

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

**FINANCIAL STATEMENTS**

**For The Year Ended 31 March 2016**

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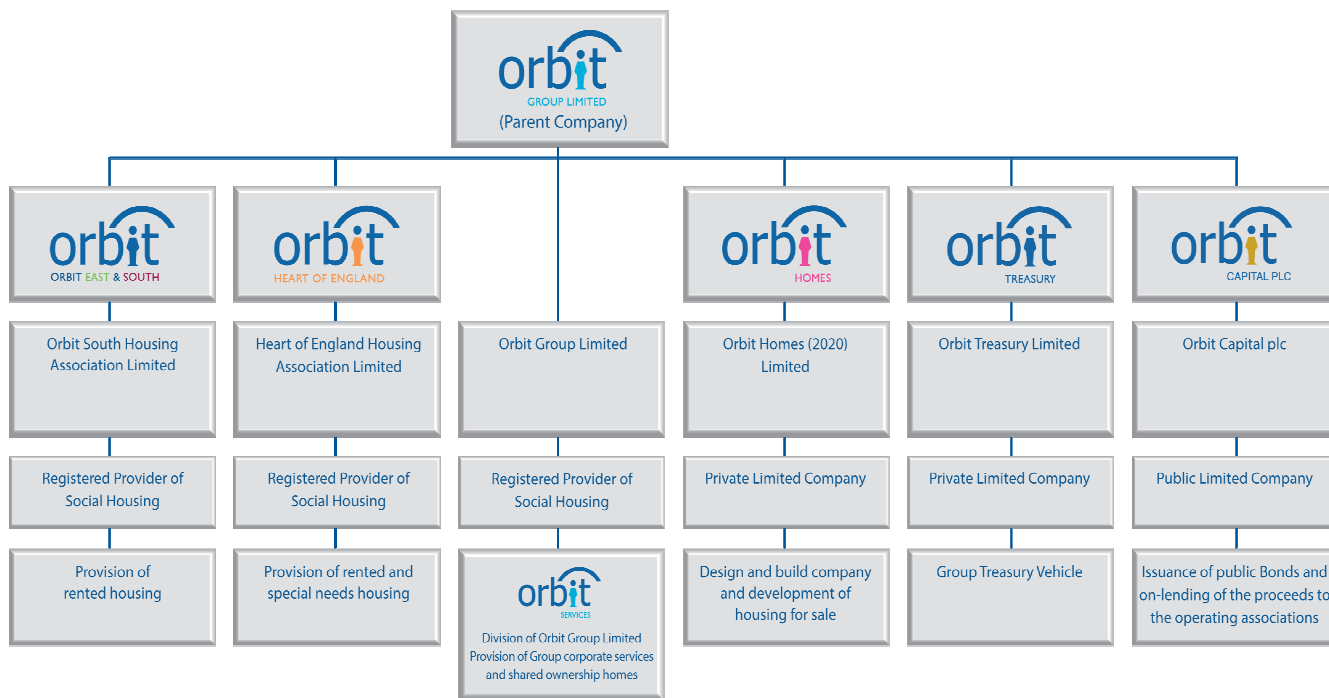
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# Heart of England Housing Association Limited (Trading as Orbit Heart of England)

## Strategic Report

### Group Structure & Overview

The Orbit Group manages 39,000 homes and serves around 100,000 customers across the Midlands, East and South East. We have been growing and thriving for almost 50 years. Orbit Living is our housing management business comprising Orbit Heart of England (Heart of England Housing Association Ltd) and Orbit East and South (Orbit South Housing Association Ltd). Orbit Homes is our development and sales organisation, building around 1,500 new homes a year, including market sale. Orbit Treasury is our main funding vehicle, delivering more than 95% of our loan funding. Orbit Group Limited is the parent organisation of the Orbit Group - it includes Orbit Services which provides a range of professional and support services to both internal and external customers. Orbit Capital plc was set up during 2014-15 as a funding vehicle for the issue of our first bond.



### What we do:

Orbit offers a wide range of services and housing options to our customers, as well as professional and support services to numerous other housing organisations. Our core services include:

- General needs rented housing;
- Older persons housing including sheltered and very-sheltered schemes, private retirement schemes and extra-care;
- Low cost home ownership;
- Homes for market sale;
- Help to Buy;
- Supported housing (including mother and baby, ex-offender, homeless, victims of domestic violence and mental health); and
- Care and Repair/Home Improvement Agencies.

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

## Strategic Report

### Objectives and Strategy

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

#### Vision

<b>Purpose</b> (why we exist)	<b>Building Communities</b> By working together to improve the social, economic and environmental prospects of people and communities		
<b>Passion</b> (What we do)	<b>Housing Choice</b> Providing a wide range of homes to meet needs and aspirations	<b>Community Investment</b> Creating thriving and empowered communities	<b>Customer Offer</b> Enabling customers to make choices and take control
<b>Resources</b> (How we do it)	<b>People</b> Investing in our people, creating a dynamic culture of trust, enterprise and achievement	<b>Value</b> Maximising efficiency and resources through a commercial approach	<b>Futures</b> Harnessing insight, innovation and technology to create solutions
<b>Principles</b>	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.

### 2015-16 Group Highlights

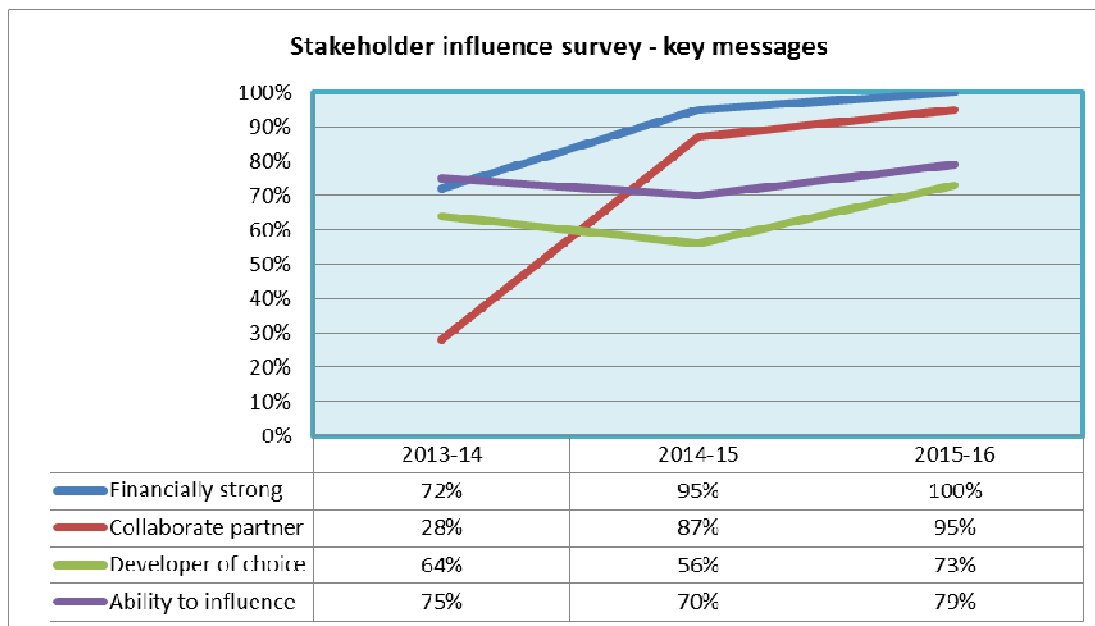
Despite a challenging operating environment and the significant demands of responding to the downgrade, we have delivered strong performance during the year and delivered or partially delivered 13 of our 16 key Business Plan outcomes for the year. We also continued to make good progress towards our 2020 targets and cemented our market position as one of the top three developing housing associations in the country. Highlights for the year include:

- Delivered £38.3m profit and 30.9% operating margin
- Delivered 1,750 new homes against a target of 1,486
- Achieved a sales profit of £12.2m against a target of £10.9m (market and shared ownership sales)
- Achieved a net arrears target of 2.82% against target of 2.92%, despite Welfare Reform
- Achieved efficiency savings of £5.1m against a target of £4.9m
- Achieved re-let times of 18.7 days against a target of 21.2 days
- Helped 315 people into jobs and provided training for a further 1,307
- Implemented a sector first Real Time feedback with 30,000 responses from customers
- Launching innovative and sector leading tools including Orbit Move, MyM@ps and My Intel
- Implemented a new integrated Performance Management Framework
- Continued to improve our external reputation and impact

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## Strategic Report

Our stakeholder influence survey tells us how effectively we are communicating our key messages.



### Housing Choice

We started on site with our first private rented development at St Anne's Wharf in Norwich and made good progress on contracts and planning at our second PRS site in Stratford-upon-Avon as we continued to work towards our 2020 target of providing a range of housing options.

Orbit also delivered a highly-successful campaign promoting Shared Ownership which resulted in a Government consultation and significant increase in funding announced in the 2015 Comprehensive Spending Review. <http://www.orbit.org.uk/shared-ownership-report/> . As a result Orbit also hosted a visit to a Shared Ownership development with the Prime Minister David Cameron in late 2015.

### Customer Offer

Performance on gas compliance was strong with only seven of our homes without a gas certificate at year end, which were completed in early April. During the year we completely overhauled our compliance structure, systems, processes and reporting to ensure a robust platform going forward.

Although we did not deliver our ambitious repairs service satisfaction target of 85%, our year end performance of 79.9% was within the context of declining satisfaction generally and contractor challenges, and will remain a key focus for the business during 2016-17.

Delivery of a new website and innovations such as 'Live Chat' - a housing first - saw the number of online transactions rise to just over 10% against a target of 20%. Although this was disappointing, we are now piloting a new online repairs service which has the potential to transform the number of online transactions in the year ahead.

### Community Investment

Our performance in this area was very strong with the majority of targets surpassed due to a more strategic and ambitious approach. In total, Orbit invested £2.2m against the priorities identified in the new community profiles developed for the first time this year.

As well as helping more than 300 people into employment, the team provided training and support to 1,307 people, digital assistance to 861 and financial and energy advice to 4,170 people in what was a record year.

The team also secured £1.3m of external funding and support and Orbit successfully negotiated an Energy Company Obligation funding deal worth almost £800,000 to upgrade the thermal efficiency of customers' homes.

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

## Strategic Report

### Priorities and targets – 2016-17

We have engineered our plans to focus on the following objectives for the year ahead:

- Improving maintenance and core landlord operations
- Strengthening our infrastructure and management
- Continuing to deliver growth

Efficiency and effectively engaging our people to create the right culture will be key to delivering this agenda as we continue to grow the business by around 5% per year.

Our targets for 2016-17 as we move towards achieving our overall 2020 targets are:

<b>Service</b>	<b>2020 Target</b>
<ul style="list-style-type: none"><li>• Upper Quartile Net Promoter Score for market sale homes</li><li>• 87.5% customers satisfied with new rented home</li><li>• 81.7% customers satisfied with services</li><li>• 30% customer transactions online</li><li>• 1,400 people given employment/other training</li><li>• 6,750 people given financial and energy advice</li><li>• 180 employment outcomes</li></ul>	<ul style="list-style-type: none"><li>• 90% customer satisfaction</li><li>• 75% customer transactions online</li><li>• 10,000 training and job opportunities</li><li>• 20,000 finance and energy advice sessions</li></ul>
<b>Property</b>	<b>2020 Target</b>
<ul style="list-style-type: none"><li>• c1,000 general needs homes for rent</li><li>• c500 Shared Ownership sales</li><li>• c230 Market Sale homes sales</li><li>• £12.3m profit from sales</li><li>• Deliver Private Rented offer</li><li>• Proposals on off-site manufacturing/new product</li><li>• £400k external &amp; £452k ECO funding secured</li><li>• Upgrade 250 homes to Energy Band C</li></ul>	<ul style="list-style-type: none"><li>• Deliver 12,000 homes</li><li>• Provide a range of housing options</li><li>• Provide a flexible housing journey</li><li>• £30m of community investment</li><li>• Upgrade homes to Band C</li></ul>
<b>Profits</b>	<b>People</b>
<ul style="list-style-type: none"><li>• £44.4m profit</li><li>• £3.1m efficiencies</li><li>• 24% operating margin</li></ul>	<ul style="list-style-type: none"><li>• 76% staff engagement index score</li><li>• Develop two-year transformation plan</li></ul>

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 76% 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.

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

### Strategic Report

#### Equality and Diversity

We recognise that we cannot Build Communities without considering equality and diversity, and this is an integral part of our culture and values. Our commitment is for E&D to support our vision for Orbit 2020. We see an equal society being defined as one which recognises people's different needs, situations and goals and removes the barriers that limit what people can do. Diversity is about valuing difference.

#### Performance for the year – 2015-16

Our performance against the key performance indicators (KPIs) agreed by the Group Board over the last three years is shown below:

	Target 2015-16	Actual 2015-16	Actual 2014-15	Actual 2013-14
<b>New Homes</b>				
1. Number of new homes completed	1,486	1,750	1,521	865
2. Outright sales profit	£10.97m	£12.20m	£6.20m	£3.88m
3. Satisfaction with new homes (sales – Net Promoter Score)	72	57	75	NA
4. Satisfaction with new homes (rented)	85.0%	86.0%	89.5%	71.4%
<b>Quality Service</b>				
5. Customer satisfaction with repairs	85.0%	79.9%	80.3%	78.5%
6. Right first Time	56.5%	55.0%	56.0%	57.7%
<b>Increased Profits</b>				
7. Efficiency savings	£4.9m	£5.1m	N/A	N/A
8. Surplus for the year	£44.0m	£38.3m	£45.0m	£67.0m
9. Net arrears	2.82%	2.98%	3.00%	2.70%
10. Re-let times (days)	18.7	21.2	22.4	23.0
11. Voids sales	£11.8m	£9.9m	£11.1m	£10.8m
<b>People &amp; Organisation</b>				
12. Staff turnover – voluntary	15.2%	13.0%	13.0%	16.0%

In addition to these measures, our annual customer survey (STAR) rated customer satisfaction at 81%, an increase on the previous year.

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

	Target 2015-16	Actual 2015-16	Actual 2014-15	Actual 2013-14
1. Customer satisfaction with repairs	85.0%	75.5%	82.3%	79.2%
2. Gas safety	100%	99.97%	99.98%	100%
3. Customer satisfaction with CSC	82.0%	85.1%	92.6%	91.2%
4. Average relet time (days)	23.5	21.3	19.5	19
5. Net arrears	2.8%	2.7%	3.2%	2.9%

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In total there are 23 KPIs which are monitored. In 2015-16 we have achieved 11 of the 23. For those 12 which were not achieved, these have been reviewed to ensure plans are in place to improve performance in 2016-17. Of the indicators illustrated above:

- Customer satisfaction with repairs has declined from the previous year and was below the targeted level. This area is a key focus for 2016-17 to ensure performance improves.
- Compliance with gas servicing was marginally below the 100% target, relating to three properties all of which were completed in April 2016.
- The method of collecting satisfaction with the Customer Service Centre has changed during 2015-16. It is now collected using our multi-channel Real Time Feedback approach. This change in approach has allowed us to gather a more accurate picture of the customer journey and the performance reflects this.
- Relet performance has been consistently good throughout the year and was ahead of the targeted level at the year end.
- Arrears performance achieved the target at the year end. It is anticipated that arrears performance will be challenging during 2016-2017 due to the impact of the revised, lower benefit cap in the autumn and acceleration of Universal Credit roll out.

In addition to these measures, our annual customer survey (STAR) rated customer satisfaction at 79.5% in 2015 an improvement from 72.9% in 2014.

### Performance for the year - financial

#### Financial summary

Statement of Comprehensive Income	2015-16 £m (FRS 102)	2014-15 £m (FRS 102)	2013-14 £m	2012-13 £m
Turnover	88	86	76	74
Operating surplus	32	32	27	23
<b>Operating margin</b>	<b>37%</b>	<b>37%</b>	<b>35%</b>	<b>32%</b>
Profit on sale of housing properties	7	6	6	14
<b>Surplus as % turnover</b>	<b>7%</b>	<b>11%</b>	<b>16%</b>	<b>24%</b>
<b>Surplus excluding interest as % of turnover</b>	<b>30%</b>	<b>30%</b>	<b>36%</b>	<b>44%</b>

Statement of Financial Position	2015-16 £m (FRS 102)	2014-15 £m (FRS 102)	2013-14 £m	2012-13 £m
Tangible fixed assets	775	688	400	363
Net current liabilities	(34)	(37)	(32)	(16)
<b>Total assets less current liabilities</b>	<b>741</b>	<b>651</b>	<b>368</b>	<b>347</b>
Non-current liabilities	670	586	317	308
Designated reserves	-	-	3	3
Revenue reserves	71	65	47	36
	<b>741</b>	<b>651</b>	<b>368</b>	<b>347</b>

This year is the first year of adoption of FRS 102 and SORP 2014. This has resulted in restatement of the comparative figures for 2014-15 as well as the required changes in accounting treatment for the current year.



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2015-16 saw a continuing strong financial position, delivering an overall surplus for the year of £6 million (2015: £9 million). Operating surplus was £32 million (2015: £32 million). Turnover was £88 million, increasing £2 million from 2015. 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 Statement of Financial Position has also increased in strength with fixed assets increasing to £775 million (2015: £688 million) and reserves to £71 million (2015: £65 million), with a total of 16,539 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 2016-17 will continue to provide a range of challenges and opportunities to Orbit. Further welfare reform changes will impact on our customers, who have already seen their household budgets squeezed over the last five years. Our community investment programme will therefore continue to focus on supporting our customers by providing financial advice, improving access to training and jobs, and tackling fuel poverty.

Prior to the EU referendum vote the housing market had recovered strongly along with continued growth in demand in the private rented sector. Commentators have suggested the vote could have a negative impact on the housing market. Orbit will closely monitor such factors as the numbers of enquiries for shared ownership, visitor numbers to our show homes and cancellation rates. If we detect significant movement in these, we will take quick action to mitigate the risk. External factors such as the general health of the economy and availability of mortgage finance are also of great importance but underlying factors such as demographic changes point to increasing numbers of household formation in the UK. Many face continuing difficulties in accessing home-ownership or indeed in meeting rental costs - and we will continue to address this by delivering affordable products at scale provided market conditions make it viable to do so. At this early stage, Orbit has seen no immediate financial, liquidity or other concerns as a result of the vote.

The referendum outcome and subsequent political and economic uncertainty are clearly another area of risk, however there has been no immediate financial, liquidity or other concerns for Orbit as a result. We will continue to monitor the situation and implications for us and take appropriate action if and when necessary.

**Development** - Measures contained in the Housing and Planning Act 2016 to introduce Starter Homes could have a significant impact on our development strategy and we are closely monitoring the detail as it emerges. The possibility of capping rent for supported housing at Local Housing Allowance from April 2017 undermines the viability of future schemes and we are working with the National Housing Federation to engage Government on this important agenda. Finally, modelling the impact of the Voluntary Right to Buy (VRTB) on our financial plan confirms the policy would have a positive impact on our plan, enabling us to replace properties almost one for one if we were reimbursed the full discount. Further work on the impact will take place once details emerge.

**Affordability** - We are conducting research into the affordability of our homes across the range of housing markets where we operate and will continue to monitor and review this during 2016-17. Our development contract with the HCA means we are seeing increasing numbers of affordable (up to 80% market rent) homes within our portfolio. We are also converting some of our older homes to affordable rent. We now have over 3,000 affordable tenancies in the group, making up around 10% of our rented stock. While this is an increasing trend, it should also 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 a reduced percentage of market rents, to ensure the properties remain affordable for our core customer base.

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**Welfare Reform** – We have continued with our preparations and response to the ongoing welfare reform changes, adapting our business strategies to face the challenges. Our response to the first tranche of welfare reform changes under the previous Coalition Government was widely recognised as sector leading, resulting in award nominations and our communication materials being adopted by other organisations. Our efforts in 2016-17 will be focused on:

- Prevention of arrears and early interventions by vetting all potential customers to ensure they can afford and sustain their tenancy and providing support as appropriate.
- A relentless information campaign enabling customers to make informed choices and maximise their income and/or downsize to ensure they can afford their home.
- Undertaking a cost-benefit analysis to inform our policy position on the 'Pay to Stay' policy, which will be voluntary for housing associations to implement.
- Retaining our trusted partner status with the Department for Work and Pensions and engaging in Universal Credit trials.
- Continuing to monitor the external environment for future changes and then implementing plans to mitigate the risks to the business.

**Regulation** - In October 2015, the Office for National Statistics (ONS) reclassified HAs as 'public non-financial corporations' for the purpose of national accounts and other ONS economic statistics. The ONS estimated this will lead to an added £60 billion in public sector net debt. The ONS review was prompted following legislative and regulatory changes brought about through the Housing and Regeneration Act 2008, as well as the planned extension of the Right to Buy to Housing Associations (HAs) and reduction in social rents.

HAs were already judged to be 'public bodies' under human rights legislation in 2009 since they receive public fund and exercise public duties, such as agreeing to accept nominations from council waiting lists. Whilst this covered areas of HAs' work, it did not change their corporate status.

In addition to the VRTB and making 'Pay to Stay' optional for HAs, the Housing and Planning Act 2016 changed the way local authorities are involved with LSVT associations deregulatory measures, which is a direct result of the ONS reclassification decision.

Other deregulatory measures contained in the Act include:

- A special administrative regime for HAs that become insolvent.
- Removal of the Government's powers of consent over the disposal of HA property - both vacant and tenanted.
- The removal of artificial restrictions on the valuation of HA homes which have been transferred from a local authority.
- Removal of government control over the voluntary winding up, dissolution and restructuring of HAs; and
- Changes and limitations to the regulator's powers to appoint officers and managers.

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

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As part of Orbit's risk management strategy, a set of early warning indicators (EWI) and risk triggers are monitored by senior management and the Board alongside the Group's key performance targets. There are four risk pillars within which the EWI's and risk triggers are identified and monitored:

- Financial strength
- Statutory and regulatory compliance
- Safe working environment
- Customer service standards

This approach enables the Group to foresee key risks materialising and put in interventions before they adversely impact upon the sustainability of the business and/or the delivery of key business targets.

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

Risk	Description and mitigation
Inability to keep employees, customers and key stakeholders safe as a result of negligence / poor working practices by Orbit.	The health and safety management system across Orbit has been strengthened with greater transparency on the management of health & safety risk areas. Orbit continues to deliver its programme of statutory inspections, with close monitoring of performance by both management within Orbit Living and the Executive Team.
Adverse house sales income variations due to changing market conditions.	The early warning indicator in relation to decreasing sales prices is closely monitored and is currently showing a favourable position, reflecting the external market conditions.
Ineffective management of repairs service leading to poor customer satisfaction and poor Value for Money.	<p>A robust contract management framework has been developed and is being implemented to manage the two key repairs contractors. Orbit Living SMT and the Executive Team receive monthly performance reports on the repairs service.</p> <p>The quarterly early warning indicators identify work in progress levels and flag up any downward trends to the Executive and Board.</p>
Further downgrade from G2 to G3 due to other significant issues of non compliance identified.	Orbit has delivered the HCA action plan, the recommendations from which are being delivered by the business with oversight from the Executive Team and the Board. Over half of the recommendations have been addressed with the remainder on track to be delivered to agreed deadlines.

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

- Inability to effectively adapt to the key impacts of welfare reform, including:
  - Reduction in revenue (increase in arrears/bad debts)
  - Additional pull on Orbit services (increase in cost) as Local Authorities budgets are reduced
- Key financial plan assumptions are incorrect
- Lack of skills within Orbit to deliver diversification in an effective manner
- Unable to deliver government development contracts in line with contractual obligations
- Not being able to embed culture change in a sufficient manner so as to deliver 2020 aspirations

The Board and Audit and Risk Assurance Committee review these nine risks twice a year.

For 2016-17 the Executive Team and Board are undertaking a risk assessment based on the revised Business Plan.

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

### Strategic Report

#### Board Members, Executive Officers and Auditors

Name	Role	Appointed Orbit Heart of England	Appointed Orbit South	Retired
Fran Beckett	Chair	1 <sup>st</sup> April 2013	1 <sup>st</sup> April 2011	
Jane Ball	I	16 <sup>th</sup> April 2013	19 <sup>th</sup> November 2009	4 <sup>th</sup> August 2015
Kerry Bolister	I	1 <sup>st</sup> March 2015	1 <sup>st</sup> March 2015	
Jacqui Dickinson	R	14 <sup>th</sup> October 2009	-	31 <sup>st</sup> October 2015
Julie Hopes	I	16 <sup>th</sup> April 2013	18 <sup>th</sup> April 2012	
Glyn Kyle	I	30 <sup>th</sup> March 2016	11 <sup>th</sup> February 2009	
Sam Margrave	R	9 <sup>th</sup> July 2013	-	
Grant Richardson	I	1 <sup>st</sup> February 2013	-	
Andrew Stanford	I	9 <sup>th</sup> July 2014	9 <sup>th</sup> July 2014	31 <sup>st</sup> March 2015
Kathy Strong	R	-	9 <sup>th</sup> July 2013	18 <sup>th</sup> April 2016
Shubhankar Sumar	R	-	15 <sup>th</sup> July 2014	
Bill Yardley	I	15 <sup>th</sup> July 2014	15 <sup>th</sup> July 2014	
Symon Sentain	I	-	9 <sup>th</sup> September 2015	

Key

I = Independent Member

R = Resident Member

#### Executive Directors - Orbit Living Senior Management Team

Executive Director	Role
Vivien Knibbs	Executive Director – Orbit Living (left December 2015)
Paul Richards	Executive Director – Customer Services (interim from January 2016)
Elaine Johnston	Director of Operations, Orbit Heart of England
Keith Edwards	Director of Operations, Orbit East & South (left February 2016)
David Collick	Director of Property Services (left October 2015)
Nick Dudman	Director of Property Services (interim from November 2015)
Vicky Harwood	Director of Orbit Independent Living
Louise Oakley	Director of Service Excellence

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

## Strategic Report

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

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

## VALUE FOR MONEY

### Board Statement

As the Group Board, we have ultimate accountability for driving, embedding and delivering Value For Money (VFM) across Orbit.

### Our Ambition

Orbit's Customer First framework makes the commitment to "fully satisfy agreed customer requirements, at the lowest internal cost". Therefore VFM to Orbit means maximising our resources to provide the level of service agreed with our existing customers while creating a 'Profit for a Purpose' to fund our 2020 strategic objectives - delivering new properties, improving the fuel efficiency of our homes, enhancing services to customers and investing in our communities.

VFM is part of the Orbit culture embedded throughout what we do at Orbit. The Group has delivered on its efficiency targets to date and will continue to set and deliver challenging targets.

### 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 customers are integral to VFM at Orbit. A VFM training package has been implemented and successfully rolled out to our involved customers. Customers have also been involved in significant procurement exercises.

The Executive Team monitor business performance every month and this is reported to board regularly. All Board reports include a specific section relating to VFM helping to ensure it is a key consideration in every aspect of the business.

As a Board, we are responsible for Orbit's assets and resources and setting our VFM strategy. The Group Board oversees VFM with delegated authorities to:

- Orbit Homes (build, development and sales)
- Orbit Living; a trading name for the activities of Heart of England HA Ltd
- 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)

We strongly believe we comply with the HCA VFM Standard. This statement should show that VFM is not an add-on to what Orbit do but is embedded within everything we do.

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

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Our VFM Governance Framework can be found on our website [www.orbit.org.uk](http://www.orbit.org.uk) in the ABOUT section together with a full copy of our VFM Self Assessment and other VFM information.

### Introduction

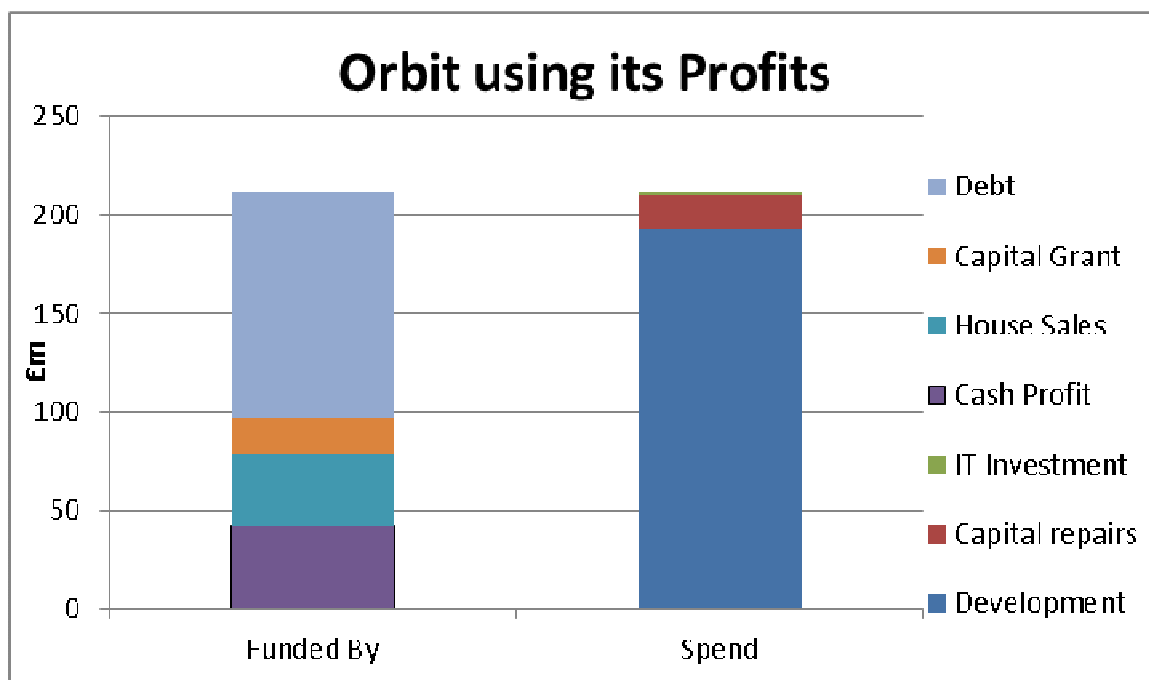
Delivering VFM is an integral part of Orbit's corporate ethos and values; our ambition is to run an efficient and effective organisation whilst providing VFM services to our customers. Our Customer First framework commits Orbit to, "fully satisfy agreed customer requirements, at the lowest internal cost". 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 Group achieved a surplus of £38.3m for the 2015-16 financial year. Within this Orbit has achieved a £5.1m efficiency saving in 2015-16, and has identified a further £3.1m in the 2016-17 budget. In 2014 Orbit set a 3 year, £10.9m efficiency target which the Group is on course to meet. Due to the success and progress of the efficiency programme, the target has been increased by £1.9m to £12.7m and plans are in place to identify these efficiencies.

The £5.1m achieved in 2015-16 came from many sources and areas of the business including bad debt management (c£900k), increased margins on Service Matters work by reducing costs (c£700k), cost reductions through office and central budgets (c£1.6m), and reduced insurance premiums (c£600k). All of this was achieved while also managing to increase our STAR survey customer satisfaction score to 81% demonstrating that more has been achieved for less.

For Orbit the 'Profit for a Purpose' strap line is extremely important if we are able to deliver on our ambitions. The graph below demonstrates how Orbit uses its profits and what other funding went into the overall expenditure of the business in 2015-16.



This clearly demonstrates Orbit's commitment to developing and maintaining homes and shows how important the profit generated is in delivering these outcomes.

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

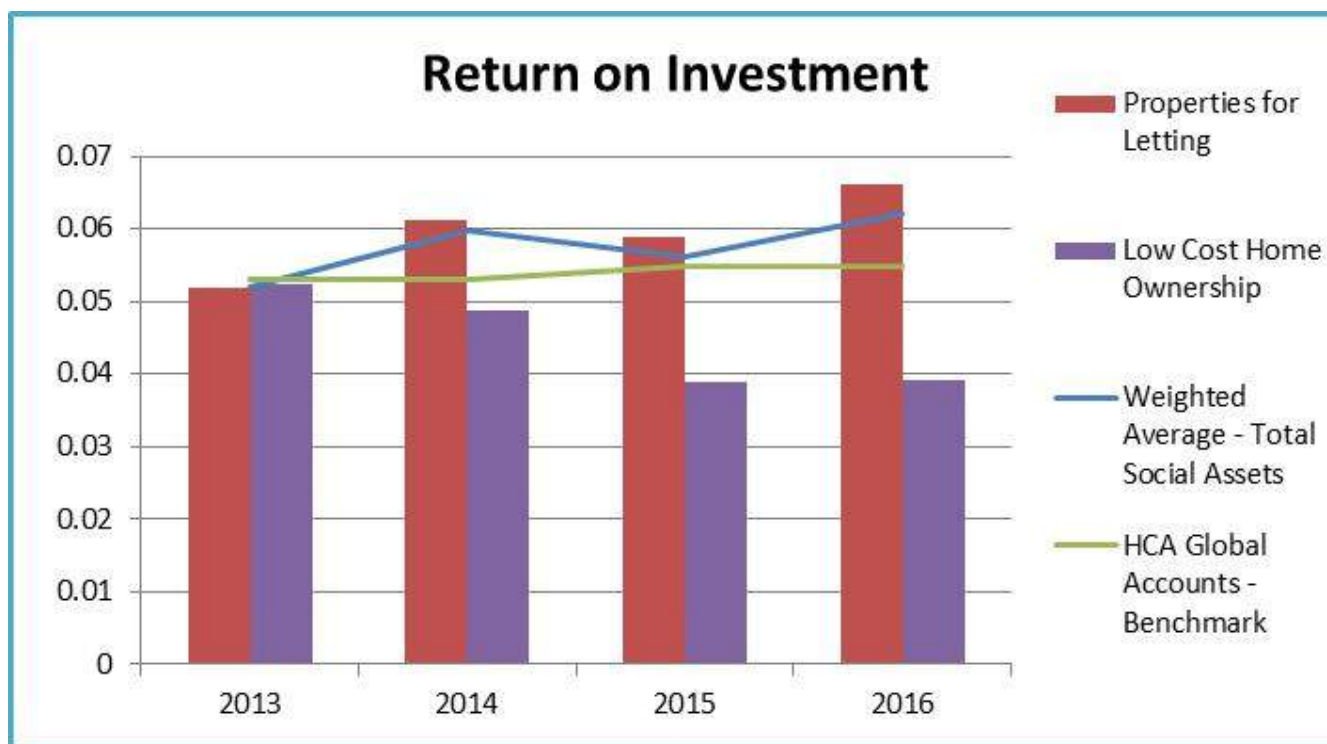
### Strategic Report

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 profit 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 'Profit for a Purpose' which allows us to invest in the areas we believe make a difference to our customer's lives.

Orbit addresses VFM on 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 small office supplies budget. For Every £25,000 saved in our operating costs Orbit can deliver a new home to house a family in need. This is a message easily communicated through the organisation and highlights the amount of internal subsidy required to cover reduced grant levels.

### Return on our Asset Investment

The Group currently owns over 39,000 properties with a carrying value of £1.9bn. The following table shows a high level picture of the Return on Investment for Orbit's housing stock. The blue line shows the total for the Group. It is broadly in line with the Properties for Letting as this is by far the largest stock group. The green line is taken as a benchmark position and is from the HCA global accounts – which Orbit is just outperforming.



(Global accounts for 2016 are estimated)

Orbit recognises there is a need to make the best use of existing assets. As well as making sure properties are fit for purpose and meet the need of Orbit's customers. The financial performance of each of its properties is regularly reviewed. Active management of the property portfolio is important to ensure financial and management resources are not focused on properties that do not meet current or future demand.

Asset performance is updated on a quarterly basis which in turn feeds Orbit's Asset Management Strategy. These key factors are reviewed in each of Orbit's existing properties:

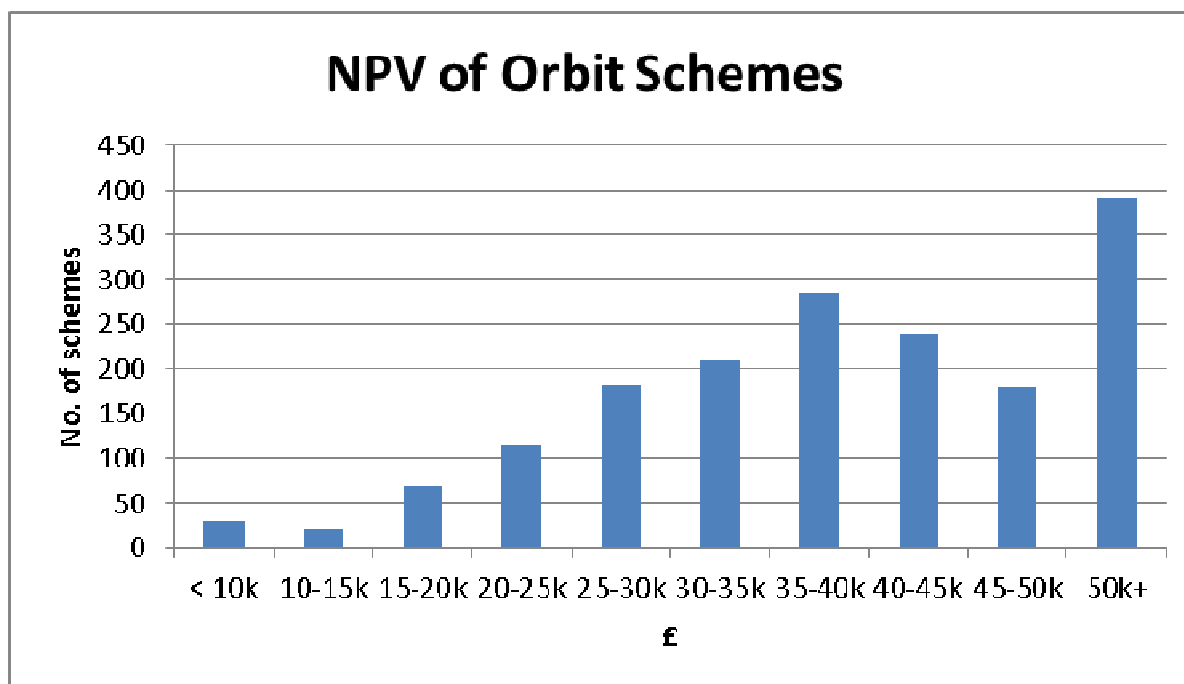
- **NPV (Net Present Value)** – what is current NPV and are we likely to be able to improve NPV significantly?
- **EPC (Energy Performance Certificate)** – is the current rating poor and are improvement measures viable?
- **Maintenance and Repair liability** – is this significantly outside the average?
- **Strategic Fit** - how does the scheme fit with Orbit's 2020 vision and geographical spread?
- **Lettability/Housing need** – how easy is it to identify customers in the area for the property concerned?

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

### Strategic Report

Orbit sets a minimum NPV<sup>1</sup> of £25,000 per unit, under which a property is considered to be poor performing financially. There are a total of 232 schemes (c5,700 properties) under £25,000 NPV, meaning they are not contributing enough financially. These properties are in fact subsidised by the remaining population of properties that are performing over the £25,000 threshold. This performance is affected by a number of factors and most of Orbit's units have been hit by the imposed rent reduction that Government have applied to the sector. The impact of this single change pushed over 2,000 properties under the £25,000 target.

The graph below shows a distribution of c1,700 Orbit schemes that are put through our Asset Management tool.



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

### 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, £4.5m of which had been identified by March 2016 – which is ahead of target. In 2015-16 the procurement team achieved an overall customer satisfaction rating of 91% - an indication their work is increasingly seen as integral to the business.

In 2015-16 a five year programme of reviews was identified; utilising the principles of category management. This approach, based on risk and expenditure will ensure Orbit is identifying appropriate areas for procurement review. Whilst in its early days we will be able to plan procurement activity more effectively, giving more time to consider requirements, improve specifications and incorporate other objectives such as Social Value and Sustainability.

A forward plan of projects is regularly reviewed by the Executive Team and is updated as existing contracts come to an end and new activities are undertaken.

### Customers

Customers continue to play an integral part of the procurement process being involved in the new windows and doors contract within Orbit Heart of England with their involvement enabling over £400k savings over the life of the contract. During the year a dedicated VFM training package was developed and implemented as part of the overall training and support which is provided to our involved customers.

<sup>1</sup> NPV – Net Present Value. This means valuing all of the expected cash income and expenditure for 30 years in today's prices.



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

### Strategic Report

Additionally there has been a strong customer led VFM challenge of customer involvement activities which has seen a reduction of 40% (Circa £25k) in direct costs whilst increasing the number of customers involved in our co-regulatory activities. A number of changes to how our co-regulatory approach was undertaken as part of this VFM challenge which included stopping certain activities such as some of our well established groups e.g. Sheltered forum as well as increased use of technology to undertake customer consultations rather than holding meetings

It is planned to develop a range of e-learning packages so customers who wish to be involved remotely from their own homes have greater access to training which will include a specific module for VFM.

### Benchmarking

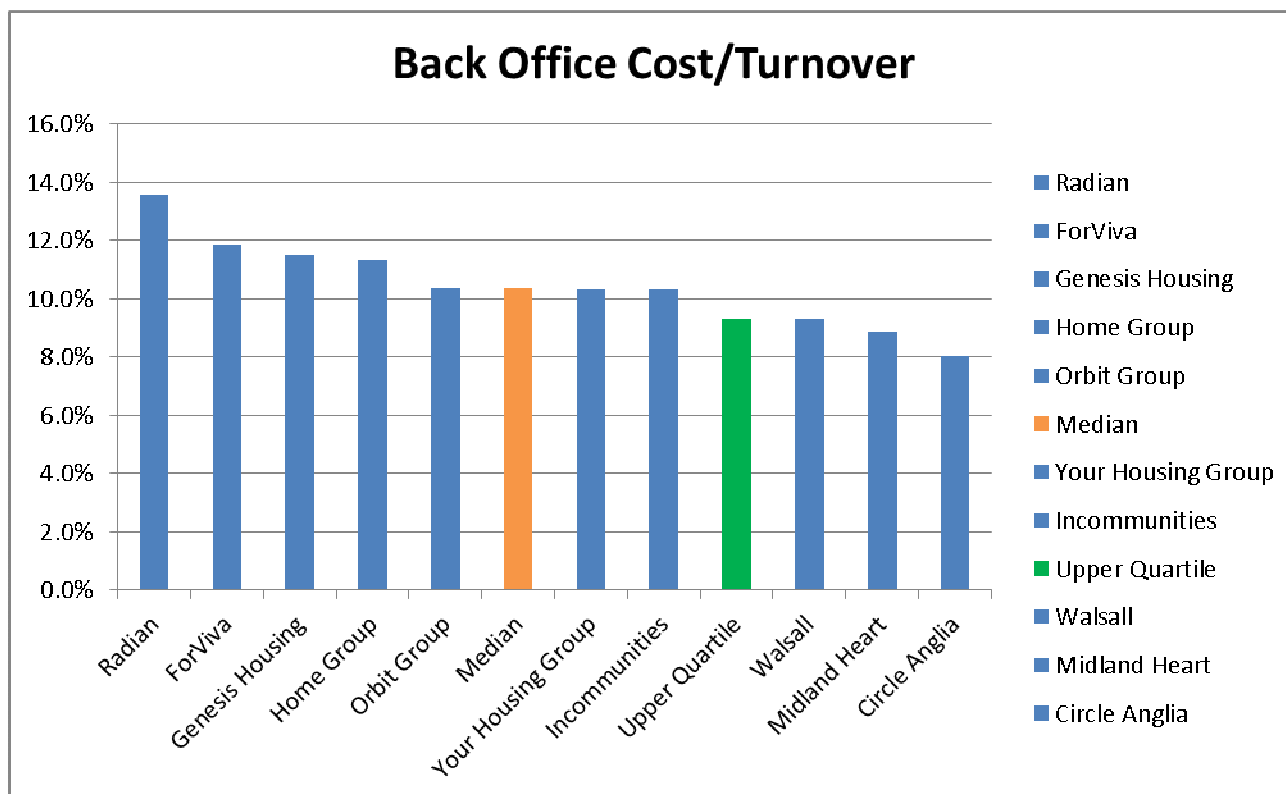
Orbit undertakes a number of benchmarking exercises at both Group and departmental level to assess performance against peers. The largest exercise is run with HouseMark, which is an organisation-wide application, specific to the housing sector. The following table shows high level results against other HouseMark users. 2015-16 data is not available at time of writing but will be updated in the full version of the company's VFM Statement on the website.

Housemark VFM Scorecard (Selected Ratios)	Trend	Vs Median	2014-15	2013-14	Median
Rent Collected as % of rent due			98.5%	99.4%	99.5%
Repairs completed at the first visit			79.5%	78.0%	91.2%
Satisfaction with Service Provided			81.1%	76.6%	86.1%
Satisfaction with Repairs and Maintenance			68.0%	80.0%	80.7%
Satisfaction that rent provides VFM			80.4%	76.4%	82.0%
Cost per Property Housing Management			447	453	444
Cost per Property Major Works			1,229	1,165	1,520
Cost per Property Responsive Repairs			845	925	806

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. We are confident actions taken during 2015-16 should see improvements in satisfaction levels and in some of the costs per property ratios when the 2015-16 figures are published. 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 figures presented.

Orbit has carried out more detailed Back Office Benchmarking, which focuses on functions such as finance, HR and IT. The results show Orbit Group is performing to a median position compared against similar organisations undertaking this exercise.

Strategic Report



**Social and Environmental challenges**

Below is a snapshot of the various ways in which we have been creating social value over the course of 2015-16.

*Community Investment* - As a responsible business we think beyond ‘bricks and mortar’ and look at what really makes a community – the people. We use our expertise and funding to support local communities to thrive and prosper, economically, socially and environmentally. To maximise impact we are working with a range of local partners and organisations.

Our community investment offer focuses on four key areas, namely employment and skills; financial inclusion; digital inclusion; and wellbeing.

In 2015-16 our Community Investment programme helped:

- 1,307 customers to undertake employment-related training skills;
- 315 customers into jobs;
- 2,242 customers with financial advice from in-house teams and projects
- 5,823 with wellbeing programmes to help manage issues of mental health, hoarding and ASB; and
- 861 customers to build and improve their online skills.

To assess the social value created by our community investment activities, we use the well-recognised HACT valuation tool. This has shown our investment in 2015-16 has generated £3.39 million in net social value at a ratio of 1:3.39, meaning that every £1 invested resulted in £3.39 worth of social value.

We also use the ‘Social Return on Investment (SROI) methodology’ where this is felt to be useful and appropriate. Whilst we have not carried out a standard SROI in 2015-16, we have considered social value/benefits to inform decision-making, such as in relation to changes in funding to our ‘Lifeline’ service for older people. The evaluation showed there is compelling evidence of the social benefits, on individual service users, their support networks and society at large.

*Sustainability* - A key focus of our sustainability strategy is to support our customers to reduce their energy usage, helping them to save money and tackle fuel poverty.

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

### Strategic Report

Our Energy Efficiency Renovation Programme (EERP) to increase EPC banding to at least Band C has seen 860 properties retrofitted with external wall/cavity/loft insulation. It has enabled customers to save money, carbon and to take advantage of the benefits a warm home has on an individual's wellbeing.

The Energy Clinic is our new way by which customers are provided with energy advice at the right level, by the right person, at the right time. It consists of three integrated parts, namely:

- Energy Advice Triage – assessment of a customer's need
- Energy Advice Treatment – provision of appropriate advice based upon identified need
- Energy Advice Follow Up – collecting feedback to assess the effectiveness of the advice provided

In 2015-16, the Energy Clinic supported a total of 1,928 customers.

We have further been campaigning on the issue of fuel poverty, publishing our report [Warm Homes, Better Lives](#), which sets out how government, together with housing, health and third sector partners, can take a comprehensive approach to tackling fuel poverty.

*Staff Volunteering* - We encourage and support staff who either wish to become or who are already involved in volunteering for the benefit of Orbit residents and/or the wider community. All staff are eligible to take up 1 day paid volunteering leave per year.

In 2015-16, 95 staff volunteers invested 631 hours to support 26 different projects.

### Conclusions

Orbit is working in an ever-more commercial environment, with a £1bn+ loan book and development ambitions requiring a further £500m over the next 5 years, creating a healthy profit is vital. External assessment of the Group's finances – by the Government, our funders and our credit rating agency has increased in importance. An adverse credit rating could impact on the cost and perhaps the availability of future funding, jeopardising the Group's long term objectives.

Those objectives can be summarised into three areas:

- Subsidise future development activities – to provide 12,000 new properties to the market by 2020, maintain a large development programme after 2020 and contribute to meeting the nation's housing crisis
- Continue to invest in Orbit properties – ensuring all homes are at Decent Homes standard and meet a Band C energy efficiency level
- Continue to invest in our communities – to continue to help give people the tools they need to thrive and succeed

Orbit is evolving to its environment. Senior management are working hard to drive out process inefficiencies. Orbit is employing compassionate commerciality in its management of existing properties – considering what is best for customers and communities as well as for the bottom line. Growth opportunities are being maximised to sell our services externally. 'Profit for a Purpose' is an important part of Orbit's DNA.

A full VFM statement will be produced on our website by 30 September 2016.

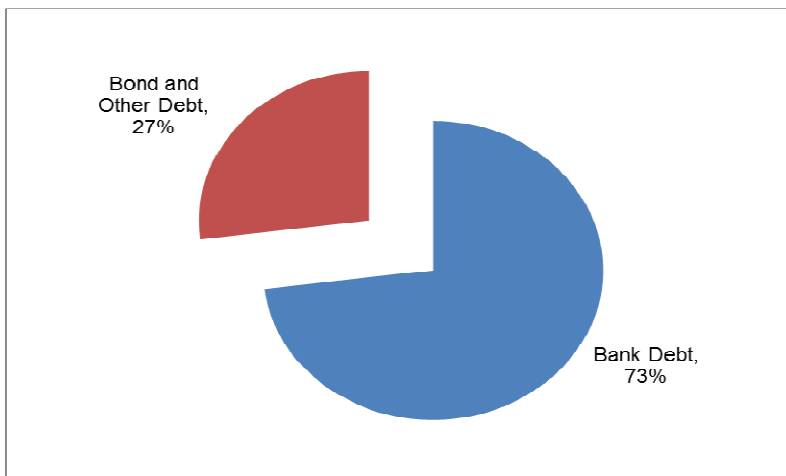
### Capital Structure and Treasury policy

As at 31 March, the Group had £1,380 million of committed debt funding, including the £50 million of retained bonds. Drawn funding totalled £1,037 million, an increase from 2015 (£909 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.

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

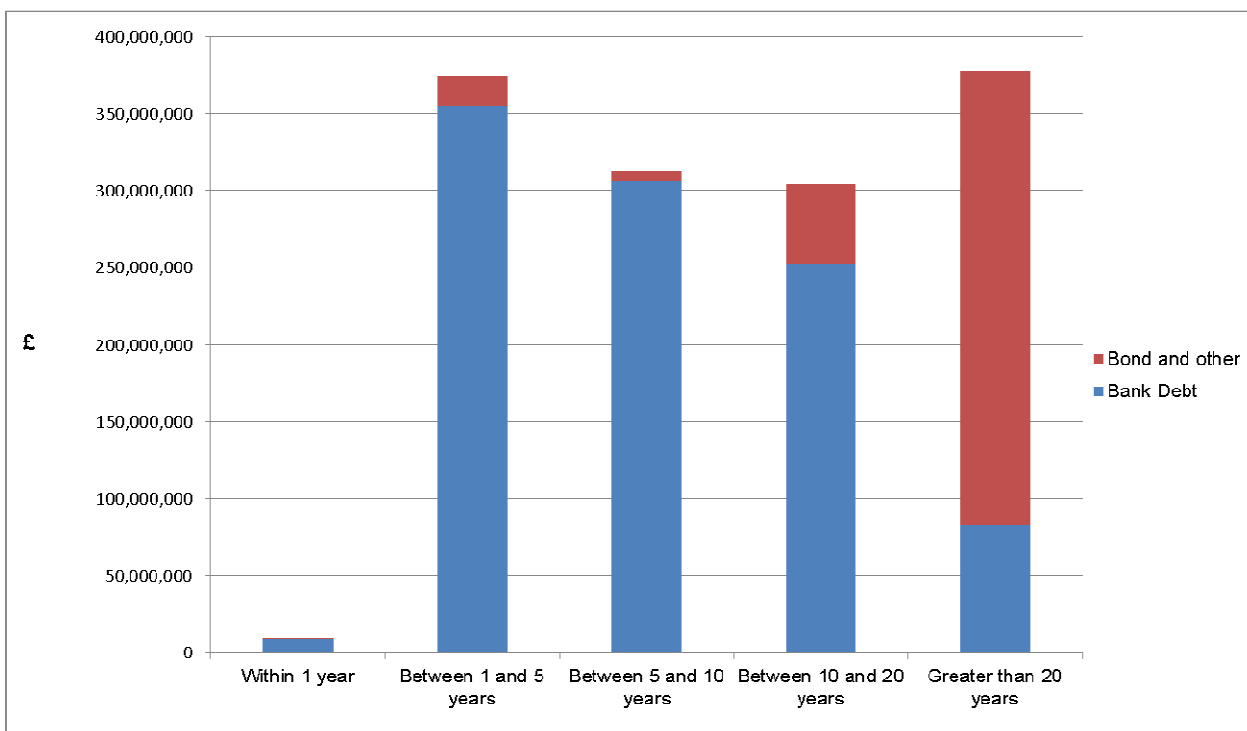
## Strategic Report

### Bank vs Other Debt



The group's re-financing risk in the next five years is £384 million, (28% of loan facilities) with over 72% of the Groups debt maturing after 5 years.

### Debt Repayment Profile



As at 31 March, the Group maintained £343 million of committed undrawn facilities available for immediate drawing and £67.7 million of cash in hand, representing total available liquidity of £408.5 million. These resources are considered sufficient to fund 20 months worth of commitments.

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

- i. Sufficient cash to cover the next three months' forecast cash requirements;
- ii. Sufficient cash and secured loan facilities to cover the next twelve months' forecast cash requirement; 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.

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

## Strategic Report

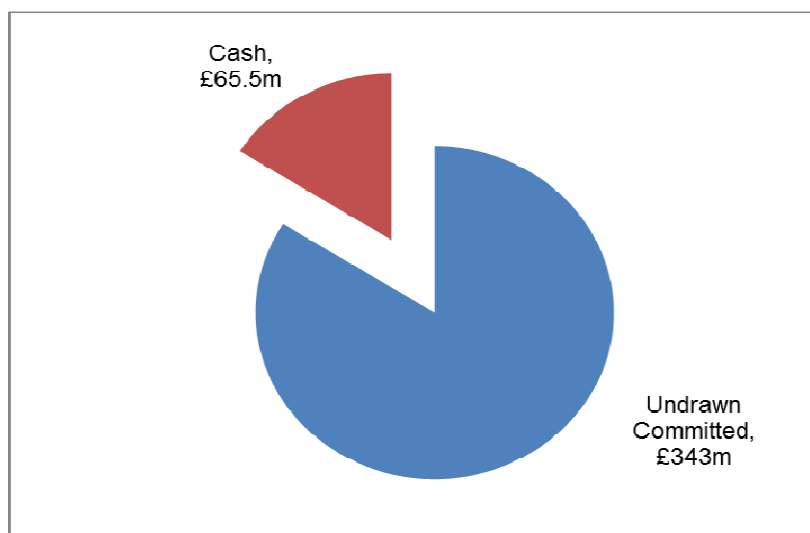
### Key Indicators

	Target 2015-16	Actual 2015-16
Immediately available cash and loans against budget	100%	164%

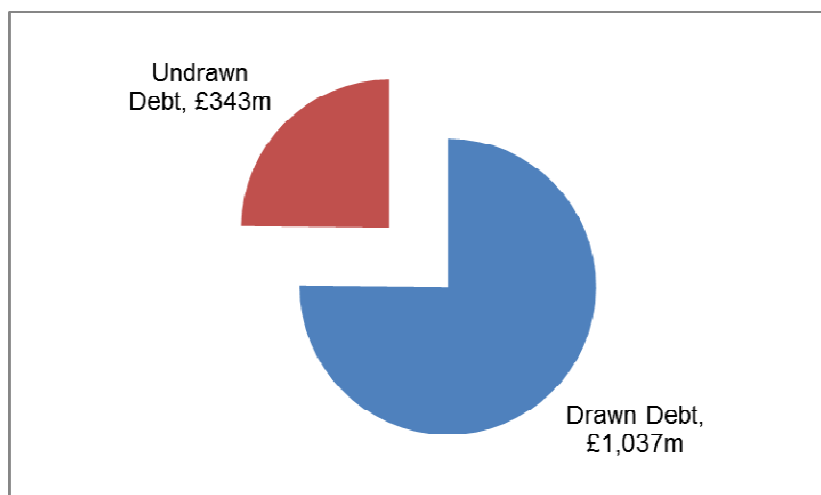
	2015-16	2014-15
Months cash/secured loans available	14	18
Months approved loans available	20	24

All committed facilities are secured by fixed charges. At the year-end the Group held approximately 10,000 unencumbered properties available for use for new loans. These properties are conservatively estimated to provide potential security for a further £703 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



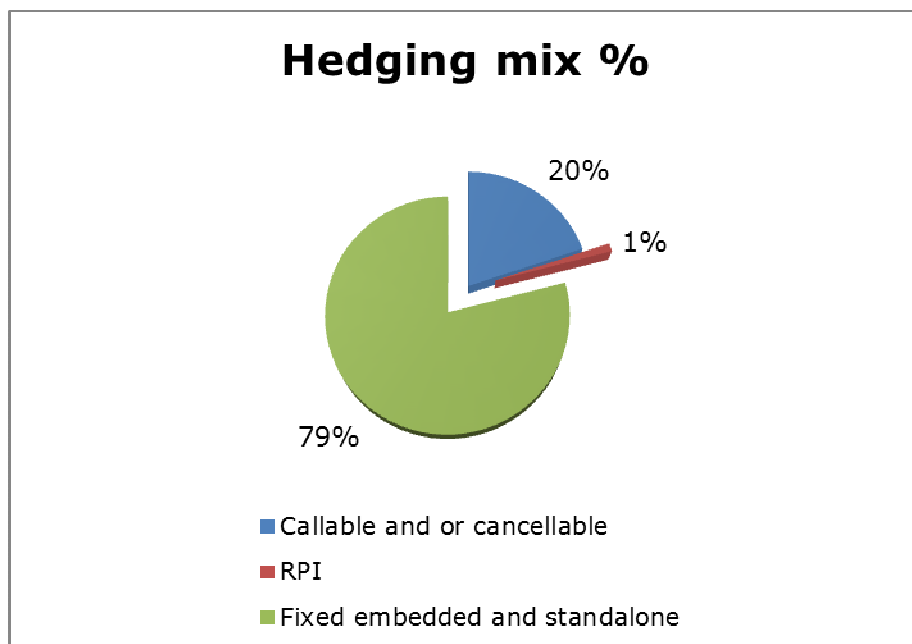
The Group continues to be risk averse in its approach to interest rate management. Borrowing related to cash in hand is held at floating rates of interest. The Group targets a flexible policy of hedging 55% to 90% of its debt with predominantly fixed rate instruments and a small proportion of index linked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

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

### Strategic Report

The Board regularly monitors interest rate risk and at the year-end this resulted in a portfolio that was 85% fixed.

The Group's average interest cost for the year is 4.54% 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 15 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.

### Cash Flows

The Group net cash inflow from operating activities during the year was £131.4 million (2015: £113 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.

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

### **Strategic Report**

For Orbit Heart of England as an individual association, the net cash inflow from operating activities in 2016 was £39.2 million (2015: £49.7 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 Orbit Group Limited during the year are listed on page 10.

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 1<sup>st</sup> April 2013, Orbit Heart of England and Orbit South were brought together as 'Orbit Living' 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 active members of the Group are non-charitable wholly-owned subsidiaries of Orbit Group Limited. Orbit Treasury Limited (OTL) co-ordinates funding across the Group to enable more cost effective borrowing. Orbit Homes (2020) Limited builds houses for the Group's Registered Providers across a wide range of tenures as well as housing for market sale. Orbit Capital plc was established in March 2015 specifically for the Group's first bond issue.

All members of the Group remunerate their board members for undertaking their duties and responsibilities. The boards delegate the day-to-day management of Orbit to the Group Chief Executive and the Executive Directors who form the Executive Team (ET). The ET met at least monthly throughout 2015-16 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) 2015 Code of Governance 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. Heart of England Housing Association Limited complies with the Code of Governance in all material aspects and the HCA's Governance and Financial Viability Standard. In those areas where we do not comply fully with the Code or Standard, we have provided a Statement to our Regulator (refer to page 24 where an issue with non-compliance has been identified during the year). The Group has developed its own Probity and Severance policy, which picks up the key principles of the NHF's Code of Conduct. 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 is committed to involving customers in decisions affecting their homes. There is representation from customers on the Orbit Living Strategic Board/Operations Committee, and a range of involvement opportunities for customers to scrutinise, hold Orbit to account for its performance and have input into shaping service delivery have 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.

Regular customer experience surveys (Real Time Feedback) are 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 VFM. An annual review of the impact of customer involvement activities is conducted to evaluate the cost, quality and outcomes of these. The annual report to customers summarises performance against the key regulatory standards.

### Subsequent Events

There are no post Statement of Financial Position events requiring adjustment to, or disclosure in, the financial statements.

### Going Concern

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

**On behalf of the Heart of England Housing Association Limited Board**



**Fran Beckett**  
Chair

**7 July 2016**

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

### Housing Association Governance

#### STATEMENT OF INTERNAL CONTROL FOR ORBIT GROUP

##### Purpose

The Statement of Internal Control provides an opinion to internal and external stakeholders on how effectively Orbit governs its business so as to manage the key risks to the successful delivery of its Business and Financial Plan.

##### Sources of assurance

A key element of providing this opinion is based upon Orbit's Internal Regulatory Framework, which pulls together assurance from a number of sources which feed into the annual statement of internal controls. Orbit's standard assurance providers include the following:

- ✓ Internal audit
- ✓ External audit
- ✓ Treasury advisors
- ✓ Risk management strategy
- ✓ Health and safety management system
- ✓ External specialist reviews
- ✓ Regulatory opinions

##### Outcomes

During 2015-16 the outcomes from key areas of assurance have been generally positive, however management continue to recognise improvements can be made, particularly as the operating environment for the housing sector evolves. It is important to note:

1. Internal audit outcomes have been positive with no red reports in 2015-16 and recommendations in previous years audits have been followed up.
2. External audit opinion is unqualified.
3. The new approach to risk management, including stress testing is being embedded.
4. The health and safety culture continues to strengthen.
5. The Board and its sub committee's continue to receive performance information and challenge the Executive Management on relevant areas to ensure performance either meets or exceeds targets.
6. Orbit's response to the regulatory downgrade has been robust, through the delivery of the HCA action plan.

##### Downgrade – G1 to G2

During 2015-16, Orbit received a downgrade to its governance rating from G1 to G2, due to weaknesses in its internal control environment relating to fire safety within the Property Services business of the Orbit Living subsidiary. This issue was identified internally by two of our sources of assurance (Health & Safety Team and Internal Audit) and was then reported through the governance structure and subsequently self - reported to the Regulator (Homes & Communities Agency – HCA). Improvements were immediately implemented to address the weakness in the internal control environment and complete all high risk actions to meet the deadline agreed with the HCA of 31st December 2015. Orbit hopes to move back to G1 during the summer of 2016.

##### Overall opinion - Group Chief Executive on behalf of the Executive Team

The Group Chief Executive provides the Group and the Audit and Risk Assurance Committee with an opinion on behalf of the Executive Team regarding the effectiveness of the sources of assurance operating within the Orbit Group.

'Based on the work risk and assurance undertaken in 2015-16 the overall opinion is that Orbit's internal control (financial and non-financial) environment supported by risk management and governance arrangements is operating with **sufficient effectiveness** to provide reasonable assurance to the Audit and Risk Assurance Committee and Group Board.

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

### **Housing Association Governance**

The Assurance framework highlighted the issues which led to the downgrade and actions identified have been or are being addressed. These are being actively monitored by the Executive Team with oversight from the Audit and Risk Assurance Committee to ensure the necessary improvements are delivered in the timescales agreed'.

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

### Report of the Board

#### Statement of Board's responsibilities in respect of the Board's report and the financial statements

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

Co-operative and Community Benefit Society law requires the Board to prepare financial statements for each financial year. Under those regulations the Board have elected to prepare the financial statements in accordance with UK Accounting Standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

The financial statements are required by law to give a true and fair view of the state of affairs of the association and of its income and expenditure for that period.

In preparing these financial statements, the Board is required to:

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

The Board is responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the association and enable them to ensure that its financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. The Board has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the association and to prevent and detect fraud and other irregularities.

The Board is responsible for the maintenance and integrity of the corporate and financial information included on the association's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

#### Annual General Meeting

The annual general meeting will be held on 14 September 2016.

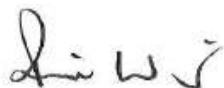
#### Disclosure of information to Auditors

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

KPMG LLP were appointed as external auditors for the year ended 31 March 2016. A resolution to re-appoint the Association's auditors for external audit services will be proposed at the Annual General Meeting.

The report of the Board was approved on 7 July 2016 and signed on its behalf by:



**Richard Wright**  
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 2016

We have audited the financial statements of Heart of England Housing Association Limited for the year ended 31 March 2016 set out on pages 28 to 56. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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

#### Respective responsibilities of the Board and auditor

As more fully explained in the Statement of Board's Responsibilities set out on page 26, the association's Board is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### Scope of the audit of the financial statements

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

#### Opinion on financial statements

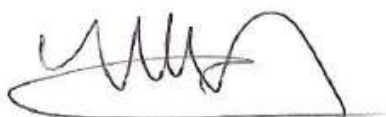
In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the association as at 31 March 2016 and of its surplus for the year then ended;
- comply with the requirements of the Co-operative and Community Benefit Societies Act 2014; and
- have been properly prepared in accordance with the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

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

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

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



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

9 August 2016

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

## Statement of Comprehensive Income

For the year ended 31 March 2016

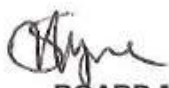
	Note	2016 £000	2015 £000 Restated
Turnover	2	88,381	85,961
Operating costs	2	(63,275)	(60,744)
Gain on sale of property, plant and equipment – housing properties	7	7,162	6,511
<b>Operating surplus</b>	2	<b>32,268</b>	31,728
Loss on sale of fixed assets		-	(333)
Interest receivable	8	5	4
Interest payable	9	(18,862)	(16,449)
Other financing (costs)/income	9	(1,584)	1
Movement in fair value of financial instruments		(72)	(27)
Donations paid	5	(5,682)	(5,519)
<b>Surplus on Ordinary Activities before Taxation</b>		<b>6,073</b>	9,405
Tax on Surplus on Ordinary Activities	10	-	-
<b>Total comprehensive income</b>		<b>6,073</b>	9,405

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.

The financial statements on pages 28 to 56 were approved by the Board and signed on its behalf by:



Fran Beckett  
CHAIR



BOARD MEMBER



Richard Wright  
SECRETARY

7 July 2016

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

**Statement of Changes in Reserves**

**For the Year Ended 31 March 2016**

	<b>Income &amp; Expenditure Reserve £000</b>	<b>Total Reserves £000</b>
<b>Balance at 1 April 2014</b>	<b>55,391</b>	<b>55,391</b>
Surplus for the year restated	<b>9,405</b>	<b>9,405</b>
Balance as at 31 March 2015	<b>64,796</b>	<b>64,796</b>
Surplus for the year	<b>6,073</b>	<b>6,073</b>
<b>Balance as at 31 March 2016</b>	<b>70,869</b>	<b>70,869</b>

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

## Statement of Financial Position

As at 31 March 2016

	Note	2016 £000	2015 £000 Restated
<b>Tangible Fixed Assets</b>	11 & 12	<b>774,603</b>	688,138
<b>Investments fixed assets</b>	13	<b>800</b>	800
<b>Current Assets</b>			
Properties held for sale		-	-
Stock	14	-	1
Trade and other debtors	15	<b>19,276</b>	8,738
Investments	16	<b>811</b>	418
Cash and cash equivalents		<b>1,990</b>	978
		<b>22,077</b>	10,135
Less: Creditors: amounts falling due within one year	17	<b>(55,654)</b>	(47,091)
Provisions for liabilities and charges	20	<b>(515)</b>	(550)
<b>Net current liabilities</b>		<b>(34,092)</b>	(37,506)
<b>Total assets less current liabilities</b>		<b>741,311</b>	651,432
<b>Creditors: amounts falling due after more than one year</b>	18	<b>(669,336)</b>	(585,260)
<b>Provisions for liabilities</b>	20	<b>(1,106)</b>	(1,376)
<b>Total net assets</b>		<b>70,869</b>	64,796
<b>Reserves</b>			
Income and expenditure reserve		<b>70,869</b>	64,796
Revaluation reserve		-	-
		<b>70,869</b>	64,796

The financial statements on pages 28 to 56 were approved by the Board and signed on its behalf by:

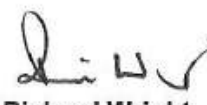


Fran Beckett  
CHAIR

7 July 2016



BOARD MEMBER



Richard Wright  
SECRETARY



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

## Statement of Cash Flows

For the Year Ended 31 March 2016

	Note	2016 £000	2015 £000 Restated
<b>Net cash generated from operating activities</b>	<b>26</b>	<b>39,219</b>	49,696
<b>Cash flows from investing activities</b>			
Purchase of tangible fixed assets		(101,966)	(68,796)
Grants received		7,319	6,722
Interest received		5	4
Donations paid		(5,682)	(5,519)
<b>Cash flow from financing activities</b>		<b>(100,324)</b>	(67,589)
Interest paid		(19,606)	(16,522)
Other financing costs paid		(1,584)	-
New secured loans		119,837	159,904
Repayments of borrowings		(36,137)	(125,333)
Increase in deposits		(393)	(418)
		<b>62,117</b>	17,631
<b>Net change in cash and cash equivalents</b>		<b>1,012</b>	(262)
Cash and cash equivalents at beginning of the year		<b>978</b>	1,240
<b>Cash and cash equivalents at the end of the year</b>	<b>28</b>	<b>1,990</b>	<b>978</b>

The accompanying notes form part of these financial statements

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

## Notes to the Financial Statements

### For the Year Ended 31 March 2016

#### 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 Financial reporting Standard 102 (FRS 102) and the Housing SORP 2014, Statement of Recommended Practice for Registered Social Housing Providers, and comply with the Accounting Direction for Private Registered Providers of Social Housing 2015. As a public benefit entity Heart of England Housing Association Limited has applied all paragraphs of FRS 102 which relate to public benefit entities in preparing the financial statements. Details of the impact of transition to FRS102 are shown in note 33. The principal accounting policies, which have been consistently applied unless otherwise stated throughout the year, are set out below.

##### **Going Concern**

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

##### **Group Services**

The Association has taken advantage of the exemptions available in FRS102 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 Statement of Comprehensive Income Account in the year in which they are incurred.

##### **Turnover**

Turnover represents rental and service charge income receivable, grants from local authorities and the Homes & Communities Agency (HCA), income from shared ownership first tranche sales, income from properties developed for sale, grant amortisation and other income, all of which arise in the UK.

##### **Revenue recognition**

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

##### **Operating costs**

Direct employee, administration and operating costs are apportioned to either the Statement of Comprehensive Income or capital schemes on the basis of costs of staff 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 2016

#### 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. Attributable overheads and profit are included in cost of components.

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

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 Statement of Comprehensive Income 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.

##### Financial Assistance and other government grant receivable under section 19 of the Act or section 333 ZE of the Greater London Authority Act 1999

The total accumulated amount of Financial Assistance and other government grant received or receivable at the date of the statement of financial position is based upon properties owned at that date. These are disclosed in Note 19 of the financial statements which shows the extent to which amounts have been recognised in the Statement of Comprehensive Income or are held as deferred income.

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

## Notes to the Financial Statements

### For the Year Ended 31 March 2016

#### 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 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 Statement of Comprehensive Income Account using the annuity method. Rentals paid under operating leases are charged to the Statement of Comprehensive Income 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 Statement of Comprehensive Income 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.

This policy also provides that where macro level changes in the market environment and changes in government legislation occur these are triggers for Orbit Heart of England to conduct an impairment test upon all rented social housing properties.

This year government legislation has imposed a 1% reduction in social rent over a 4 year period and triggered a full impairment test upon all rented social housing properties. Policy guides impairment test assumptions, this year's assumptions on undertaking a full impairment were on cash generating units. These are defined as:

- Orbit Heart of England recognises both scheme and local authority as cash generating units.
- The principle cash generating units have remained the same as 2014/15.
- The carrying values for each CGU are compared against their EUV-SH values.
- A discounted cash flow valuation is used as a proxy for EUV-SH.
- For practical reasons Orbit Group considers a scheme or collection of units within a local authority to be a CGU as this is how activities are managed.

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

## Notes to the Financial Statements

### For the Year Ended 31 March 2016

#### 1 Principal Accounting Policies (continued)

- Material cost streams (such as major repairs) are also specifically assessed and managed across scheme and local authority level.
- Should disposal be considered, Orbit group looks at both scheme level and local authority level exit strategies.

An additional step was taken in the impairment review to compare the carrying values of the properties deemed most at risk of impairment through the discounted cashflow methodology against depreciated replacement cost (DRC), to demonstrate that it provided a suitable method in line with the SORP's preferred use of DRC.

Discounted Cashflow (DCF) has been used to estimate the value in use of properties held for their social benefit based on the expected future cashflows of the cash generating in line with the SORP (para 14.20). The key assumptions used were:

- A discount rate of 4.8% was used within the discounted cash flow calculation. This represents adequate costs of capital and associated risk but also incorporates marginal increased management costs for each additional CGU.
- Rent, major repairs and maintenance are the three largest cash flow streams within the DCF. They are assumed to inflate by 2.5% per annum.
- The DCF is calculated over 40 years.
- Voids and Bad Debts are assumed to contain some prudence at a combined 2.3% of rental income over the life of the DCF.

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

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

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.

#### **Works to existing housing properties**

Expenditure on housing properties which increases the net rental stream over the life of the property is capitalised. An increase in the net rental stream may arise through an increase in the rental income, a reduction in future maintenance costs, or a significant extension of the life of the property. All other costs are classified as maintenance and are charged to the Statement of Comprehensive Income in the year in which the work is undertaken. No depreciation charge is made during the year in which a property comes into management, nor in the year of sale.

#### **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 there will be no liability to taxation.

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

## Notes to the Financial Statements

### For the Year Ended 31 March 2016

#### 1 Principal Accounting Policies (continued)

##### **Loan finance issue costs**

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

##### **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 Statement of Comprehensive Income.

##### **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 Statement of Comprehensive Income. Where the agency carries the majority of the financial risk, the Statement of Comprehensive Income includes only that income and expenditure which relates solely to the risk carried by the Association. In both cases, where revenue grants are claimed by the Association, these are included in the Statement of Comprehensive Income.

##### **Investments**

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

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

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

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

Service charge sinking funds are dealt with as creditors.

##### **Liquid resources**

Liquid Resources comprise bank deposits that are readily convertible into cash and loans to fund the purchase of housing 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 provision reflects costs to be incurred in respect of the Orbit Living committed restructuring programmes and the Stratford Sound Insulation works. 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 2016

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

#### Current Year

	Turnover £000	Operating costs £000	Operating Surplus/ (Deficit) £000
<b>Social Housing Lettings</b>	<b>83,645</b>	<b>(54,983)</b>	<b>28,662</b>
<b>Other Social Housing Activities</b>			
Services to group members	288	(834)	(546)
Home Ownership services	1,233	(1,347)	(114)
Charges for support services	1,344	(2,228)	(884)
Impairment of non housing properties	-	(647)	(647)
Other	1,367	(2,516)	(1,149)
	<b>4,232</b>	<b>(7,572)</b>	<b>(3,340)</b>
Non-social housing activities	504	(720)	(216)
Gain on sale of property, plant and equipment – housing properties	-	-	7,162
	<b>88,381</b>	<b>(63,275)</b>	<b>32,268</b>

#### Prior Year

	Turnover £000 Restated	Operating costs £000 Restated	Operating Surplus/ (Deficit) £000 Restated
<b>Social Housing Lettings</b>	<b>78,348</b>	<b>(50,395)</b>	<b>27,953</b>
<b>Other Social Housing Activities</b>			
Services to group members	282	(896)	(614)
Home Ownership services	968	(1,152)	(184)
Charges for support services	1,335	(2,020)	(685)
Other	4,408	(5,522)	(1,114)
	<b>6,993</b>	<b>(9,590)</b>	<b>(2,597)</b>
Non-social housing activities	620	(759)	(139)
Gain on sale of property, plant and equipment – housing properties	-	-	6,511
	<b>85,961</b>	<b>(60,744)</b>	<b>31,728</b>

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

Notes to the Financial Statements

For the Year Ended 31 March 2016

3 Income and Expenditure from Social Housing Lettings

	<b>General Needs Housing £000</b>	<b>Supported Housing and Housing for Older People £000</b>	<b>2016 £000</b>	<b>2015 £000 Restated</b>
Rent receivable net of voids	68,357	7,192	<b>75,549</b>	<b>71,404</b>
Service charge Income	2,294	2,670	<b>4,964</b>	<b>4,068</b>
Amortisation of social housing and other capital grants	1,297	1,835	<b>3,132</b>	<b>2,876</b>
<b>Turnover from social housing lettings</b>	<b>71,948</b>	<b>11,697</b>	<b>83,645</b>	<b>78,348</b>
<b>Expenditure</b>				
Services	(2,722)	(2,533)	<b>(5,255)</b>	<b>(4,618)</b>
Management	(7,711)	(1,315)	<b>(9,026)</b>	<b>(10,200)</b>
Routine maintenance	(14,620)	(993)	<b>(15,613)</b>	<b>(15,090)</b>
Planned maintenance	(11,308)	(1,151)	<b>(12,459)</b>	<b>(9,119)</b>
Bad debts	(497)	-	<b>(497)</b>	<b>(553)</b>
Depreciation of housing properties	(10,690)	(1,443)	<b>(12,133)</b>	<b>(10,815)</b>
Impairment of housing properties	-	-	-	-
Other costs	-	-	-	-
<b>Operating costs on social housing lettings</b>	<b>(47,548)</b>	<b>(7,435)</b>	<b>(54,983)</b>	<b>(50,395)</b>
<b>Operating surplus on social housing lettings</b>	<b>24,400</b>	<b>4,262</b>	<b>28,662</b>	<b>27,953</b>
Void losses	(845)	(791)	<b>(1,636)</b>	<b>(972)</b>

Depreciation on Housing Properties includes £1,048k written off due to components being replaced earlier than the expected life of those components (2015: £758k).



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

## Notes to the Financial Statements

### For the Year Ended 31 March 2016

#### 4 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:

	2016 Number	2015 Number
<b>Average Number Employed</b>		
Office Staff	13	16
Scheme Staff	6	7
	<b>19</b>	<b>23</b>
Full-time	12	16
Part-time	7	7
	<b>19</b>	<b>23</b>

The number of employees reduced during 2015-16 in line with Orbit Heart of England's aim that all employees will be employed by Orbit Group Limited.

	2016 Number	2015 Number
<b>Full-time equivalents *</b>		
Office Staff	12	16
Scheme Staff	4	5
	<b>16</b>	<b>21</b>

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

	2016 £'000	2015 £'000
<b>Staff Costs for the Above</b>		
Wages and Salaries	483	596
Social Security Costs	42	60
Other Pension Costs	42	79
	<b>567</b>	<b>735</b>

#### Senior staff emoluments

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

	2016 Number	2015 Number
Over £60k	-	-

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

## Notes to the Financial Statements

For the Year Ended 31 March 2016

### 5 Operating Surplus

	2016	2015
	£000	£000
		Restated
<b>Operating Surplus is stated after charging/(crediting)</b>		
<b>Housing Properties:</b>		
- Depreciation Charge	11,096	10,057
- Impairment	(219)	-
<b>Other Fixed Assets:</b>		
- Depreciation of other tangible fixed assets	177	234
- Impairment	647	-
<b>Operating lease rentals</b>		
- Land and buildings	156	319
- Office equipment and computers	160	59
- Vehicles	43	-
- White goods	11	14
<b>Auditor's Remuneration:</b>		
- In their Capacity as Auditors'	23	31
- In Respect of Other Services	-	-
<b>Other Auditor's Remuneration:</b>	-	-

A donation of £5,682k (2015: £5,519k) was made to Orbit Group Limited in accordance with the Orbit wide agreement to support development funding.

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

## Notes to the Financial Statements

### For the Year Ended 31 March 2016

#### 6 Directors Emoluments

The Directors of the Association are its Board Members. Certain of the board members are tenants/leaseholders of the Association or the Group. Their tenancies/leases are on normal commercial terms and the members cannot use their position to their advantage. Payments made to board members are shown below. Expenses paid during the year to board members amounted to £7k (2015: £9k). 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 (2015: £nil).

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

	2016	2015
	£000	£000
Jane Ball	1	2
K Bolister	3	-
Jacqui Dickinson	1	2
Julie Hopes	2	1
Glyn Kyle	2	1
V M Nicholls	-	1
Grant Richardson	2	2
S Margrave	2	2
Kathy Strong	2	1
William Yardley	2	2
Alan Squirrell	-	1
Sumar Shubhankar	2	1
Tandooran-Sentain	2	-
<b>Total</b>	<b>21</b>	<b>16</b>

#### 7 Surplus on Sale of Fixed Assets – Housing Properties

	2016	2015
	£000	£000
<b>Sale of housing properties</b>		
Disposal proceeds	10,693	10,001
Carrying value of assets	(4,123)	(3,508)
Grant recycled (Note 21)	1,116	886
RTB Clawback	(346)	(442)
Transfer to disposal proceeds fund (Note 21)	(178)	(426)
<b>Profit on sale of housing properties</b>	<b>7,162</b>	<b>6,511</b>
<b>Sale of fixed assets</b>		
Deficit on disposal of fixed assets	-	(333)
<b>Profit on sale of fixed assets</b>	<b>7,162</b>	<b>6,178</b>

Right to Buy claw back relates to arrangements between Stratford-on-Avon District Council and Orbit Heart of England, whereby the proceeds from sales of the original housing properties made under the Preserved Right to Buy legislation are shared. The method of sharing is set out in a pre-agreed formula. There were 10 sales under this agreement in the year ended 31 March 2016 (2015: 10 sales).

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

## Notes to the Financial Statements

### For the Year Ended 31 March 2016

#### 8 Interest Receivable and Other Income

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
Interest receivable from unlisted investments	<b>5</b>	<b>4</b>

#### 9 Interest Payable and Similar Charges

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
Loans and bank overdrafts	<b>19,498</b>	16,866
Interest payable capitalised on housing properties under construction	<b>(522)</b>	(303)
Deferred income credit	<b>(114)</b>	(114)
<b>Total</b>	<b>18,862</b>	16,449
Capitalisation rate used to determine the finance costs capitalised during the period	<b>0.75%</b>	0.75%
<b>Other financing costs</b>		
Early redemption fee for Dexia Loan	<b>1,584</b>	-

#### 10 Tax on surplus on ordinary activities

The Association was accepted as a charity for tax purposes by HMRC with effect from 1 April 2008. No liability for taxation is anticipated in the year (2015: £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 2016

11 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	
<b>Cost</b>						
At 1 April 2015 restated opening balance	693,023	47,414	34,263	2,351	1,318	778,369
Additions	9,180	89,917	703	-	-	99,800
Reclassification	(1,045)	-	1,045	-	-	-
Transfer on completion	49,535	(49,535)	-	-	-	-
Transfer to/from other group members	2,069	-	-	-	-	2,069
Disposals	(5,919)	-	(182)	-	-	(6,101)
<b>At 31 March 2016</b>	<b>746,843</b>	<b>87,796</b>	<b>35,829</b>	<b>2,351</b>	<b>1,318</b>	<b>874,137</b>
<b>Less accumulated depreciation</b>						
At 1 April 2015 restated opening balance	(83,230)	-	(8,021)	(45)	(131)	(91,427)
Reclassification	56	-	(56)	-	-	-
Eliminated on disposals	2,212	-	149	-	-	2,361
Depreciation	(10,653)	-	(416)	(17)	(10)	(11,096)
<b>At 31 March 2016</b>	<b>(91,615)</b>	<b>-</b>	<b>(8,344)</b>	<b>(62)</b>	<b>(141)</b>	<b>(100,162)</b>
<b>Less: Provisions for impairment</b>						
At 1 April 2015	(465)	(219)	-	-	-	(684)
Reclassification	-	219	-	-	-	219
<b>At 31 March 2016</b>	<b>(465)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(465)</b>

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

### Notes to the Financial Statements

#### For the Year Ended 31 March 2016

##### Net Book Amount

At 31 March 2016	<b>654,763</b>	<b>87,796</b>	<b>27,485</b>	<b>2,289</b>	<b>1,177</b>	<b>773,510</b>
At 31 March 2015 Restated	<b>609,328</b>	<b>47,195</b>	<b>26,242</b>	<b>2,306</b>	<b>1,187</b>	<b>686,258</b>

During the year total expenditure on works to existing properties was £33.1m (2015: £27.9m) of this £9.3m (2015: £7.7m) has been capitalised.

Additions to properties during the year include capitalised interest and finance costs of £522k (2015: £303k) and development administration costs/project management fees of £2,746k (2015: £2,058k).

The Association reviewed its properties for impairment and there was a credit reclassified as additions of £219k (2015: £nil) in respect of existing properties that were re-developed.

The loan from Funding for Homes Limited was transferred to Orbit Heart of England on 1 April 2008. The £16m loan is secured by fixed charges on 532 assets with carrying amount of £31m.

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

## Notes to the Financial Statements

For the Year Ended 31 March 2016

### 11 Housing Properties at cost (continued)

	2016 £000	Restated 2015 £000
<b>The Net Book Value of Housing and Other Properties (Note 12) comprises:</b>		
Freehold Land and Buildings	771,405	684,799
Long Leasehold Land and Buildings	2,998	3,097
Short Leasehold Land and Buildings	2	2
	<b>774,405</b>	<b>687,898</b>

### 12 Other Fixed Assets

	Freehold Offices £000	Leasehold Offices £000	Commercial Premises £000	Furniture, Fixtures & Equipment £000	Total £000
<b>Cost</b>					
At 1 April 2015	17	2,791	402	2,238	5,448
Additions	-	20	-	17	37
Disposals	-	-	-	(6)	(6)
<b>At 31 March 2016</b>	<b>17</b>	<b>2,811</b>	<b>402</b>	<b>2,249</b>	<b>5,479</b>
<b>Less: Accumulated Depreciation</b>					
At 1 April 2015	(17)	(1,432)	(121)	(1,998)	(3,568)
Charge for Year	-	(105)	(13)	(59)	(177)
Eliminated on Disposal	-	-	-	6	6
<b>At 31 March 2016</b>	<b>(17)</b>	<b>(1,537)</b>	<b>(134)</b>	<b>(2,051)</b>	<b>(3,739)</b>
<b>Less Impairment</b>					
At 1 April 2015	-	-	-	-	-
Charge for the year	-	(647)	-	-	(647)
<b>At 31 March 2016</b>	<b>-</b>	<b>(647)</b>	<b>-</b>	<b>-</b>	<b>(647)</b>
<b>NET BOOK AMOUNT</b>					
<b>At 31 March 2016</b>	<b>-</b>	<b>627</b>	<b>268</b>	<b>198</b>	<b>1,093</b>
At 31 March 2015	-	1,359	281	240	1,880

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

## Notes to the Financial Statements

### For the Year Ended 31 March 2016

#### 13 Fixed Asset Investments

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
Monies deposited with Funding for Homes Ltd	<b>800</b>	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 (2015: £800k).

#### 14 Stocks

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
Consumable Stocks	-	1

#### 15 Debtors

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
Rental Debtors	<b>3,804</b>	3,613
Less: provision for doubtful debts	<b>(1,250)</b>	(984)
	<b>2,554</b>	2,629
Prepayments and Accrued Income	<b>647</b>	1,390
Amounts due from other Group members	<b>14,259</b>	2,068
SHG Receivable	<b>790</b>	1,362
Other Debtors	<b>1,075</b>	1,484
Provision for bad debts	<b>(49)</b>	(195)
	<b>19,276</b>	8,738
Debtors after one year included in Debtors above	<b>484</b>	244

#### 16 Current asset investments

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
Maturing in excess of 7 days	<b>811</b>	418



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

## Notes to the Financial Statements

### For the Year Ended 31 March 2016

#### 17 Creditors: Amounts Falling Due Within One Year

	2016 £000	2015 £000
Housing Loans (net of loan arrangement fees) (Note 22)	11,571	8,854
Amounts due to Group members	31,775	23,804
Other Creditors	1,579	1,073
Grants Received in Advance	-	38
Accruals & Deferred income	4,782	8,131
Rents Received in Advance	1,675	2,083
Disposals proceeds and recycled capital grant fund (Note 21)	1,140	842
Deferred capital grant (Note 19)	3,132	2,266
<b>Total</b>	<b>55,654</b>	<b>47,091</b>

#### 18 Creditors: Amounts Falling Due After More Than One Year

	2016 £000	2015 £000
Housing Loans (Note 22)	16,000	16,000
Loans inter-company (Note 22)	413,964	332,981
Deferred Income Credit (Note 22b)	221	336
Deferred Capital Grant (Note 19)	231,562	229,049
Leaseholder maintenance provision	4,300	3,883
Disposal proceeds and recycled capital grant funds (Note 21)	2,639	2,467
Other Creditors	650	544
<b>Total</b>	<b>669,336</b>	<b>585,260</b>

#### 19 Deferred Capital Grant

	2016 £000	2015 £000
Opening SHG at transition	-	270,411
Opening accumulated SHG amortised	-	(45,007)
At 1 April	231,315	225,404
Grant received in the year	6,139	9,830
Released to income in the year	(3,132)	(2,266)
Elimination on disposal	199	-
Transfer to RCGF	(1,227)	(1,132)
Transfer from other group members	1,400	(521)
<b>At 31 March</b>	<b>234,694</b>	<b>231,315</b>
Amounts to be released within 1 year	3,132	2,266
Amounts to be released in more than 1 year	231,562	229,049
<b>At 31 March</b>	<b>234,694</b>	<b>231,315</b>

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

Notes to the Financial Statements

For the Year Ended 31 March 2016

20 Provisions for liabilities and charges

	2016 £000	2015 £000
Restructuring	20	143
Home Improvement Agency Hardship	4	-
Stratford Sound Insulation	1,597	1,783
	<b>1,621</b>	<b>1,926</b>
<u>Analysed as</u>		
Within one year	515	550
Greater than one year	1,106	1,376
	<b>1,621</b>	<b>1,926</b>

21 Disposal Proceeds and Recycled Capital Grant Funds

	RCGF £000	DPF £000	Total £000
<b>At 1 April 2015</b>	<b>2,683</b>	<b>626</b>	<b>3,309</b>
Grants recycled	1,116	178	1,294
Utilised in the year	(842)	-	(842)
Interest accrued	15	3	18
<b>At 31 March 2016</b>	<b>2,972</b>	<b>807</b>	<b>3,779</b>

Amount due for repayment to the Homes & Communities Agency

	RCGF £000	DPF £000	Total £000
Within one year	941	199	1,140
After more than one year	2,031	608	2,639
<b>At 31 March 2016</b>	<b>2,972</b>	<b>807</b>	<b>3,779</b>

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

## Notes to the Financial Statements

### For the Year Ended 31 March 2016

#### 22 Housing loans and finance lease obligations

##### Note (a)

	2016	2015
	£000	£000
<b>Due within one year</b>		
Orbit Treasury Limited	11,571	8,854
	<b>11,571</b>	8,854
<b>Due after more than one year</b>		
Orbit Treasury Limited	335,562	256,778
Orbit Capital plc	78,402	76,203
Debenture stock	16,000	16,000
	<b>429,964</b>	348,981
	<b>441,535</b>	357,835

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 24<sup>th</sup> 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 24<sup>th</sup> 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 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 10.12%

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

## Notes to the Financial Statements

### For the Year Ended 31 March 2016

#### 22 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:

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
In one year or less, on demand	11,571	8,854
<b>Repayable by instalments:</b>		
- more than one year but not more than two years	11,571	8,854
- In more than two years but not more than five years	34,713	26,564
- In more than 5 years	367,680	297,563
	<b>413,964</b>	<b>332,981</b>
<b>Repayable other than by instalments:</b>		
- Between one and two years	16,000	-
- In more than two years but not more than five years	-	16,000
- In more than 5 years	-	-
	<b>441,535</b>	<b>357,835</b>

#### Note (b)

As a result of raising loans totalling £16 million through the financial intermediary Funding for Homes Ltd, the Association received an additional sum of £2.8 million, representing a net discount on the market price of the stock on issue. This is shown as deferred income credit and is being released to the Statement of Comprehensive Income 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 £221k in 2016 (2015: £336k.)

The interest rate profile at 31 March 2016 was:

	<b>Total</b>	<b>Variable</b>	<b>Fixed</b>	<b>Weighted</b>	<b>Weighted</b>
	<b>£</b>	<b>Rate</b>	<b>Rate</b>	<b>Average</b>	<b>Average</b>
		<b>£</b>	<b>£</b>	<b>Rate</b>	<b>Term of</b>
				<b>%</b>	<b>Fixing in</b>
					<b>Years</b>
Instalment loans	425,535	187,236	238,299	4.33	24
Non-instalment loans	16,000	-	16,000	10.10	2
	<b>441,535</b>	<b>187,236</b>	<b>254,299</b>	<b>4.6</b>	<b>23</b>

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

## Notes to the Financial Statements

For the Year Ended 31 March 2016

### 23 Called up Share Capital

	No.	2016 £	No.	2015 £
<b>Issued and Fully Paid Shares of £1 each</b>				
<b>At 1 April 2015</b>	9	4	8	8
Issued	1	1	3	-
Surrendered	(2)	(2)	(2)	(4)
<b>At 31 March 2016</b>	<b>8</b>	<b>3</b>	<b>9</b>	<b>4</b>

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 Capital commitments

	2016 £000	2015 £000
Capital Expenditure which has been contracted for but has not been provided for in the financial statements	118,706	77,093
Capital Expenditure which has been authorised under authority from the Orbit Board but has yet to be contracted for	127,646	117,408
	<b>246,352</b>	<b>194,501</b>

The Association expects these commitments to be financed with:

	2016 £000	2015 £000
Social Housing Grant	23,109	14,582
Committed loan facilities (Orbit Treasury Limited)	207,911	179,919
Proceeds from the sale of properties	15,332	-
	<b>246,352</b>	<b>194,501</b>

### 25 Contingent Liabilities

Stock acquisitions previously undertaken include original government grant funding of £14.9m which has an obligation to be recycled in accordance with the original grant funding terms and conditions. Orbit Heart of England is responsible for the recycling of the grant in the event of the housing properties being disposed.

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

## Notes to the Financial Statements

### For the Year Ended 31 March 2016

#### 26 Cashflow from operating activities

	2016	2015
	£000	£000
Surplus for the year	6,073	9,405
Adjustments for non-cash items:		
Cost of sales housing properties & other fixed assets	3,349	3,065
Depreciation of tangible fixed assets	12,311	11,048
Impairment of tangible fixed assets	647	-
Other fixed assets written off	-	62
Increase/(Decrease)in Bad Debt Provision	266	(169)
(Decrease)/Increase in other provisions	(450)	1,726
Release of deferred income	410	326
Decrease/(Increase) in Stocks	1	(1)
Increase in Debtors	(10,797)	(2,123)
Increase in Creditors	4,346	7,242
Government grants utilised in the year	(3,132)	(2,876)
Donations paid to other group members	5,682	5,519
Interest payable	18,862	16,449
Interest receivable	(5)	(4)
Other financing costs	1,584	-
Movement in fair value of financial instruments	72	27
<b>Net cash generated from operating activities</b>	<b>39,219</b>	<b>49,696</b>

#### 27 Reconciliation of net cash flow to movement in net debt

	2016	2015
	£000	£000
Increase/(Decrease)in Cash in the year	1,012	(262)
Increase in Bank Deposits (with a maturity in excess of 24 hours)	393	418
Loans received	(119,837)	(159,904)
Loans repaid	36,137	125,333
Loan pool premium reserve FFH	115	114
<b>Change in Net Debt</b>	<b>(82,180)</b>	<b>(34,301)</b>
Net Debt at 1 April	(356,775)	(322,474)
<b>Net Debt at 31 March</b>	<b>(438,955)</b>	<b>(356,775)</b>

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

## Notes to the Financial Statements

### For the Year Ended 31 March 2016

#### 28 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	978	1,012	-	<b>1,990</b>
Bank deposits – more than 24 hours	418	393	-	<b>811</b>
Housing Loans due within one year	(8,854)	-	(2,717)	<b>(11,571)</b>
Housing Loans due after one year	(348,981)	(83,700)	2,717	<b>(429,964)</b>
Loan pool premium reserve FFH	(336)	-	115	<b>(221)</b>
	<b>(356,775)</b>	<b>(82,295)</b>	<b>115</b>	<b>(438,955)</b>

#### 29 Financial Commitments

##### Operating Leases

At 31 March 2016 Association was committed to making the following minimum future payments in respect of operating leases other than land and buildings:

:

	2016 £000	2015 £000 Restated
<b>Leases which Expire</b>		
Within 1 year	<b>270</b>	183
Within 2 - 5 years	<b>98</b>	258
After 5 years	<b>10</b>	20
<b>Total</b>	<b>378</b>	461

#### 30 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 2016.

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

The results of Heart of England Housing Association Limited are included in the Group financial statements. The consolidated financial statements of Orbit Group Limited are published on the Orbit website [www.orbit.org.uk](http://www.orbit.org.uk).

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

## Notes to the Financial Statements

For the Year Ended 31 March 2016

### 31 Property portfolio

	2016 No.	2015 No.
General needs	12,378	12,209
Affordable Rent	912	604
Intermediate Rent	33	61
Low cost home ownership	18	18
Supported Housing	1,920	1,865
<b>Total Owned by Orbit Heart of England</b>	<b>15,261</b>	<b>14,757</b>
Leasehold	785	759
Private Retirement Schemes	458	458
Owned	5	5
Managed on behalf of others	-	2
<b>Leasehold and Other Managed</b>	<b>1,248</b>	<b>1,224</b>
<b>Total Social Housing Units</b>	<b>16,509</b>	<b>15,981</b>
Market Rent	10	10
Commercial Units	20	15
<b>Total Non-Social Housing Units</b>	<b>30</b>	<b>25</b>
<b>Total Units</b>	<b>16,539</b>	<b>16,006</b>
	<b>2016 No.</b>	<b>2015 No.</b>
Stock in Development at 31 March		
General Needs	726	733
	<b>726</b>	<b>733</b>

### 32 Related Party Transactions

The Orbit Heart of England and Orbit South Boards also include a member who is an elected representative of Nuneaton & Bedworth Borough Council. During the year Orbit made payments of £1k to the Council (2015: £nil) and received payments from the council of £nil (2015: £34k).

A number of the board members are tenants/leaseholders of the Association or Group. Their tenancies/leases are on normal commercial terms and the members cannot use their position to their advantage. In the current year payments in aggregate to Orbit totalled £10k (2015: £10k). The outstanding amount owed at 31/3/16 was less than £1k.

Heart of England Housing Association is a subsidiary of Orbit Group Limited (the Parent). Shares are held by serving board members and the Parent. Under the Associations rules the Parent has the right at any time to appoint or remove any or all of the Members of the Board. On this basis the Association considers itself to be wholly owned and has chosen to take advantage of the exemption not to disclose transactions with group entities as defined by Section 33.1A FRS 102.

Further detail of non-consolidated management arrangements and transactions with non HCA regulated group entities are shown in note 34.



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

## Notes to the Financial Statements

### For the Year Ended 31 March 2016

#### 33 Explanation of Transition to FRS 102 from UK GAAP

##### Deferral of Income for Future Renewals and Maintenance

Previously, income received via service charges for future works were taken to the Statement of Financial Position through designated reserves. As section 18 of the Housing SORP 2014 now removes any designated reserves for reporting purposes, the accounting treatment for this income has now been amended to reflect this income as being deferred until the relevant expenditure has been incurred and is held as part of creditors.

##### Changes for FRS 102 Adoption

###### Holiday Pay Accrual

An accrual is now made for the entitlement to holiday at the year end which has not been taken by employees up to a maximum of five days. This has been calculated based on payroll records as being an adjustment to opening reserves of £107k.

###### Agreements to Pay and Associated Adjustment to Bad Debt Provision

For formal agreements to pay with tenants rent and service charge arrears, this is now being treated as a financial instrument and therefore is discounted back to the present value of future cash flows. As a result any bad debt provision relating to them has also now been restated.

###### Amortisation of Grant

Previously grant was allocated between structure and land. However, per section 13 of Housing SORP 2014, all grant is now recognised against structure. Therefore, any grant previously allocated to land has been appropriately amortised with an additional release to the Statement of Comprehensive Income Account of £671k for 2014-15.

##### Restated Consolidated Statement of Financial Position

	<u>£000</u>
Original reserves as at 1 April 2014	50,878
Holiday pay accrual	(107)
Accumulated amortisation of grant previously allocated to land	7,153
Transfer of designated reserves to deferred income	(2,533)
<b>Restated reserves as at 1 April 2014</b>	<b>55,391</b>
Restated surplus	9,405
<b>Reserves as at 31 March 2015</b>	<b>64,796</b>
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<b>Restated surplus for the year ended 31 March 2015</b>	<b>£000</b>
Original surplus for the year	9,058
Holiday pay accrual	21
Bad debt provision	8
Amortisation of grant previously allocated to land	120
Deferral of income to other creditors for renewals	(446)
Increase in depreciation charge	(2,205)
Grant amortisation	2,876
Movement in fair value of agreements to pay	(27)
<b>Restated surplus for the year ended 31 March 2015</b>	<b>9,405</b>

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

### Notes to the Financial Statements

#### For the Year Ended 31 March 2016

##### 34 Non-consolidated management arrangements

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

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 £49.1m to Orbit Homes (2020) Ltd (2015: £40.2m) for the purchase of Housing Property assets and has an outstanding creditor balance with Orbit Homes (2020) Ltd of £5.3m (2015: £7.3m).

Orbit Treasury Ltd provides a funding on-lending service to the Group. During the year the Association paid interest costs totalling £15.3m (2015: £14.4m) and fees of £1.3m (2015: £0.8m). 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 paid interest costs totalling £2.8m (2015: £0.1m) and fees of £0.1m (2015: £Nil). The allocation of these costs is based upon the level of debt required and secured by the Housing Property held in the Association