operating environment	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 income are mitigated by management of the supply of units and regular monitoring of performance.
Financial plans assumptions are representative of the current economic environment	Failure to meet key financial assumptions within the plan could impact on the viability of the Group and ability to deliver our targets. This is mitigated by regular financial monitoring, multi variate stress testing and maintaining sufficient headroom against loan covenants.
Governance and leadership impacting on service delivery and regulatory involvement including succession planning for key Leadership Team members	The risks associated with poor governance and leadership have been raised as an issue as a result of changes in risks and such matters as gas inspections and maintenance performance. It is also due to Orbit increasing its own risk profile with the bond. In addition to this the Regulator has a new approach to regulation including In Depth Assessments and whilst we have mitigation in place including stress testing and monitoring, the impact of problems need to be closely monitored.

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

1. Inability to effectively adapt to welfare reform
2. Delivery of a poor repairs service following transition from a mixed in house and outsource model to full outsourced
3. Lack of skills within Orbit to deliver diversification in an effective manner.
4. Unable to deliver government development contracts
5. Not being able to embed culture change in a sufficient manner so as to deliver 2020 aspirations.

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Value for Money

Board Statement

As the Board, we have ultimate accountability for driving, embedding and delivering value for money (VFM) across Orbit.

Our Ambition

It is a part of our culture that is already paying dividends. We have set ambitious efficiency targets over the next two years and are on course to deliver these. The resources we generate will all be used to meet our 2020 strategic objectives – delivering new properties, improving the fuel efficiency of our homes, enhancing services to customers and investing in our communities.

Our Approach

VFM is at the heart of our business plans and Orbit Board will continue to challenge the business to demonstrate strong delivery and transparency to our key stakeholders in the year ahead, building on the solid foundations already in place. None of us - Board, directors, managers or staff, can be complacent and we will continue to strive for improvement.

Our strong financial track record and plans for improving our financial position were met very positively by credit agencies and investors. Our March 2015 bond issue was over-subscribed at a rate which beat our cost expectations and will enable Orbit to fund our development programme for the next 18 months.

VFM is part of Orbit's management practices with each team in the organisation recording savings which may be small individually but accumulate to something significant. Our Making It Count! Group has a high profile and is chaired by the Chief Executive, demonstrating our commitment to delivering efficiencies and improving services.

Our customers are becoming increasingly involved in driving VFM and training is provided to all customers who take part in customer involvement activities. We recognise we are here to serve our customers and therefore it is right they have a place in challenging Orbit at every level.

The Board receive regular reports demonstrating performance against targets and Key Performance Indicators (KPIs). We recognise room for improvement and all Board reports also include a specific section relating to VFM helping to ensure that VFM is a key consideration in our thinking and decision-making.

As a Board, we are responsible for Orbit's assets and resources and setting 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 for the activities of Heart of England HA Ltd and Orbit South HA Ltd (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).

Taking into account the information in this self-assessment, we believe we comply with the current HCA VFM Standard. The VFM statement shows Orbit is embedding VFM through the organisation, not as a tick-box exercise for the HCA, but because we passionately believe it is the right thing to do. Right for our customers who want to see their rent being used wisely, right for our 2020 ambitions and right to help us to meet this country's housing crisis.

Our VFM Governance Framework can be found on our website www.orbit.org.uk in the ABOUT section together with a full copy of our VFM Self Assessment.

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INTRODUCTION

Delivering Value for Money (VFM) is an integral part of Orbit's corporate ethos and values; our ambition is to run an efficient and effective organisation whilst providing value for money services to our customers. Our Customer First framework makes the commitment to "fully satisfy agreed customer requirements, at the lowest internal cost".

In the very simplest terms this means making the best use of the resources available for the provision of homes and services, whilst achieving quality standards agreed with our customers. We challenge ourselves to ensure the best use of our resources firstly by understanding the benefits and measuring them, thus enabling us to realise those benefits over the lifetime of the investment or project. Providing VFM will improve our services and release resources to provide more houses, improve our existing homes and enable us to invest in our products and services and the communities where we work.

PROFIT FOR A PURPOSE

Orbit achieved a surplus of £45m for the 2014/15 financial year. This was a great result, exceeding budget, partially as a result of the cost control exercised by our managers. It is also a result of the additional financial risk the Group has to undertake to deliver new social housing. Within the £45m surplus is £6.5m relating to Development Sales – properties which Orbit has built with the specific purpose of creating a profit to reinvest in social housing.

Where Social Housing providers used to receive 40%+ in Government capital grant to enable the delivery of new homes, this subsidy, where available, is now around 10-15%. Orbit has therefore had to diversify its work and create our own funding to enable future development of social housing. This means Orbit having to generate our own subsidy and surplus to reduce the need to take on even larger loan funding – however this does mean taking on greater risk.

This surplus should be celebrated as a sign of our financial strength and efficiency. A strong Orbit can continue to invest in our housing stock and in our communities as well as mitigating the risks within and external to the organisation. Every penny of the surplus is re-invested in social housing and in Orbit's communities – none is distributed to share-holders. It is central to Orbit's ethos that we deliver a **profit for a purpose** which allows us to invest in the areas we believe make a difference to our customer's lives.

OUR VFM PACKAGE

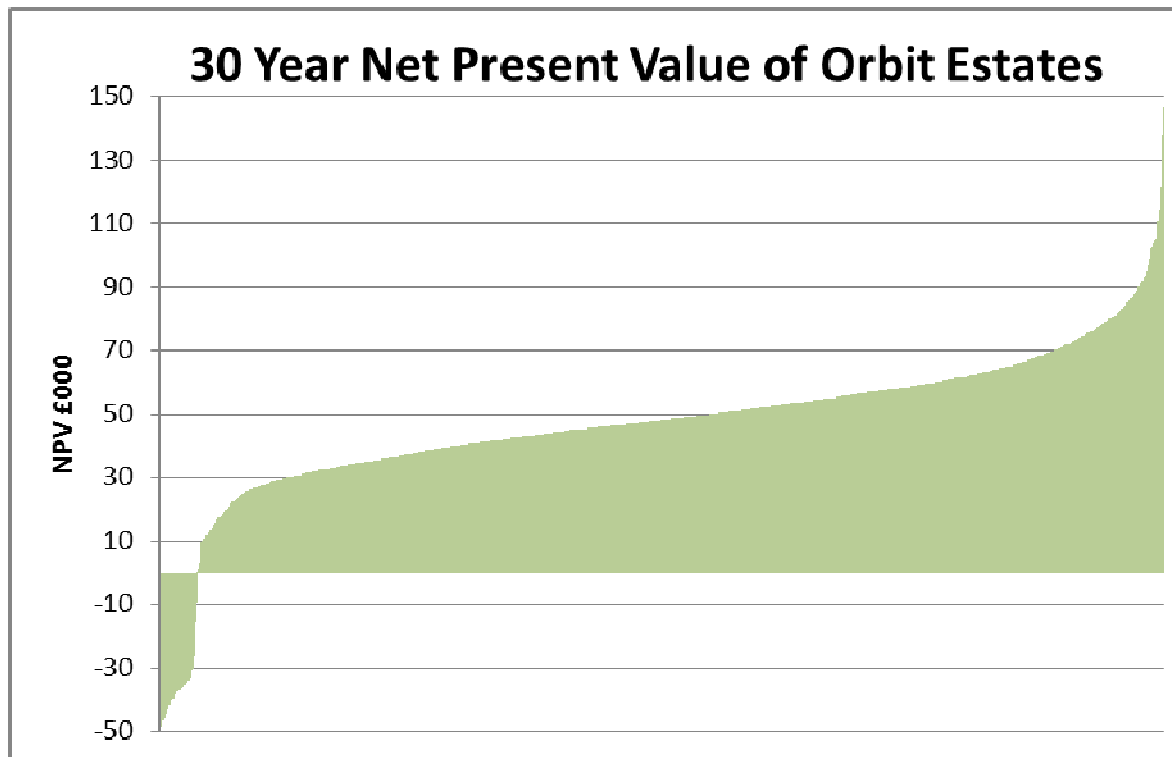
Orbit attacks VFM from a number of different fronts, led by Board, senior management, front line staff and our customers. We have worked hard to embed VFM within our culture throughout the organisation. Employees at all levels are encouraged to find efficiencies within their teams, whether they control a multi-million pound major works programme or a stationery budget. For every £25k saved in our operating costs Orbit can deliver a new home to house a family in need. This is a message that is easily communicated through the organisation and highlights the amount of internal subsidy required to cover reduced grant levels.

Return on our Asset Investment

Orbit has invested in a Portfolio Management Tool which analyses all existing properties using income and spend information including the future cost of maintaining the properties. This is updated on a quarterly basis to ensure decisions are made on accurate data. The data used relies on apportionment of some costs but this is continually being refined. This tool, aligned with our strategic priorities, feeds the Group's asset management plan.

An initial review highlighted 46 estates which were seen as poorly performing and in need of further investigation. Work is concluding on the more detailed investigation of these 46 estates, with recommendations ranging from selling properties on the open market, reconfiguring properties to meet local needs through to properties where no action is seen to be required. The following chart shows each of the 1,700+ estates which were analysed. The higher the NPV (net present value), the better the expected financial performance. The NPV's below zero show poor financial performance, which are costing Orbit money over the long term. These estates became the first subjects of review.

Operating and Financial Review



We will continue to improve our commerciality in managing our property portfolio to assess opportunities which exist within our portfolio.

Orbit has made a commitment through our stated 2020 objectives to ensure every property achieves a minimum C rating on energy efficiency. This is a project which will cost Orbit circa £80m over the next 5-10 years but is estimated to save our customer circa £3m each year in reduced fuel costs. There is some funding available from utility companies but the vast majority of the commitment will be funded through internal subsidy, another example of how efficiencies and profits are being re-invested on our key priorities.

Making it Count!

The Making it Count Group was established with the task of ensuring the achievement of the Group's efficiency targets. Orbit has a business plan which includes a total of £15m efficiencies over the next two years. These savings will come from a variety of sources including process reviews, procurement exercises and other projects which are currently underway. This will enable Orbit to meet its minimum 25% operating margin target, demonstrating financial strength and focusing resources on Group priorities. The Group consists of representatives from across the business including Orbit's Chief Executive, demonstrating his and Orbit's commitment to delivering efficiencies in a sustainable way.

Feeding in to the Group's target, the Business Improvement Team has led on a High Level Process Mapping exercise which identified those processes which would benefit most from being thoroughly reviewed end to end. This has helped to create a three year plan which is targeted to save the Group £6m by stripping out waste and non-value adding activity whilst ensuring that the customer experience is enhanced. Within the 2015-16 budget approved by Orbit's board, £4.9m has already been stripped from budgets – it is now the responsibility of relevant managers to deliver these savings. Future savings are also expected from the Procurement programme and realising the benefits of Orbit's digital strategy.

Procurement

Orbit has an established procurement team which works alongside the business to ensure compliance to relevant standards and to maintain VFM objectives when entering into new contracts. The team has been set a target of £9m savings by 2020, £3m of which had been identified by March 2015 – ahead of target. A forward plan of projects is regularly reviewed by the Executive Team and updated reflecting existing contracts coming to an end and new activities being undertaken.

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

Operating and Financial Review

Customers

Over the last year progress has been made in embedding the role of customers on VFM. A stated objective of last year's plan was to create a dedicated customer VFM group. However, following review of good practice within the sector and a major review of our approach to co-regulation and involvement, VFM has been incorporated into each activity. There is now a specific group which critically looks at how VFM is being achieved with our customer involvement offer which ensures that we are engaging with customers in the right way and on the right things. Customers are also now an integral part of the procurement process for services which directly affect them and during the last year their involvement has helped enable over £125k in saving (e.g new windows/doors and lift contracts).

Looking forward, a specific VFM customer training module has been developed which will provide customers with further confidence to question and challenge us about VFM.

CHALLENGE

Benchmarking

Orbit undertakes a number of benchmarking exercises at a Group level and at a departmental level to assess performance against peers. The largest exercise is run with Housemark, which is an organisation-wide application, specific to the housing sector. The following table shows high level results against other Housemark users.

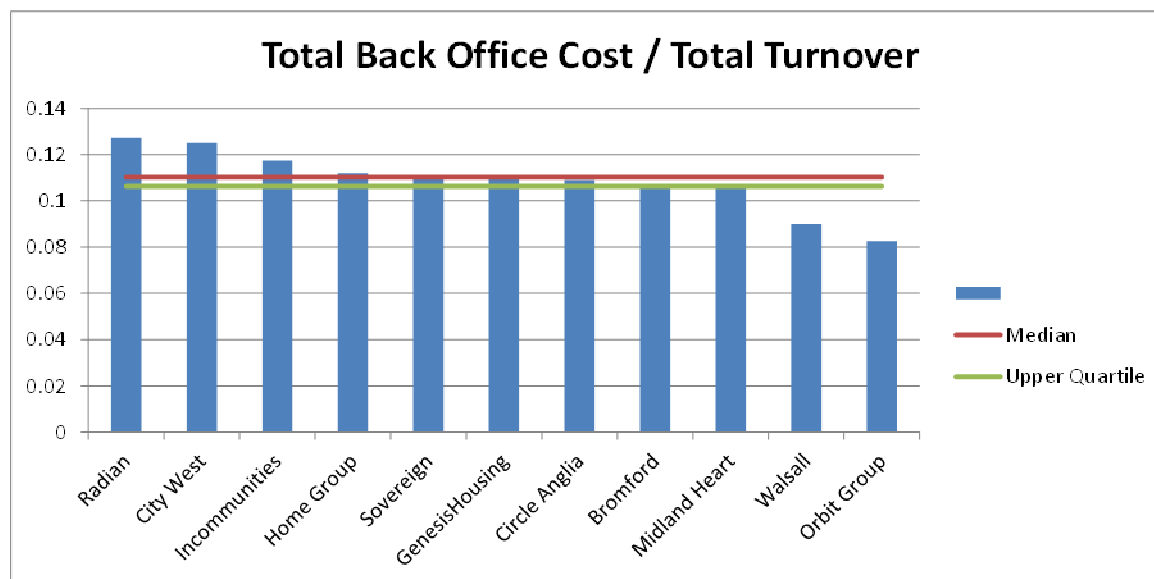
Housemark VFM Scorecard (selected ratios)					
	2013-14		2012-13		Median
Rent collected as % of rent due	99.4%		99.3%		99.4%
Repairs completed at the first visit	78.0%		79.9%		91.0%
Satisfaction with Service Provided	76.6%		79.3%		86.0%
Satisfaction with Repairs and Maintenance	80.0%		85.2%		81.0%
Satisfaction that rent provides VFM	76.4%		81.0%		81.1%
Cost per property Housing Management	£ 453		£ 443		£ 426
Cost per property Major Works	£ 1,165		£ 1,177		£ 1,490
Cost per property Responsive Repairs	£ 925		£ 905		£ 806
Cost per property Overheads	£ 180		£ 163		£ 163

A report is prepared for Executive Team which analyses these figures and trends in much more detail. Senior management teams also see the results and discuss and agree actions to address issues. Benchmarking is an important exercise and one from which we can learn and drive VFM. However, it is important to recognise and understand some of the underlying factors such as quality of stock, disbursement of properties etc. rather than purely focusing on the final result.

Orbit has also carried out Back Office Benchmarking through Baker Tilly, which focuses on functions such as finance, HR and IT. The results show that Orbit Group is generally in the upper quartile of performance when compared against similar organisations undertaking this exercise.

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

Operating and Financial Review



Internal Challenge

The Executive and Leadership Teams have a quarterly meeting to review and challenge all operating Key Performance Indicators (KPIs) and agree corporate actions to address issues. These KPIs are a good indication of efficiency and Orbit's rounded approach to VFM. Orbit has invested in a reporting tool to capture all KPIs which is updated daily and is visible to all staff within the organisation – enabling managers to easily spot and address emerging issues. The following table shows just four of the KPIs which Orbit uses to indicate how we are improving efficiency – a key outcome of VFM.

KPI	2012/13	2013/14	2014/15 Actual
Net Arrears	2.8%	2.7%	3.0%
Re-let Times (days)	24	23	22
Management costs as % of rental income	26%	25.5%	22.7%
Right First Time	n/a	58%	56%

ALL new projects and change activities are directed through the Change Approval & Prioritisation Group (CAP). CAP was established to ensure Orbit's resources are prioritised on activities which bring the most benefits to the Group – both financially and from a customer satisfaction perspective.

The CAP Group is responsible for:

- Approval of all change across the group;
- Prioritisation, scheduling and resourcing of change across the group;
- Monitoring of key change activities to ensure they are on track and delivering the agreed benefits;
- Ensuring all projects provide value for money and that benefits are realised.

This is part of the commercial culture being cultivated in Orbit ensuring that the business is delivering what is necessary and not wasting valuable resources.

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

Operating and Financial Review

Social and Environmental challenges

The Public Services Act passed on 31 January 2013, made it a legal obligation for all Public bodies to consider Social and Environmental value when procuring goods. Orbit's Procurement team in partnership with Wates, PriceWaterhouseCoopers, The Chartered Institute of Housing and Social Enterprise UK published - **Communities Count: The four steps to unlocking social value**. The partnership has produced guidance for the sector on measuring social value but also in embedding social value into procurement activity.

Orbit's Sustainable Investment Team have been instrumental in Orbit improving the environmental performance of existing Orbit properties. This in many cases, not only meets Orbit's Green commitment but also has a cost saving for Orbit and our customers. Project funding has been sourced where possible and Orbit are involved in a number of pilots which help research in to energy efficiency.

Orbit has secured £2.2m EERP funding to support an internal investment of £16m to June 2016. Approximately 2,700 homes will benefit in this first phase of works, with each gaining an average £165 per annum saving on their energy bills.

Orbit are working on a Corporate Responsibility Annual report, due for publication in July 2015 which will feature more around how the Group makes a social return to our communities. This will be available on our website.

CONCLUSIONS

This statement has demonstrated that Orbit is committed to delivering VFM and has the culture and management structures in place to achieve its targets and more importantly to re-invest savings in our organisational objectives. Those objectives can be summarised in to three areas:

- To subsidise future development activities – to meet our ambitious 12,000 unit target to 2020, and to do our bit to meet the nation's housing crisis.
- To continue to invest in our properties – EERP is a long term project with the aim of getting all Orbit properties above a Band C eco rating.
- To continue to invest in our communities – to help give people the things they need to succeed.

Orbit is not ashamed of making a profit for a purpose and the more efficient we become, the more our social purpose can be realised.

A full VFM statement will be produced on our website by 30 September 2015.

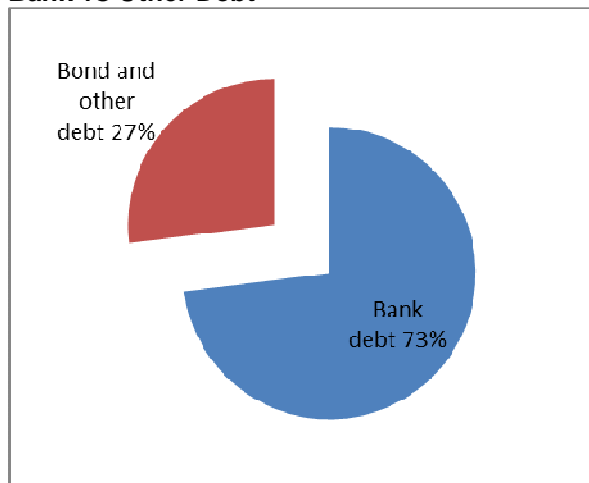
Heart of England Housing Association Limited (Trading as Orbit Heart of England)

Operating and Financial Review

Capital Structure and Treasury policy

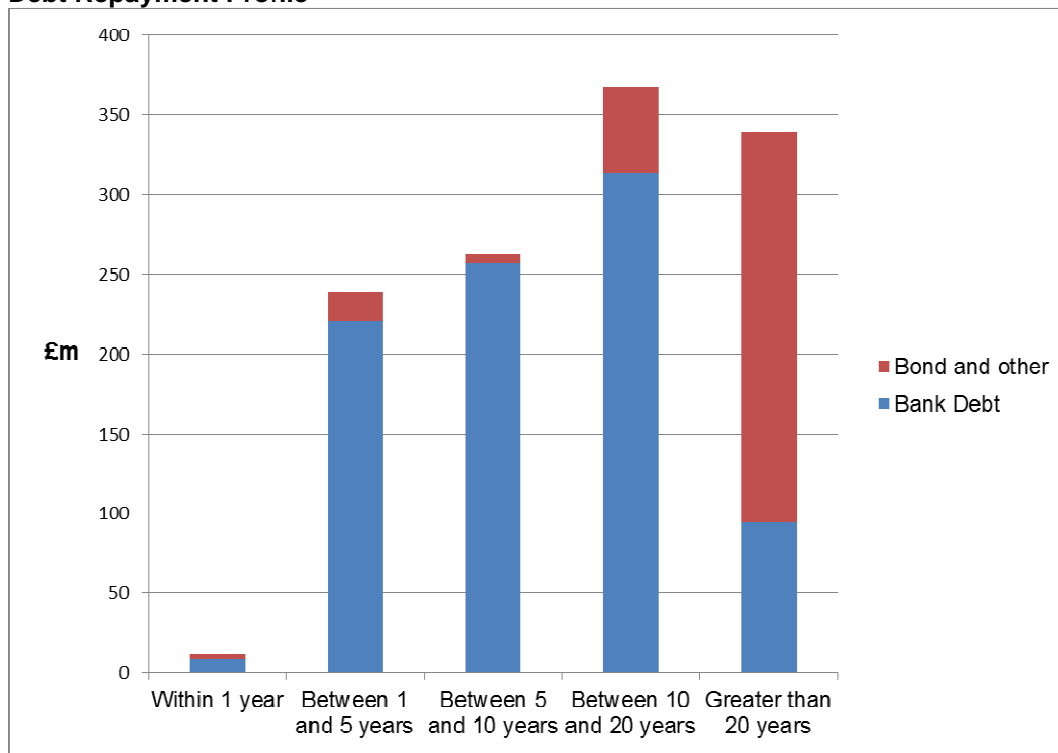
As at 31 March, the Group had £1,220 million of committed debt funding, including the £250m bond issue on 24th March. Drawn funding totalled £909 million, an increase from 2014 (£759 million). The Group seeks to maintain diversification in its funding sources with 73% coming from 8 banks and building societies and 27% from capital markets.

Bank vs Other Debt



The group's re-financing risk in the next five years is £251 million, (21% of loan facilities) with over 79% of the Groups debt maturing after 5 years.

Debt Repayment Profile



As at 31 March, the Group maintained £312 million of committed undrawn facilities available for immediate drawing and £43 million of cash in hand, representing total available liquidity of £355 million. These resources are considered sufficient to fund over two years' worth of planned developments

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

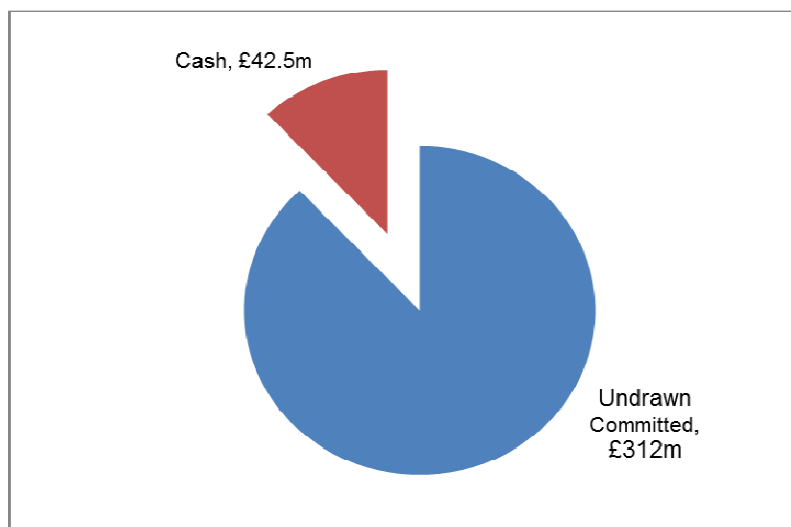
Heart of England Housing Association Limited (Trading as Orbit Heart of England)

Operating and Financial Review

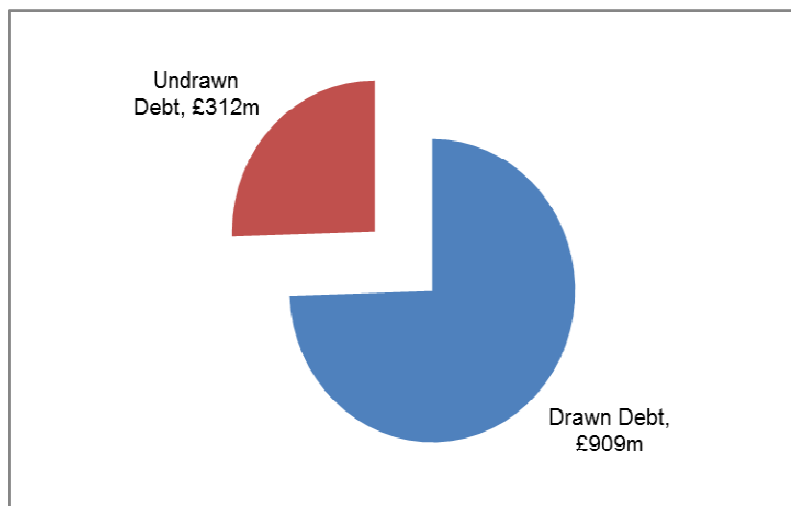
- i. Sufficient cash to cover the next three months' forecast cash requirements;
- ii. Sufficient cash and secured loan facilities to cover the next twelve months' forecast cash requirement; and
- iii. Sufficient cash and committed loan facilities (secured and unsecured) to cover the higher of committed 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 11,000 unencumbered properties available for use for new loans. These properties are conservatively estimated to provide potential security for a further £853 million of new loans. This ability to raise new loans may enable us to develop a significant number of new homes in the future.

Available Liquidity



Total Committed Funding



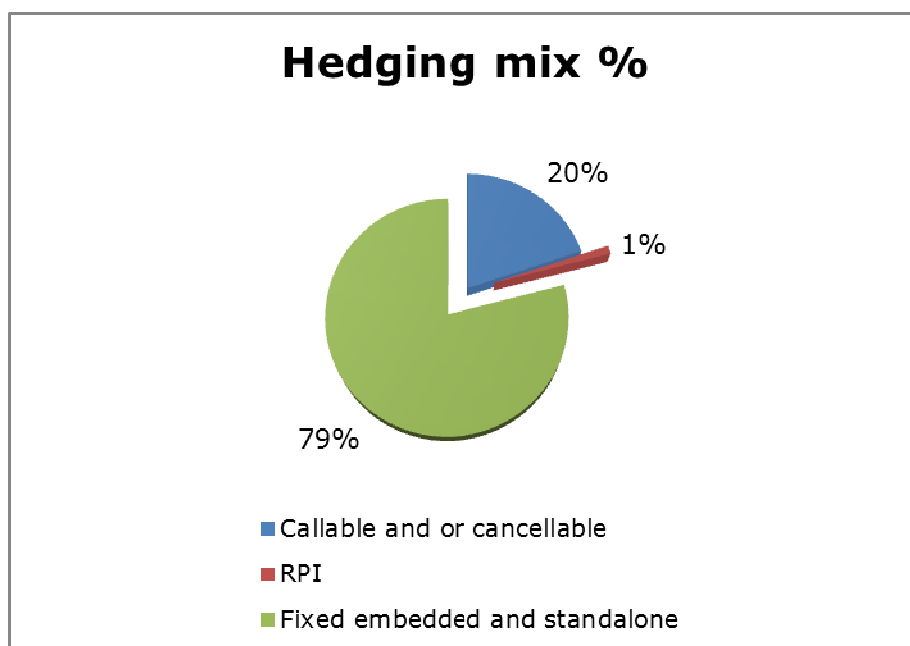
The Group continues to be risk averse in its approach to interest rate management. Borrowing related to cash in hand is held at floating rates of interest. The Group targets a flexible policy of hedging 55% to 90% of its debt with predominantly fixed rate instruments and a small proportion of index linked instruments, with flexibility to depart from these parameters if circumstances make this appropriate

The Board regularly monitors interest rate risk and approved the bond issue in the knowledge that the level of fixed and hedged debt would exceed the policy limit for a temporary period. At the year-end this resulted in a portfolio that was 98% fixed.

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

Operating and Financial Review

The Group's average interest cost for the year is 4.68% 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, 79% of the Group's hedged activities were undertaken through embedded instruments and stand-alone swaps.

The Group's weighted average duration of standalone swaps is just over 16 years. This limits the impact of an increase in interest rates.

All of the Group's 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 at least annually, to ensure it underpins the budget and longer term financial plan. Detailed cash flow forecasts, key ratios and limits are all monitored regularly by either Executive Team and/or OTL Board.

The Mark to Market value of all stand-alone derivative financial instruments at the year end was as follows:

	2015 £m	2014 £000
Mark to Market value	105.5	42.5
Notional Stand Alone Swap Principal	316.5	336.5

The increase in the Mark to Market value resulted from the reduction in long term interest rates. The Mark to Market exposure is monitored at least weekly, and more frequently where necessary in response to movements in market rates. Property is used as security against adverse movements in the Mark to Market exposure and the consequent risk of cash calls. Treasury policy requires sufficient security at any time to cover the risk of a 0.5% reduction in interest rates.

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

Operating and Financial Review

Cash Flows

The Group net cash inflow from operating activities during the year was £86.4 million (2014: £73.4 million). The principal sources of cash inflow remain rental income and proceeds from sale of housing properties. The principal sources of cash outflow for Orbit were the costs associated with the provision of housing accommodation, the acquisition and construction of housing properties and interest payable on loan facilities.

For Orbit Heart of England as an individual association, the net cash inflow from operating activities in 2015 was £40.5 million (2014: £46 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

Orbit Group Board and its Subsidiaries

The board members of the Association during the year ended 31 March 2015 are listed on page 6.

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 management structure with one Executive Director. At the same time, the Boards of these two legal entities were combined as a single shared Board arrangement to oversee the operational performance of the two legal entities.

The other three members of the Group are non-charitable wholly-owned subsidiaries of Orbit Group Limited. Orbit Treasury Limited (OTL) co-ordinates borrowing across the Group to enable more cost effective borrowing. Orbit Homes (2020) Limited builds houses for the Group's Registered Providers across a wide range of tenures as well as housing for market sale. Orbit Capital plc was established in March 2015 specifically for the Group's first Bond issue.

All members of the Group remunerate their Board Members for undertaking their duties and responsibilities. The Boards delegate the day-to-day management of Orbit to the Group Chief Executive and the Executive Directors who form the Executive Team (ET). The ET met monthly throughout 2014-15 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 reviewing 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 Committees, and an independent customer scrutiny function has been developed as part of the co-regulation agenda. This ensures Orbit 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 Committees, 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 Events

There are no post balance sheet events requiring adjustment to, or disclosure in, the financial statements.

Going Concern

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

On behalf of the Heart of England Housing Association Limited Board



Fran Beckett
Chair

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

Housing Association Governance

Responsibility for the System of Internal Control

We have reviewed the sources of assurance provided to the Boards and the Audit and Risk Assurance Committee as agreed within the Internal Regulatory Framework (IRF) for 2014/15. This report is solely in relation to those business areas agreed within the IRF and not for any other operations of the organisation.

We discharge our role, as detailed within the IRF agreed with the Board for each assurance area by:

- Considering the assurance activities that have been identified by management across the organisation.
- Evaluating the assurance activities and identify the controls established by management to mitigate risk.
- Reviewing the performance data in key business areas for 2014-15.
- Assessing the unexpected incidents occurring during 2014-15.
- Reviewing the written levels of assurance provided by third parties and, where appropriate, holds discussions with these third parties.
- Perform compliance checks on key controls used to mitigate key risks and testing on the robustness and accuracy of performance reporting systems, through the delivery of the Internal Audit Service.

Report by Executive Director, Orbit Living

The Executive Director is required to provide the Board, the Audit & Risk Assurance Committee and the Chief Executive with an opinion on the scope and effectiveness of sources of assurance within OHE.

In giving our opinion it should be noted that assurance cannot be absolute and in assessing the level of assurance we have taken into account:

- Internal and external assurance from a number of sources (IRF).
- Conclusions from our independent review of the systems and processes, conclusions from the testing of key business controls.
- Conclusions from a review of the performance reporting systems.
- Any limitations which have been placed on our work.

In our opinion, based on the work we have undertaken to assess the assurance received by the organisation the internal controls (financial and non-financial), risk management and governance arrangements **are operating with sufficient effectiveness** to provide reasonable assurance to the Board, Audit & Risk Assurance Committee and the Chief Executive so that they can deliver the key objectives within their Business Plan; with one area of operation which requires immediate improvements to ensure compliance with regulations.

On behalf of the Heart of England Housing Association Limited Board



Fran Beckett
Chair

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

Report of the Board

Statement of the responsibilities of the Heart of England Housing Association Limited Board for the financial statements

The board is responsible for preparing the Report of the Heart of England Housing Association Board and the financial statements in accordance with applicable law and regulations.

The Co-operative and Community Benefit Societies Act 2014 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 Group or RSL 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 Co-operative and Community Benefit Societies Act 2014, 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 3rd September 2015 at Lumen URC, 88 Tavistock Place, London, WC1H 9RS.

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 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 appoint the Association's auditors for external audit services will be proposed at the Annual General Meeting.

The report of the Board was approved on 24 July 2015 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 for the year ended 31 March 2015

Report on the financial statements

Our opinion

In our opinion, Heart of England's financial statements (the "financial statements"):

- give a true and fair view of the state of the association's affairs as at 31st March 2015 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.

What we have audited

The financial statements comprise:

- the association balance sheet as at 31st March 2015;
- 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; and
- 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 the preparation of the financial statements 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.

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 association; or
- the association statements are not in agreement with the books of account.

We have no exceptions to report arising from this responsibility.

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 for the year ended 31 March 2015

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 26, 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 association's members as a body in accordance with Section 87 (2) 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.

What an audit of financial statements involves

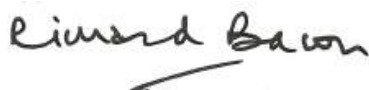
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from 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.

We primarily focus our work in these areas by assessing the Board's judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the financial statements to identify material inconsistencies 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.



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

Date: 27 July 2015

- (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.

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

Income and Expenditure Account

For the year ended 31 March 2015

	Note	2015 £000	2014 £000
Turnover	2	83,531	75,785
Operating Costs	2	(58,687)	(49,152)
Operating Surplus	4	24,844	26,633
Profit on sale of fixed assets	5	6,178	5,867
Interest Receivable and Other Income	8	4	7
Interest Payable and Similar Charges	9	(16,449)	(15,177)
Surplus on Ordinary Activities before Donations and Taxation		14,577	17,330
Donation Payable		(5,519)	(5,259)
Surplus on Ordinary Activities before Taxation		9,058	12,071
Tax on Surplus on Ordinary Activities	11	-	-
Surplus for the Year		9,058	12,071
Transfer to Designated Reserves	24	(782)	(559)
Surplus for the Year after Transfer to Reserves		8,276	11,512
Revenue Reserve at 1 April	25	47,388	35,876
Revenue Reserve at 31 March		55,664	47,388

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

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 2015

	2015	2014
	£000	£000
Surplus for the Financial Year	9,058	12,071
Actuarial return less expected return on pension scheme assets	-	-
Losses arising on pension scheme liabilities	-	-
Total recognised surplus for the year	9,058	12,071

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

Balance Sheet

As at 31 March 2015

	Note	2015 £000	2014 £000
Fixed Assets			
Housing Properties at Cost	12	725,707	667,457
Social Housing Grant	12	(263,887)	(255,709)
Other Capital Grants	12	(14,702)	(14,702)
Net book value of housing properties		447,118	397,046
Fixed Asset Investments	14	800	800
Other Fixed Assets	13	1,880	2,465
Total Fixed Assets		449,798	400,311
Current Assets			
Stocks	15	1	-
Debtors	16	8,758	4,423
Short Term Investments	17	418	-
Cash at Bank and in Hand		978	1,240
		10,155	5,663
Creditors: Amounts falling due within one year	18	(44,739)	(37,986)
Provisions for Liabilities and Charges	22	(550)	-
NET CURRENT (LIABILITIES)		(35,134)	(32,323)
TOTAL ASSETS LESS CURRENT LIABILITIES		414,664	367,988
Creditors: Amounts falling due after more than one year	20	353,352	316,910
Provisions for liabilities and charges	22	1,376	200
		354,728	317,110
Capital and Reserves			
Designated Reserves	24	4,272	3,490
Revenue Reserve	25	55,664	47,388
		59,936	50,878
		414,664	367,988

The financial statements on pages 29 to 55 were approved by the Board and signed on its behalf by:



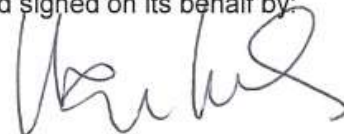
Fran Beckett
CHAIR

24 July 2015



BOARD MEMBER

Jane Ball



Vivien Knibbs
SECRETARY

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

Cash Flow Statement

For the Year Ended 31 March 2015

	Note	2015 £000	2014 £000
NET CASH INFLOW FROM OPERATING ACTIVITIES	28	40,453	45,962
Returns on Investments and Servicing of Finance			
Interest Received		4	7
Interest Paid		(16,522)	(15,004)
Net cash Outflow from Returns on Investments and Servicing of Finance		(16,518)	(14,997)
Donations		(5,519)	(5,259)
Taxation Paid		-	-
Net Cash Outflow from Donation & Taxation		(5,519)	(5,259)
Capital Expenditure and Financial Investment			
Acquisition and Construction of Housing Properties		(68,753)	(61,946)
Sale of Housing Properties		9,243	8,749
Grants Received		6,722	12,306
Purchase of Other Fixed Assets		(43)	(54)
Settlement of LGPS pension liability		-	(5,010)
Sale of Other Fixed Assets		-	232
Net cash Outflow from Capital Expenditure and Financial Investment Activities		(52,831)	(45,723)
Net Cash Outflow before Management of Liquid Resources and Financing		(34,415)	(20,017)
Management of Liquid Resources and Financing			
<u>(i) Liquid Resources</u>			
(Increase)/Decrease in Bank Deposits	29	(418)	104
<u>(ii) Financing</u>			
Loans Received	29	159,904	61,779
Housing Loans Repaid	29	(125,333)	(41,529)
		34,571	20,250
NET CASH INFLOW FROM MANAGEMENT OF LIQUID RESOURCES AND FINANCING		34,153	20,354
(DECREASE)/INCREASE IN CASH AT BANK AND IN HAND	30	(262)	337

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

Notes to the Financial Statements

For the Year Ended 31 March 2015

1. Principal Accounting Policies

Legal status

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

Basis of accounting

The financial statements have been prepared on a going concern basis, under the historical cost basis of accounting except as modified by the revaluation of freehold and leasehold offices, in accordance with United Kingdom applicable Accounting Standards including the 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 Direction for Social Landlords in England from April 2012, 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 2015

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:

Housing property components	Depreciation life
Kitchens	20 years
Bathrooms	30 years
Windows & Doors	30 years
Boilers	15 years
PV panels	25 years
Roof	60 years
External Wall Insulation	36 years
Rewiring	30 years
Structure (rehabilitated)	60 years
Structure (new stock)	100 years

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

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.

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

Notes to the Financial Statements

For the Year Ended 31 March 2015

1 Principal Accounting Policies (continued)

Capitalisation of Interest and Administration Costs

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

Other Tangible Fixed Assets and Depreciation

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

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

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

Leased assets

Where assets are financed by leasing agreements that give rights approximating to ownership, they are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as obligations to the lessor. Lease payments are treated as consisting of capital and interest elements and the interest is charged to the 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 Parent Body participates in the Social Housing Pension Scheme further details can be found in the Orbit Group Limited financial statements. The cost of providing retirement pensions and related benefits is charged to management expenses. The disclosures in the financial statements follow the requirements of FRS17.

Impairment

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

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

Notes to the Financial Statements

For the Year Ended 31 March 2015

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 lease maintenance 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.

Loan finance issue costs

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

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

Notes to the Financial Statements

For the Year Ended 31 March 2015

1 Principal Accounting Policies (continued)

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.

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.

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

Notes to the Financial Statements

For the Year Ended 31 March 2015

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

Current Year

	Turnover £000	Operating costs £000	Operating Surplus/ (Deficit) £000
Social Housing Lettings	75,798	(48,218)	27,580
Other Social Housing Activities			
Services to group members	282	(896)	(614)
Home Ownership services	1,088	(1,272)	(184)
Charges for support services	1,335	(2,020)	(685)
Other	4,408	(5,523)	(1,115)
	7,113	(9,711)	(2,598)
Non-social housing activities	620	(758)	(138)
	83,531	(58,687)	24,844

Prior Year

	Turnover £000	Operating costs £000	Operating Surplus/ (Deficit) £000
Social Housing Lettings	70,933	(43,964)	26,969
Other Social Housing Activities			
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)
	3,875	(4,189)	(314)
Non-social housing activities	977	(999)	(22)
	75,785	(49,152)	26,633

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

Notes to the Financial Statements

For the Year Ended 31 March 2015

3 Income and Expenditure from Social Housing Lettings

	General Needs Housing £000	Supported Housing and Housing for Older People £000	2015 £000	2014 £000
Rent receivable net of voids	64,864	6,540	71,404	66,930
Service charge Income	2,027	2,367	4,394	4,003
Turnover from social housing lettings	66,891	8,907	75,798	70,933
Expenditure				
Services	(2,369)	(2,249)	(4,618)	(4,376)
Management	(8,520)	(1,700)	(10,220)	(8,423)
Routine maintenance	(14,513)	(577)	(15,090)	(16,474)
Planned maintenance	(8,774)	(345)	(9,119)	(4,843)
Bad debts	(526)	(35)	(561)	(585)
Depreciation of housing properties	(7,911)	(699)	(8,610)	(8,257)
Impairment of housing properties	-	-	-	(684)
Other costs	-	-	-	(322)
Operating costs on social housing lettings	(42,613)	(5,605)	(48,218)	(43,964)
Operating surplus on social housing lettings	24,278	3,302	27,580	26,969
Void losses	730	242	972	1,151

Depreciation on Housing Properties includes £758k written off due to components being replaced earlier than the expected life of those components (2014: £810k).

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

Notes to the Financial Statements

For the Year Ended 31 March 2015

4 Operating Surplus

	2015	2014
	£000	£000
Operating Surplus is stated after charging/(crediting)		
Housing Properties:		
- Depreciation Charge	7,852	7,446
- Impairment	-	684
Other Fixed Assets:		
- Depreciation - Owned Assets	114	89
- Depreciation - Leased Assets	120	177
Auditors' Remuneration:		
- In their Capacity as Auditors'	31	27
- In Respect of Other Services	-	3
Other Auditor's Remuneration:	-	-
Operating Leases:		
- Plant and machinery	106	106
- Other	59	32

A donation of £5,519k (2014: £5,259k) 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

	2015	2014
	£000	£000
Sale of housing properties		
Proceeds from disposal	10,001	9,913
Cost of sales	(3,490)	(4,252)
Profit on sale of housing properties	6,511	5,661
Sale of fixed assets		
(Deficit) / Surplus on disposal of fixed assets	(333)	206
Profit on sale of fixed assets	6,178	5,867

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 10 sales under this agreement in the year ended 31 March 2015 (2014: 19 sales).

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

Notes to the Financial Statements

For the Year Ended 31 March 2015

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 £9k (2014: £7k). Payments made to the Chair of Heart of England Housing Association Limited in her role as an Orbit Board member are disclosed in the financial statements of Orbit Group Limited. No compensation was paid to Directors for loss of office (2014: £nil).

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

	2015	2014
	£000	£000
Jane Ball	2	4
Lindsay Dennish	-	2
Jacqui Dickinson	2	4
Glyn Kyle	1	-
V M Nicholls	1	-
Michael Robertson-Smith	-	4
Grant Richardson	2	4
S Margrave	2	3
Kathy Strong	1	-
William Yardley	2	-
Alan Squirrell	1	-
Sumar Shubhankar	1	-
Julie Hopes	1	-
Total	16	21

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 Executive Director) and staff are disclosed in Orbit Group Limited financial statements.

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

	2015	2014
	Number	Number
Average Number Employed		
Office Staff	16	19
Scheme Staff	7	7
Operatives	-	1
	23	27
Full-time	16	19
Part-time	7	8
	23	27

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

Notes to the Financial Statements

For the Year Ended 31 March 2015

7 Staff costs (Continued)

The number of employees reduced during 2014/15 in line with Orbit Heart of England's aim that all employees will be employed by Orbit Group Limited

	2015 Number	2014 Number
Full-time equivalents *		
Office Staff	16	19
Scheme Staff	5	5
Operatives	-	1
	21	25

*A full time equivalent would be 35 hours per week

	2015 £'000	2014 £'000
Staff Costs for the Above		
Wages and Salaries	596	678
Social Security Costs	60	64
Other Pension Costs	79	56
	735	798

Senior staff emoluments

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

	2015 Number	2014 Number
Over £70k	-	1

8 Interest Receivable and other income

	2015 £000	2014 £000
Interest receivable from unlisted investments	4	7

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

Notes to the Financial Statements

For the Year Ended 31 March 2015

9 Interest Payable and Similar Charges

	2015	2014
	£000	£000
On Bank Loans, Overdrafts and Other Loans		
Repayable by instalments wholly or partly, in more than 5 years	14,400	12,807
Repayable, other than by instalments, in more than 5 years	1,612	1,550
	16,012	14,357
Other Interest	854	1,059
Capitalised Interest	(303)	(125)
Deferred income credit (See Note 21b)	(114)	(114)
Total	16,449	15,177

10 Pension costs

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 2015 there were 22 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

Local Government Pension Scheme - 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.

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 (2014: £nil). 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 2015

12 Housing Properties at cost

	Housing Properties for Letting		Supported Housing	Low Cost Home Ownership	Non-social Housing	Total £000
	Complete £000	In Development £000	Complete £000	Complete £000	Complete £000	
Cost						
At 1 April 2014	652,694	38,719	33,421	2,468	1,318	728,620
Additions	7,705	62,816	856	-	-	71,377
Transfer on completion	54,122	(54,122)	-	-	-	-
Transfer to other group members	(1,782)	-	-	-	-	(1,782)
Disposals	(5,177)	-	(14)	(117)	-	(5,308)
At 31 March 2015	707,562	47,413	34,263	2,351	1,318	792,907
Less: Grants						
At 1 April 2014	(246,989)	(8,576)	(13,445)	(1,401)	-	(270,411)
Receivable	(942)	(8,868)	(21)	-	-	(9,831)
Transfer on completion	(12,424)	12,424	-	-	-	-
Transfer to other group members	521	-	-	-	-	521
Transfer to RCGF and DPF	1,078	-	54	-	-	1,132
At 31 March 2015	(258,756)	(5,020)	(13,412)	(1,401)	-	(278,589)

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

Notes to the Financial Statements

For the Year Ended 31 March 2015

12 Housing Properties at cost (continued)

	Housing Properties for Letting		Supported Housing	Low Cost Home Ownership	Non-social Housing	Total £000
	Complete £000	In Development £000	Complete £000	Complete £000	Complete £000	
Less: Accumulated Depreciation						
At 1 April 2014	(55,095)	-	(5,241)	(22)	(121)	(60,479)
Eliminated on disposals	1,804	-	11	-	-	1,815
Depreciation	(7,229)	-	(602)	(11)	(10)	(7,852)
At 31 March 2015	(60,520)	-	(5,832)	(33)	(131)	(66,516)
Less: Provisions for impairment						
At 1 April 2014	(219)	(465)	-	-	-	(684)
Reclassification	(246)	246	-	-	-	-
Charge for the year	-	-	-	-	-	-
At 31 March 2015	(465)	(219)	-	-	-	(684)
Net Book Amount						
At 31 March 2015	387,821	42,174	15,019	917	1,187	447,118
At 31 March 2014	350,391	29,678	14,735	1,045	1,197	397,046

During the year total expenditure on works to existing properties was £27.9m (2014: £21.3m) of this £7.7m (2014: £6.5m) has been capitalised.

Additions to properties during the year include capitalised interest and finance costs of £303k (2014: £125k) and development administration costs/project management fees of £2,058k (2014: £1,129k).

The Association reviewed its properties for impairment and there was a charge of £nil to the Income and Expenditure Account for 2015 (2014: £684k) 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 2015

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:

	2015 £000	2014 £000
Within Housing Properties and Stocks	9,831	11,797
The Net Book Value of Housing and Other Properties (Note 13) comprises:		
Freehold Land and Buildings	446,774	396,693
Long Leasehold Land and Buildings	1,982	2,103
Short Leasehold Land and Buildings	2	343
	448,758	399,139

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 Offices £000	Leasehold Offices £000	Commercial Premises £000	Furniture, Fixtures & Equipment £000	Total £000
Cost					
At 1 April 2014	17	3,342	402	2,339	6,100
Additions	-	-	-	43	43
Disposals	-	(560)	-	(135)	(695)
Reclassification	-	9	-	(9)	-
At 31 March 2015	17	2,791	402	2,238	5,448
Less: Accumulated Depreciation					
At 1 April 2014	(17)	(1,545)	(105)	(1,968)	(3,635)
Charge for Year	-	(120)	(16)	(98)	(234)
Eliminated on Disposal	-	234	-	67	301
Transfers to group members	-	(1)	-	1	-
At 31 March 2015	(17)	(1,432)	(121)	(1,998)	(3,568)
NET BOOK AMOUNT					
At 31 March 2015	-	1,359	281	240	1,880
At 31 March 2014	-	1,797	297	371	2,465

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

Notes to the Financial Statements

For the Year Ended 31 March 2015

14 Fixed Asset Investments

	2015	2014
	£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 (2014: £800k).

15 Stocks

	2015	2014
	£000	£000
Consumable Stocks	1	-

16 Debtors

	2015	2014
	£000	£000
Rental Debtors	3,640	2,760
Less: provision for doubtful debts	(991)	(1,140)
	2,649	1,620
Prepayments and Accrued Income	1,390	314
Amounts due from other Group members	2,068	-
SHG Receivable	1,362	1,105
Other Debtors	1,484	1,591
Provision for bad debts	(195)	(207)
	8,758	4,423
Debtors after one year included in Debtors above	244	181

17 Current asset investments

	2015	2014
	£000	£000
Maturing in excess of 7 days	418	-

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

Notes to the Financial Statements

For the Year Ended 31 March 2015

18 Creditors: Amounts Falling Due Within One Year

	2015 £000	2014 £000
Housing Loans (net of loan arrangement fees) (Note 21)	8,854	10,242
Amounts due to Group members	23,804	18,765
Other Creditors	1,073	983
Grants Received in Advance	38	1,980
Accruals & Deferred income	8,045	4,193
Rents Received in Advance	2,083	1,276
Disposals proceeds and recycled capital grant fund (Note 19)	842	547
Total	44,739	37,986

Housing loans shown above are net of £Nil loan arrangement fees carried forward (2014: £Nil).

19 Disposal Proceeds and Recycled Capital Grant Funds

	RCGF £000	DPF £000	Total £000
At 1 April 2014	2,330	198	2,528
Transferred to other group members	(547)	-	(547)
Grants recycled	886	426	1,312
Interest accrued	14	2	16
At 31 March 2015	2,683	626	3,309

Amount due for repayment to the Homes & Communities Agency

	RCGF £000	DPF £000	Total £000
Within one year	842	-	842
After more than one year	1,841	626	2,467
At 31 March 2015	2,683	626	3,309

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Notes to the Financial Statements

For the Year Ended 31 March 2015

20 Creditors: Amounts Falling Due After More Than One Year

	2015	2014
	£000	£000
Housing Loans (Note 21)	16,000	16,000
Loans inter-company (Note 21)	332,981	297,022
Deferred Income Credit (Note 21b part)	336	450
Leaseholder maintenance provision	1,024	898
Disposal proceeds and recycled capital grant funds (Note 19)	2,467	1,981
Other Creditors	544	559
Total	353,352	316,910

21 Housing loans and finance lease obligations

Note (a)

	2015	2014
	£000	£000
Due within one year		
Orbit Treasury Limited	8,854	10,242
	8,854	10,242
Due after more than one year		
Orbit Treasury Limited	256,778	297,022
Orbit Capital plc	76,203	-
Debenture stock	16,000	16,000
	348,981	313,022
	357,835	323,264

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

Orbit Capital plc (OC) is a public limited company incorporated on 22nd January. OC is a wholly owned subsidiary of Orbit Group and was established for the purpose of issuing publicly listed bonds. OC issued its first bond on 24th March 2015, initially raising £200m with retained bonds of £50m which are expected to be issued in 2016. The three operating associations entered into guarantees requiring sufficient property assets to be held as security for the bond and guaranteeing future interest payments due on the bond. The proceeds of the bond were loaned by OC to the three associations and were used by the associations to repay in part loans previously received from Orbit Treasury Limited. Interest on the loan from OC is due half yearly. The loan is repayable on 24th March 2045.

On joining Orbit in April 2008, existing Heart of England Group loans were transferred into OTL and Orbit Heart of England entered into the cross-collateralised structure. The loan from OTL is secured by fixed charges on individual properties. The interest rates ranged between 4.10% and 5.15% for the year ended 31 March 2015.

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%

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Notes to the Financial Statements

For the Year Ended 31 March 2015

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:

	2015 £000	2014 £000
In one year or less, on demand	8,854	10,242
Repayable by instalments:		
- more than one year but not more than two years	8,854	10,242
- In more than two years but not more than five years	26,564	30,726
- In more than 5 years	297,563	256,054
	332,981	297,022
Repayable other than by instalments:		
- In more than two years but not more than five years	16,000	16,000
- In more than 5 years	-	-
	357,835	323,264

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 £336k in 2015 (2014: £450k.)

The interest rate profile at 31 March 2015 was:

	Total £m	Variable Rate £m	Fixed Rate £m	Weighted Average Rate %	Weighted Average Term of Fixing in Years
Instalment loans	341.8	105.7	236.1	4.3	25
Non-instalment loans	16.0	-	16.0	10.1	3
	357.8	105.7	252.1	4.6	24

22 Provisions for liabilities and charges

	2015 £000	2014 £000
Restructuring	143	200
Stratford Sound Insulation	1,783	-
	1,926	200
<u>Analysed as</u>		
Within one year	550	-
Greater than one year	1,376	200
	1,926	200

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

Notes to the Financial Statements

For the Year Ended 31 March 2015

23 Called up share capital

	No.	2015 £	No.	2014 £
Issued and Fully Paid Shares of £1 each				
At 1 April 2014	8	8	5	5
Issued	3	-	6	6
Surrendered	(2)	(4)	(3)	(3)
At 31 March 2015	9	4	8	8

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

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

24 Designated reserves

	At beginning of the year £000	Transfer to I&E account £000	Release of Provision during the year £000	At end of year £000
Renewal of furniture and equipment	2,534	325	-	2,859
Community Investment Fund	956	457	-	1,413
Total	3,490	782	-	4,272

25 Revenue Reserve

	2015 £000	2014 £000
Opening Balance	47,388	35,876
Surplus for the year	9,058	12,071
Transfer to designated reserves	(782)	(559)
Closing Balance	55,664	47,388

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

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

Notes to the Financial Statements

For the Year Ended 31 March 2015

26 Capital commitments

	2015	2014
	£000	£000
Capital Expenditure which has been contracted for but has not been provided for in the financial statements	77,093	50,804
Capital Expenditure which has been authorised under authority from the Orbit Board but has yet to be contracted for	117,408	42,501
	194,501	93,305

The Association expects these commitments to be financed with:

	2015	2014
	£000	£000
Social Housing Grant	14,582	11,548
Committed loan facilities (Orbit Treasury Limited)	179,919	81,757
	194,501	93,305

27 Contingent Liabilities

There were no contingent liabilities at 31 March 2015 (2014: £nil).

28 Reconciliation of operating surplus to net cash inflow from operating activities

	2015	2014
	£000	£000
Operating Surplus	24,844	26,633
Depreciation charge on Other Fixed Assets	234	266
Depreciation charge on Housing Properties	8,610	8,257
Provision for impairment on Housing Properties	-	684
(Decrease)/Increase in Bad Debt Provision	(161)	237
Increase in Provisions	1,726	-
(Increase)/Decrease in Stocks	(1)	139
Increase in Debtors	(2,123)	(406)
Settlement of pension liability	-	(699)
Increase in Creditors	7,262	10,577
Release of designated reserves	-	(17)
Other fixed assets written off	62	291
Net Cash Inflow from Operating Activities	40,453	45,962

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

Notes to the Financial Statements

For the Year Ended 31 March 2015

29 Reconciliation of net cash flow to movement in net debt

	2015 £000	2014 £000
(Decrease)/Increase in Cash in the year	(262)	337
Increase/(Decrease) in Bank Deposits (with a maturity in excess of 24 hours)	418	(104)
Loans received	(159,904)	(61,779)
Loans repaid	125,333	41,529
Loan pool premium reserve FFH	114	114
Change in Net Debt	(34,301)	(19,903)
Net Debt at 1 April	(322,474)	(302,571)
Net Debt at 31 March	(356,775)	(322,474)

30 Analysis of changes in net debt

	At beginning of the year £000	Cash Flows £000	Other Changes £000	At end of year £000
Cash at Bank and in Hand	1,240	(262)	-	978
Bank deposits – more than 24 hours	-	418	-	418
Housing Loans due within one year	(10,242)	-	1,388	(8,854)
Housing Loans due after one year	(313,022)	(34,571)	(1,388)	(348,981)
Loan pool premium reserve FFH	(450)	-	114	(336)
	(322,474)	(34,415)	114	(356,775)

31 Financial Commitments

Operating Leases

At 31 March 2015 the Association was committed to making the following payments during the next year in respect of operating leases other than land and buildings:

	2015 £000	2014 £000
Leases which Expire		
Within 1 year	15	9
Within 2 - 5 years	150	144
Total	165	153

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

Notes to the Financial Statements

For the Year Ended 31 March 2015

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, a Co-operative and Community Benefit Society incorporated in the United Kingdom.

Orbit Group Limited is the parent undertaking of the only group of undertakings to consolidate these financial statements at 31 March 2015.

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 and are also available from Garden Court, Harry Weston Road, Binley Business Park, Binley, Coventry, CV3 2SU.

33 Property portfolio

	2015	2014
	No.	No.
General needs	12,209	12,386
Affordable Rent	604	211
Intermediate Rent	61	74
Low cost home ownership	18	12
Supported Housing	1,865	1,748
Total Owned by Orbit Heart of England	14,757	14,431
Leasehold	759	751
Private Retirement Schemes	458	458
Owned	5	5
Managed on behalf of others	2	2
Leasehold and Other Managed	1,224	1,216
Total Social Housing Units	15,981	15,647
Market Rent	10	10
Commercial Units	15	15
Total Non-Social Housing Units	25	25
Total Units	16,006	15,672
	2015	2014
	No.	No.
<u>Stock in Development at 31 March</u>		
General Needs	733	580
	733	580

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

Notes to the Financial Statements

For the Year Ended 31 March 2015

34 Related Party Transactions

The Orbit Heart of England and Orbit South Boards also include a member who is an elected representative of Nuneaton and Bedworth Borough Council.

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 three fellow group subsidiaries not regulated by the HCA, Orbit Homes (2020) Ltd, Orbit Treasury Ltd and Orbit Capital Plc.

Orbit Homes (2020) Ltd provides design and build services to the group. During the year the association made payments totalling £40.2m to Orbit Homes (2020) Ltd (2014: £22.4m) for the purchase of Housing Property assets and has an outstanding creditor balance with Orbit Homes (2020) Ltd of £7.3m (2014: £nil).

Orbit Treasury Ltd provides a funding on-lending service to the group. During the year the Association paid interest costs totalling £14.4m (2014: £12.8m) and fees of £0.8m (2014: £1m). The allocation of these costs is based upon the level of debt required and secured by the Housing Property held in the Association.

Orbit Capital plc (OC) is a public limited company established for the purpose of issuing publicly listed bonds and provides a funding on-lending service to the group. During the year the Association accrued interest costs totalling £0.1m (2014: £nil). The allocation of these costs is based upon the level of debt required and secured by the Housing Property held in the Association