

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

Financial statements

For the year ended 31 March 2018

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

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

Orbit in Numbers

Celebrating 50 years of building communities

Orbit Heart of England is part of the Orbit Group; founded in 1967, we have been investing in the provision of quality homes and services for over fifty years.

In 2017-18 Orbit achieved the following:

- **Turnover £357m**
Last year £333m
- **Surplus for the year £85m**
Last year £65m
- **2,030 new homes, 1,210 for social or affordable rent**
Last year: 1,788, 1,075 social or affordable rent
- **£3.8m community investment**
Last year: £3.5m
- **82.7% customer satisfaction**
Last year: 79.7%
- **51% transactions on line**
Last year: 24%

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

The Board, Executives and Advisors

Board Members

Name	Role	Appointed	Resigned
Fran Beckett	Chair	1 April 2013	
Kerry Bolister	I	1 March 2015	
Andy Hobart	I	14 September 2016	
Julie Hopes	I	16 April 2013	
Sam Margrave	R	9 July 2013	7 July 2017
Grant Richardson	I	1 February 2013	
Bill Yardley	I	15 July 2014	

- R = Resident member
- I = Independent member

Senior Management team

Executive Director	Role
Paul Richards	Group Customer Services Director
Adam Cooper	Commercial Director
Caroline Davies	Director of Property Services
Ayyaz Ahmed	Director of Independent Living (appointed December 2017, left May 2018)
Kate Farley	Director of Independent Living (interim)
Louise Palese	Director of Customer Services
Martin Chuter	Director of Property Management (appointed September 2017)

Advisors

Independent Auditors	Principal Solicitors	Registered office
KPMG LLP One Snowhill Snow Hill Queensway Birmingham B4 6GH	Trowers and Hamlins 3 Bunhill Row London EC1Y 8YZ	Garden Court Binley Business Park Harry Weston Road Binley Coventry CV3 2SU

Co-operative and Community Benefit Society Number 30446R

Regulator of Social Housing Number L4526

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

Strategic Report and Operating and Financial Review

Financial Performance

Statement of comprehensive income	2017-2018 £m	2016-2017 £m Restated	2015-2016 £m Restated	2014-2015 £m Restated	2013-2014 £m
Turnover	92	90	88	86	76
Operating costs and cost of sale	(66)	(63)	(63)	(61)	(49)
Surplus on sale of housing	11	10	7	7	-
Operating surplus	37	37	32	32	27
Surplus on sale of housing	-	-	-	-	6
Net interest and other financing costs	(14)	(17)	(17)	(15)	(16)
Donations	-	-	-	(6)	(5)
Surplus for the year	23	20	15	11	12

Statement of financial position	2017-2018 £m	2016-2017 £m Restated	2015-2016 £m Restated	2014-2015 £m Restated	2013-2014 £m
Tangible fixed assets / investments	920	855	779	691	400
Net current assets / liabilities	(29)	(38)	(34)	(38)	(32)
Total assets less current liabilities	891	817	745	653	368
Creditors due after > 1 year	787	727	669	585	317
Provisions	-	1	1	1	-
Revenue reserves	104	89	75	67	51
	891	817	745	653	368

Key indicators (Group)	2017-2018	2016-2017 Restated	2015-2016	2014-2015	2013-2014
Debt per unit (£k)	33.4	33.1	31	27.9	24.2
Months cash/secured loans available	36	36	14	18	30
Interest cover	3.09	3.07	2.95	2.86	3.44

2017-18 saw continuing strong financial performance, with overall surplus for the year increasing to £23 million (2017: £20 million) whilst turnover grew by 2.6% to £92 million. Surplus on the sale of housing has increased to £11.2 million. Our key financial indicators have all been achieved for the year.

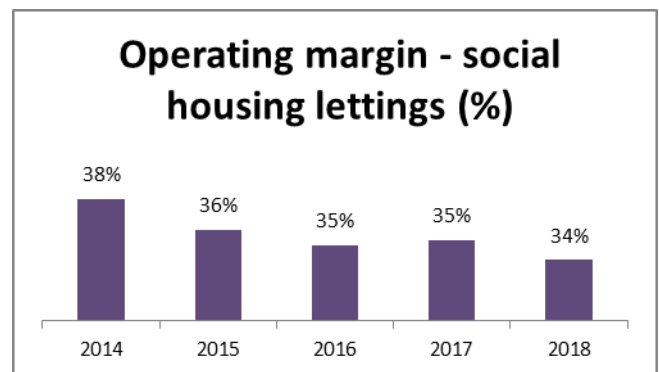
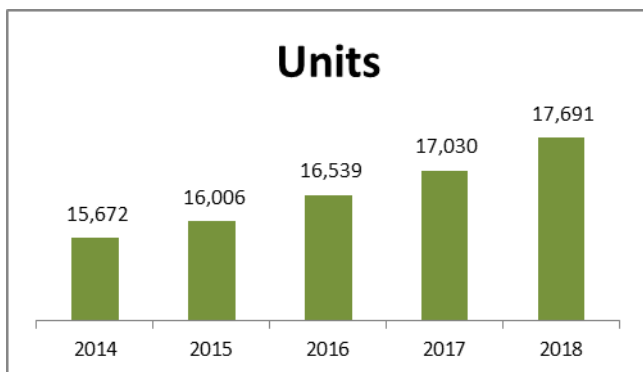
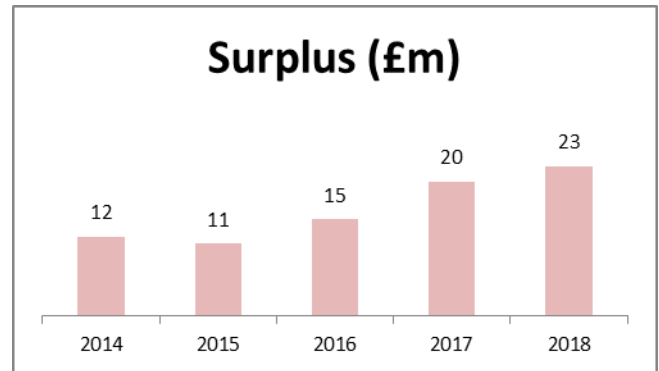
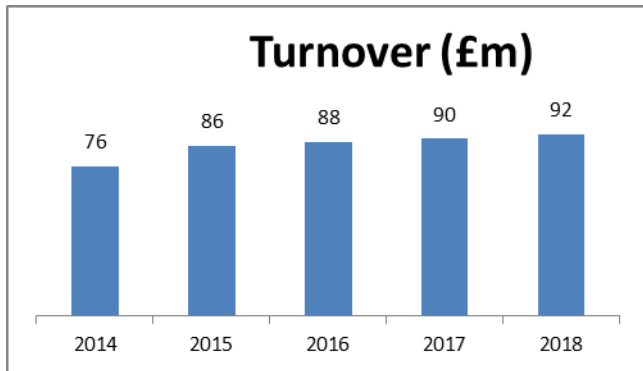
The statement of financial position has also increased in strength, with fixed assets increasing to £920 million (2017: £855 million, 7.6% increase) and reserves to £104 million (2017: £88 million, 17.9% increase.) We now have 17,691 units, an increase of 661 from 2017.

Operating costs are marginally higher at £66 million. Our largest area of expenditure is the maintenance of our properties, which was £30.1 million of which £8.6 million was spent on the replacement of components (including kitchens, bathrooms and boiler replacements) and work to improve the energy efficiency of our properties.

Donations are accounted for as a distribution from reserves and are now shown in the statement of changes in reserves.

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

Strategic Report and Operating and Financial Review



Strategic Report and Operating and Financial Review

Our Vision and Values

In 2018, we revisited our vision and values to ensure they reflect our ambition as we start to think and plan beyond 2020. Our vision provides us with clear direction and our values outline the way we will work in the future.

Our vision

We lead in building thriving communities

Our values



Delivering the 2020 targets

Our 2013 business plan launched a set of ambitious targets which have transformed the way we work, providing high-quality homes and excellent services for our 100,000 customers.

At the end of 2017-18, we are well placed to meet our targets. Our impact so far:



Orbit continues to focus investment in these key areas to enable us to deliver on our mission and purpose. Investment in service delivery, community programmes and housing growth together help create thriving communities.

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

Strategic Report and Operating and Financial Review

Beyond 2020

As we start to realise our 2020 targets, our two year transformation programme is designed to build on our key strengths, unlock our potential and create an outstanding organisation that is positioned for growth and great service delivery beyond 2020.

Aligned to our business priorities of Service, Property, People and Profit, there are four key focus areas which form our Group ambition:

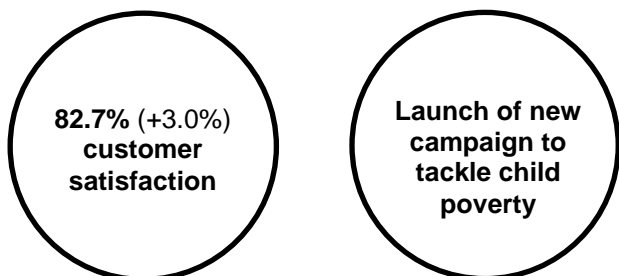
1. Leading service and business performance – delivering 90% customer satisfaction
2. Accelerated and scalable growth – continuing to build 2,000 new homes per annum
3. A high quality stock portfolio – investing £1.1 billion between 2017 and 2022 in new and existing homes to create places where people want to live.
4. A place where people are proud to work – recognised as one of the Sunday Times 100 Best Not-for-Profit Companies to work for.

Compliance and risk is a thread which runs through all that we do.



Operating Performance

Service



A new promise

Our Customer Promise was launched in October 2017, developed by our customers and employees:

We provide excellent services and good value, high quality homes. We place our customers at the heart of what we do, investing in communities to make great places to live.

The promise provides a commitment every Orbit employee makes, as well as a framework for our future delivery model.

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

Strategic Report and Operating and Financial Review

Investment and improvements in technology, data and processes will see a transformation in the way our customers interact with us. We offer a multi-channel approach so that customers can access our services in the way they want to. This means delivering services in a number of ways, around the clock, including live chat from 8am-8pm. Our digital transactions have increased to 51% (+27%) in the last year alone.

Through our Better Days programme, we have supported 4,555 customers with financial and energy advice, helped 378 customers into work and helped 3,300 customers with their emotional and physical wellbeing.

David's story

Before speaking to one of our trained Tenancy Support officers (TSO), David relied on 'Cash Converters' to pay his bills. He rarely spent money on food and was struggling to cope, with concerns being raised about his mental health. The TSO encouraged him to talk about his issues with money, supported him to apply for the correct benefits and helped him to create a realistic budget.

David said: "I've managed to start saving money and I'm being much more careful with what I spend. I have managed to save enough to buy myself a small car which will be a life changer for me... I'm over the moon...I was set a target and it has been tough but I've stuck to it."

Tackling child poverty

We provide homes for around 16,000 children under the age of 16 and twelve months ago we embarked on a journey to find out more about these children, their parents and what life is like for them. We spoke to our young residents across the country from Coventry to Thanet and worked with parents to see what support they need and where we, as a housing provider, could make a real difference. As part of journey we partnered with Child Poverty Action Group.

In March we launched a report in Parliament with Kevin Hollinrake MP, Co-Chair of the All Party Parliamentary Group on Poverty and were joined by a number of interested parties including housing providers and charities. The report includes a number of practical actions housing providers can take to tackle child poverty, alleviating pressure on both our customers and us as businesses, from furniture recycling and tenancy sustainment, to support with the cost of the school day and the provision of community areas to meet and play.

We campaign nationally on issues that affect our customers and over the course of the next 12 months will continue to develop our Happy, Healthy Starts campaign working with Child Poverty Action Group and promoting our toolkit of practical actions to the housing sector and beyond.

Property



New homes

As one of the UK's leading housing providers, Orbit offers a full range of high-quality properties to suit every stage of life with flexible ways for customers to rent and buy. Last year we invested £250 million into new homes and delivered a record 2,030 properties, surpassing build expectations for a third consecutive year.

Of the 2,030 homes developed from 1 April 2017 to 31 March 2018 this includes 1,210 built for affordable and social rent, 539 for shared ownership, 199 for market sale and 82 for private rent.

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

Strategic Report and Operating and Financial Review

Heart of England HA completed our first development for private rent in the heart of Stratford-upon-Avon. Fordham House is a £14.6 million scheme of 82 apartments, each designed with minimum maintenance requirements and finished to an exacting standard with the latest in cutting edge technology. The development was awarded Secured by Design Gold Standard for security measures incorporated into the design.

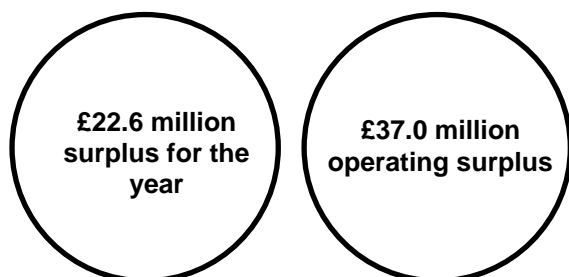
Asset management

Our asset management strategy works on three principles – investment, rationalisation and realisation. Our investment plans are aimed at sustaining a portfolio of warm, well kept homes for our customers – 77% have a minimum rating of EPC band C. We have a programme of rationalisation of those homes which are located out of our core areas and are therefore more expensive to manage, and finally our strategy will consider realisation of the whole of those assets which are poorly performing for more effective investment elsewhere

Luke and Emeline

Orbit customers Luke and Emeline wanted to own their first family home as they prepared to welcome baby Luna into the world. After renting three different properties over four years, they found their perfect family home at our Hedging Gardens development in Tamworth, taking advantage of the high-quality homes available under shared ownership. Commenting on the experience, Emeline said: “Our sales consultant was brilliant. He helped us through the whole process from day one to handing us the keys and made the move stress-free.”

Profit- Orbit Heart of England



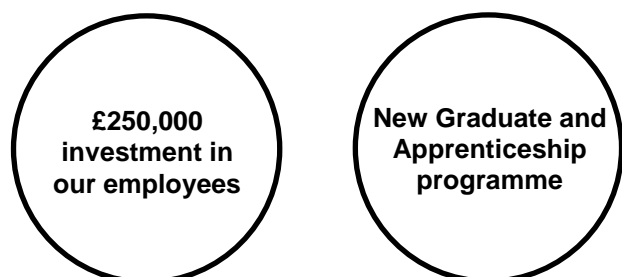
With turnover at £92 million, our business has grown by 2.6% year on year. Rental income rose by £2.9 million due to the increased number of properties in management offsetting the decrease of 1.0% in social and affordable rents.

We achieved an operating margin of 40.2%, with the core social lettings business returning a margin of 34.4%.

Surplus on sale of housing at £11.2 million an increase of £0.6 million from 2017 (£10.6 million) as we divested of underperforming and geographically remote properties.

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

People



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

Strategic Report and Operating and Financial Review

Investing in our people

We have a strong performance culture and value the knowledge, skills and capabilities our people bring to Orbit.

Last year Orbit invested over £250,000 supporting 71 employees with professional membership subscriptions, 82 employees with professional qualifications and 226 employees with external training and development.

We also encourage and support our people, who either wish to become or are already involved in volunteering for the benefit of Orbit customers or the wider community. All employees are eligible to take up one day paid volunteering leave per year. In 2017-18, our employee volunteering provided over £445,000 worth of volunteering hours, with more than 27,000 hours volunteered.

Future talent

In November Orbit recruited six graduates and 14 apprentices into our new 'Build Your Career' programme. Embarking on a two year programme, each of them will experience what it is like to work in a number of departments across the organisation, from housing and sales to finance and asset management. Our graduates scored Orbit 9 out of 10 as an employer and our new apprentices scored the organisation 8.5 out of 10. Recruitment of a second cohort has begun.

By investing in our people, our culture and values we aim to become a Sunday Times Top 100 company within the not-for-profit category in the coming year.

Busola Adeniji

Responsive Repairs Graduate, Busola Adeniji, said: "Orbit is such a fun place to work; everyone has been warm and welcoming. The core values of the company are embodied in all staff, which creates that binding culture and unites us all together. I am so glad and proud to work within such an organisation that makes a difference to individual lives."

Compliance and risk

The safety of our customers and our people remains a high priority across the business and we're proud to have maintained 100% compliance across the key areas of gas safety, fire risk assessments, asbestos and legionella. Earlier this year, we entered into a partnership with the West Midlands Fire Service to ensure the highest level of customer safety throughout our 42,000 properties. Known as a Primary Authority Scheme, Orbit is the first housing association to enter into such a partnership with the regional Fire Service following a vigorous vetting process.

Orbit was also recently awarded the internationally recognised RoSPA (The Royal Society for the Prevention of Accidents) Silver Award for both Health & Safety and Fire Safety. This sought after accolade is a testament to the policies and practices we have in place to ensure the safety of our people and customers. Our teams have also been recognised by the Association of Gas Safety Managers having been shortlisted for two awards in Electrical Safety Collaboration and Gas Safety Staff Training & Development Award.

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Value for Money

Orbit has a strong track record of creating efficiencies and investing those savings in improving our homes, our communities and in delivering more housing in areas of need. This year we have embarked on a two year transformation programme, 'Shaping our Future', which will build on this record to further enhance business performance. It includes:

- a new operating model, structuring our housing service into two component functions, housing management and property management. Working in specialised roles will enhance the effectiveness of our staff and improves outcomes for customers.
- a review of corporate service structures to reduce layers of management and improvement alignment to front line services.
- office rationalisation, realising the value of our call centre and on line service (on line transactions have increased to 51% this year from 24% and we have an ambitious target by 2020 of 75%).
- investment in IT to streamline systems and improve data quality.
- development of a new corporate culture with a focus on making Orbit a great place to work.

The programme has achieved operating cost savings of £7.2 million per annum for 2018/19 and will realise another £2.7 million per annum from 2019/20.

	2019	2020
Revised operating model	£3.8m	£0.7m
Procurement	£0.8m	£0.3m
Working more efficiently	£2.6m	£1.7m
Total	£7.2m	£2.7m

Sector scorecard

We welcome the development of the sector scorecard. Publication of this set of metrics, which constitute a clear measure of the effectiveness of a social housing business, provides a focus that will encourage the sector's drive for effectiveness.

	Metric	%/£	Result	Performance against peers (estimated)*
1	Reinvestment	%	7.5	
2a	New supply - social housing	%	4.4	
2b	New supply – non social housing	%	0.7	
3	Gearing	%	48.2	
4	EBITDA MRI interest cover	%	184.5	
5	Headline social housing cost per Unit £	£	3,370	
6a	Operating margin	%	25.4**	
6b	Operating margin – social housing	%	37.8	
7	Return on capital employed	%	4.7	

* Peer benchmark figures have been obtained from 2016/17 Homes England scorecard pilot.

**Operating margin excludes surplus on sale of housing properties.

Orbit performs well against the range of new metrics put forward by our Regulator. Orbit's achievements in delivering 2,000+ new homes a year will mean that our gearing and interest cover are always likely to perform below top quartile for the sector. These metrics are keenly managed and we have capacity to continue to develop at these levels within our existing funding plan and loan covenants.

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Similarly, our operating margin is impacted by our development strategy with our large market-facing sale programme having a diluting effect on the headline margin. Our social housing margins are comparable to the top quartile performers. Our 'Shaping our Future' programme will further improve efficiency which will improve the cost per unit and operating margins.

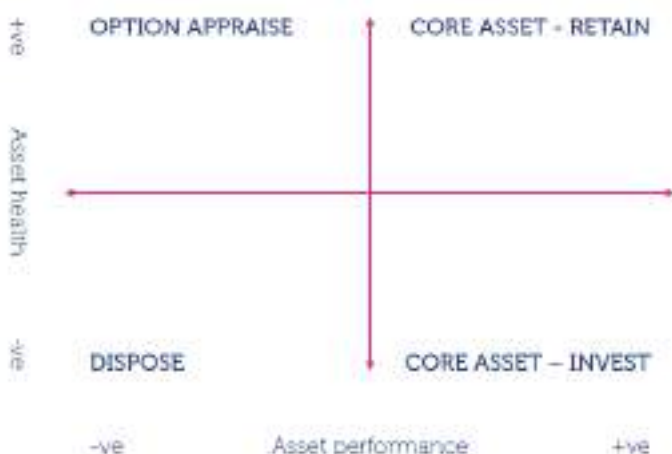
We remain committed to being a leading social housing developer and have completed a £450 million bond, in part, to fund this development. We also continue to improve the quality of our homes, conducting a whole stock condition survey to focus investment where it is needed.

Optimising our assets

We recognise that the key to maximising our financial strength is in making best use of our assets. We have invested time and money in skills, technology and improving data so we better understand our properties to enable strong decision making.

We are part way through a stock condition survey exercise which will begin a regular cycle of data refreshing. This will ensure that we have an up to date view of our stock, enabling us to move to a condition led component replacement strategy. This will focus our investment to areas of need and have positive impacts on customer service and reduce future responsive maintenance costs.

Taking the information we have about each of our 34,000 rented properties (1,700 estates), we produce expected cashflows and Net Present Values (NPV) to assess future financial performance and aligning this with other factors such as our strategy, geography and our commitment to have all of our stock at Band C eco-performance, we assess possible actions on a four box grid:



Our Strategic Asset Management strategy has already had success. Poor performing schemes have been identified and opportunities for sale and redevelopment have been created.

- A former office has been included in the redevelopment of a site in Bexley.
- Unutilised commercial properties converted to housing for sale.

We made profits of £16.3 million from the sale of void properties during 2017/18 which will be reinvested into new developments and our existing portfolio.

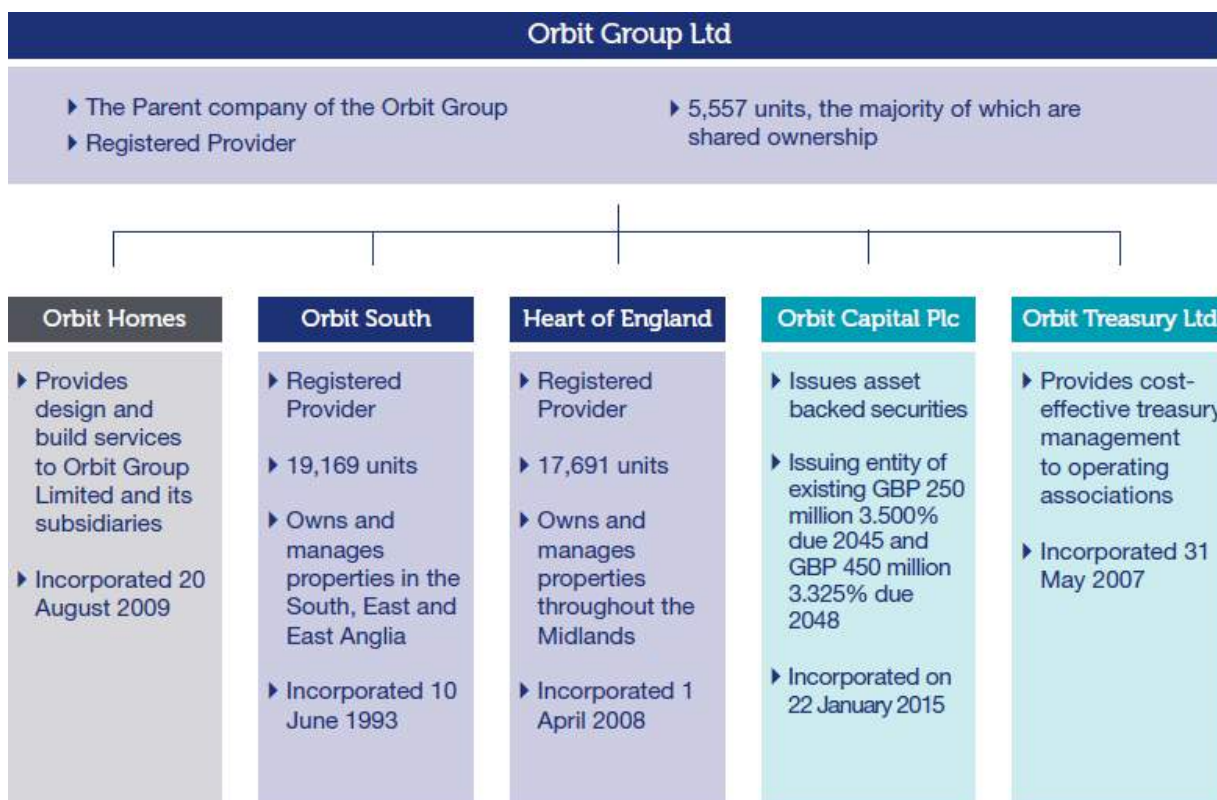
We have also been able to pro-actively target the properties we want to sell. Traditionally stock sales have been a reactive process, selling properties as and when they become void. Having now identified the properties we would like to dispose, as void or new properties become available they can be offered to residents in our target properties. This gives the resident a better home and frees up the targeted home for sale. A programme of 1,000 properties will be sold over the next six years, raising £96 million improving the quality of our remaining stock and rationalising the areas in which we work. The stock condition work has and will continue to influence this programme.

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

Governance

Business overview

The Group structure is illustrated below; Orbit Group Limited is the parent organisation of the Group. Orbit Customer and Communities (formerly Orbit Living) is our housing management business comprising Orbit Heart of England (Heart of England Housing Association Limited and Orbit East and South (Orbit South Housing Association Limited). Orbit Homes (2020) Limited is our development and sales organisation, building new homes. Orbit Treasury Limited is our main funding vehicle, whilst Orbit Capital plc was set up to issue bonds. Other entities in the Group structure (not shown below) are two dormant companies, Orbit New Homes Limited and Orbit Gateway Limited.



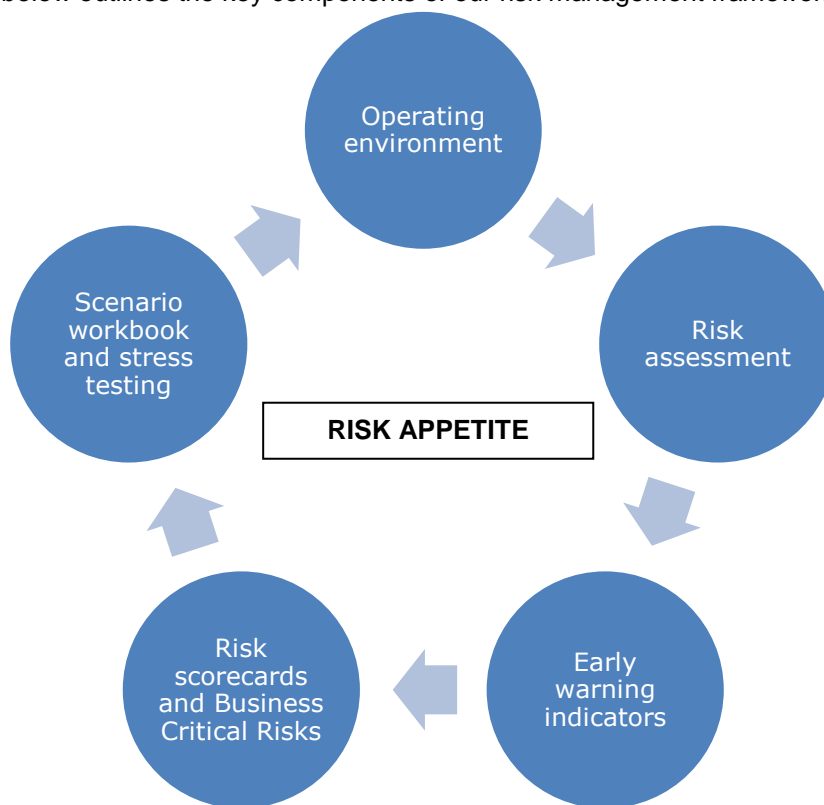
Risk management

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

Our overall approach to risk management is based on good practice and our internal control environment is continually reviewed and monitored by the Audit and Risk Assurance Committee on behalf of the Board. All subsidiaries are required to implement our risk management framework and provide reports to their respective boards.

Governance

The illustration below outlines the key components of our risk management framework.



Our framework includes an analysis of the operating environment, an assessment of risks supported by early warning indicators which are monitored by senior management and the Board alongside our key performance targets. These early warning indicators cover both financial and non-financial risks. These are used to create risk scorecards for all subsidiaries and trading divisions, which are consolidated into business critical risks for the Executive team, Audit and Risk Assurance Committee and Group board to review.

We have developed a workbook outlining three stress scenarios, each one identifying the impact on our business and the recovery plans in place to manage these. These scenarios are:

- 1) Financial crisis
- 2) Political influence
- 3) Uncertainty of Brexit

The scenarios are approved by the Audit and Risk Assurance Committee and used to stress test the financial plan.

At the centre of the risk management framework is the risk appetite, which sets clear parameters for the business plan and for major decisions taken during the year.

This framework enables the business to anticipate key risks and put in interventions before they adversely impact upon the sustainability of our business and/or delivery of our objectives.

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

Governance

We have identified seven business critical risks to the business. These are:

Risk	Mitigation
<p>Material change in the economic forecast adversely impacting upon the key assumptions within the financial plan including:</p> <ul style="list-style-type: none"> • Reliance on market sales • Interest rate and inflation • Maintenance and development costs • Revenue management 	<ul style="list-style-type: none"> • Stress testing, scenario analysis and management action plans • Welfare reform strategy • Continuous budgeting • Early warning indicators within Finance and Treasury services • Financial golden rules included within risk appetite framework
<p>Poor delivery of service leading to low customer satisfaction, cost inefficiencies and regulatory intervention.</p>	<ul style="list-style-type: none"> • Transformation programme within Customer Services, focussed on: <ul style="list-style-type: none"> ○ Delivery of the responsive and property investment plan ○ Patch based tenancy management model ○ Implementation of the property management model ○ Implementation of the property compliance system ○ Arrears management review ○ Shared services model
<p>Condition of existing stock in a poor state leading to a material impact on the financial plan and growth aspiration.</p>	<ul style="list-style-type: none"> • Delivery of the asset management strategy • Increased governance by Property Investment Board in terms of property investment
<p>Negligence / poor working practices leading to an unsafe working environment.</p>	<ul style="list-style-type: none"> • Health and Safety (H&S) strategy underpinned by robust management system • Dedicated Compliance team within Property Services • External H&S expertise within the construction business for market sale and affordable • KPI review at Executive and Board levels
<p>Poor standard of management and leadership unable to adapt to a changing financial and regulatory operating environment.</p>	<ul style="list-style-type: none"> • Implemented a new performance management framework • 'Shaping our Future' transformation
<p>Unable to respond to a cyber-attack in an effective manner.</p>	<ul style="list-style-type: none"> • Disaster recovery plan and third party support for penetration testing • ISO 27001 security accreditation • Specific cyber security insurance in place
<p>Poor quality of data leading to a failure on governance in terms of performance monitoring and decision making.</p>	<ul style="list-style-type: none"> • New structure to the Data and Performance teams as part of Shaping our Future • Investment in new ICT platform, including privacy by design as part of Shaping our Future

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

Governance

Code of governance

We have adopted the National Housing Federation's (NHF) 2015 Code of Governance as the Code of Governance for our Registered Providers. Whilst our non-charitable subsidiaries are not required to comply with the Code, they undertake to adhere to the spirit of the Code. We comply with the Code of Governance in all material aspects and Homes England's Governance and Financial Viability Standard. We have developed our own probity and severance policy, which picks up the key principles of the NHF's Code of Conduct. In addition to this policy, we have our own code of conduct for board members.

Governance and Viability Standard

Orbit complies with the Governance and Viability Standard of the Regulator of Social Housing (RSH). Our governance rating is G1 and our financial viability rating is V2.

Our financial viability rating was downgraded by the RSH (then the HCA) in November 2017 to V2 (compliant) from a previous V1 (compliant) rating. This affected a number of other housing associations as well Homes England changed the way it categorised housing associations with a housebuilding programme to more accurately reflect the risks being managed by those businesses. This was simply a recognition of the risk exposures of the sector to more accurately reflect the commitment to leverage our asset base to build new homes.

It is important to stress that we retained our G1 rating, demonstrating our strong ability to manage our risks. Being the second largest developer in the sector, we have been pleased to see the renewed focus and financial commitment by central government on housing, particularly in the Chancellor's budget. We continue to believe part of our core purpose is to provide significant new social and affordable housing, and we will continue to execute that mandate.

General Data Protection Regulation (GDPR)

We have invested in ensuring that Orbit is working towards compliance with the GDPR. This is underpinned by a clear strategy and robust action plan, the performance against which is monitored by senior management.

Shareholding policy

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

Committees of the board

The Group board is supported by two committees with specific responsibilities.

Governance and Remuneration Committee – responsible for developing and maintaining our governance framework. This includes arrangements for the recruitment, induction, appraisal and development of board members, the review of the roles and responsibilities of board members and structure and policies of board member remuneration. The Committee also considers our policy on remuneration, contracts of employment and conditions of service generally for executive directors and recommends to Group board the specific remuneration packages for each of the directors, including pension rights and any compensation/severance payments.

Audit and Risk Assurance Committee - considers the operations of internal audit and the appointment of external auditors, the scope of their work and their reports. The Committee monitors the implementation of our risk management strategy and internal audit plans. It reports to the Group board on the effectiveness of the internal control arrangements and considers the financial statements before they are presented to Group board for approval.

Customer involvement

We are committed to involving customers in decisions affecting their homes. There is representation from customers on the Customer and Communities Board and a range of involvement opportunities for customers to scrutinise, hold us to account for our performance and have input into shaping service delivery have been developed as part of the co-regulation agenda. This ensures we meet regulatory requirements and good practice in terms of governance and customer involvement.

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

Governance

Regular customer experience surveys (Real Time Feedback) are undertaken, with feedback from customers being used to drive service improvements. In addition, our complaints and compliments procedure is used to capture customer feedback more effectively and apply the learning.

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

Subsequent events

On 7 June 2018 the group raised its second public bond to the value of £450 million.

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 board

A handwritten signature in dark ink, appearing to read 'Fran Beckett', is written over a faint, circular stamp or watermark.

Fran Beckett
Chair
19 July 2018

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

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 control environment (ICE) framework, which pulls together assurance from a number of sources on a quarterly basis, which feed into the annual statement of internal controls. Orbit's standard assurance providers include the following:

- ✓ Internal audit
- ✓ External audit
- ✓ Compliance with standing orders
- ✓ Insurance performance
- ✓ Information governance and management of personal data
- ✓ Treasury advisors
- ✓ Risk management strategy
- ✓ Health and safety management system
- ✓ External specialist reviews

Outcomes

During 2017-18 the outcomes from key areas of assurance have been positive and management continue to recognise that continuous improvement is fundamental, particularly as the operating environment for the sector evolves. It is important to note that:

1. The outcomes from internal audit reviews have provided an insight into robust control and compliance culture. The significant majority of reports provide a positive opinion and where weaknesses are identified they have either been addressed or management are in the process of addressing these.
2. External audit opinion is unqualified.
3. Our risk management strategy continues to provide insight into Orbit's seven business critical risks. Stress mitigations have been tested and are effective if key scenarios materialise. During 2017-18 the Board approved revisions to the risk appetite framework reflecting our ambitions to continue to develop new homes beyond 2020.
4. The annual health and safety report confirmed that there is a robust H&S management system and there is continuous focus on bedding in a strong culture by management. This has been confirmed by an audit undertaken by the Royal Society of Prevention of Accidents (RoSPA).
5. Insurance risks continue to be managed effectively with increase in premiums for 2018-19 due to organic growth of the business.
6. Orbit's governance arrangements continue to be robust, confirmed by the annual self assessment.
7. There is effective management of personal data, with weaknesses addressed promptly and no enforcement action.

Based on the risk and assurance work undertaken in 2017-18 Orbit's internal control (financial and non-financial) environment supported by risk management and governance arrangements provides reasonable assurance to Audit and Risk Assurance Committee and Group board that the controls framework is effective.

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, 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 has 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 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
- assess the association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless it either intends to liquidate the association or to cease operations, or has no realistic alternative but to do so.

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. It is responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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 13 September 2018.

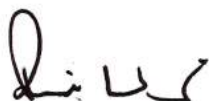
Disclosure of information to auditors

The directors who held office at the date of approval of this statement confirm, so far as they are each aware, there is no relevant audit information of which our independent auditors are unaware; and each director has taken all the steps they ought to have taken as a director to make them aware of any relevant audit information and to establish that our independent auditors are aware of that information.

Independent auditors

KPMG LLP was appointed as the external auditors for the year ended 31 March 2018. A resolution to re-appoint the group's auditors for external audit services will be proposed at the annual general meeting.

The report of the board was approved on 19 July 2018 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 2018

Opinion

We have audited the financial statements of Heart of England Housing Association ("the association") for the year ended 31 March 2018 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Reserves, Statement of Cash Flows and related notes, including the Principal accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view, in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, of the state of affairs of the association as at 31 March 2018 and of its income and expenditure 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the association in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Other information

The association's Board is responsible for the other information, which comprises Orbit in Numbers, Board, Executives and Advisors, the Strategic Report of the Board and Operating and Financial Review, Governance (including the Statement of Internal Control) and Report of the Board. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work, we have not identified material misstatements in the other information.

Matters on which we are required to report by exception

Under the Co-operative and Community Benefit Societies Act 2014 we are required 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.

We have nothing to report in these respects.

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 2018

Board's responsibilities

As more fully explained in their statement set out on page 18, the Association's Board is responsible for the preparation of financial statements which give a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it either intends to liquidate the association or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the association 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.



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

2 August 2018

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

Statement of Comprehensive Income

For the year ended 31 March 2018

	Note	2018 £000	2017 £000 Restated
Turnover	2	92,027	89,713
Operating costs	2	(66,245)	(63,169)
Surplus on sale of housing properties	7	11,206	10,611
Operating surplus	2	36,988	37,155
Loss on sale of fixed assets	5	(71)	-
Interest receivable	8	5	28
Interest payable	9	(18,571)	(16,754)
Increase in fair value of investment properties	12	4,248	-
Movement in fair value of financial instruments		9	(8)
Surplus on ordinary activities before taxation		22,608	20,421
Tax on surplus on ordinary activities	10	-	(15)
Surplus for the year		22,608	20,406

All amounts derive from continuing operations.

The accompanying notes form part of these financial statements.

The financial statements on pages 21 to 49 were approved by the board and signed on its behalf by:

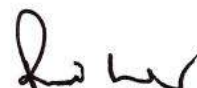


Fran Beckett
Chair

19 July 2018



Andy Hobart
Board Member



Richard Wright
Secretary

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

Statement of Changes in Reserves

For the year ended 31 March 2018

	Income & expenditure reserve £000	Restated Total reserves £000
Balance as at 1 April 2017	88,479	88,479
Surplus for the year	22,608	22,608
Donations paid to Orbit Group Ltd	(6,732)	(6,732)
Balance as at 31 March 2018	104,355	104,355

	Income & expenditure reserve £000	Restated Total reserves £000
Balance as at 31 March 2016	70,869	70,869
Capitalised interest restated	4,267	4,267
	75,136	75,136
Restated reserves as at 31 March 2016		
Restated surplus for the year ended 31 March 2017	20,406	20,406
Donations paid to Orbit Group Ltd	(7,063)	(7,063)
Balance as at 31 March 2017	88,479	88,479

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

Statement of Financial Position

As at 31 March 2018

	Note	2018 £000	2017 £000 Restated
Fixed assets			
Tangible fixed assets	11 & 13	903,809	853,834
Investment properties	12	14,640	-
Investments fixed assets	14	1,433	783
		919,882	854,617
Debtors: amounts falling due after more than one year	15	839	635
Current assets			
Trade and other debtors	15	46,807	41,015
Investments	16	-	800
Cash and cash equivalents		1,049	2,259
		47,856	44,074
Provisions for liabilities due within one year	20	(721)	-
Less: creditors: amounts falling due within one year	17	(76,640)	(82,689)
Net current liabilities		(29,505)	(38,615)
Total assets less current liabilities		891,216	816,637
Creditors: amounts falling due after more than one year	18	(786,861)	(727,141)
Provisions for liabilities	20	-	(1,017)
Total net assets		104,355	88,479
Reserves			
Income and expenditure reserve		104,355	88,479

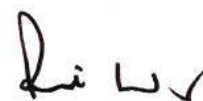
The financial statements on pages 21 to 49 were approved by the board and signed on its behalf by:



Fran Beckett
Chair



Andy Hobart
Board Member



Richard Wright
Secretary

19 July 2018

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

Statement of Cash Flows

For the year ended 31 March 2018

	Note	2018 £000	2017 £000
Net cash generated from operating activities	26	38,555	12,946
Cash flows from investing activities			
Purchase of tangible fixed assets		(72,569)	(78,869)
Purchase of investment properties		(3,698)	(6,695)
Proceeds from sale of tangible fixed assets		14,402	13,769
Grants received		7,087	2,750
Interest received		5	28
		(54,773)	(69,017)
Cash flow from financing activities			
Interest paid		(23,197)	(19,803)
Other net financing costs received/(paid)		(245)	4,254
New secured loans		116,177	152,698
Repayments of borrowings		(77,877)	(80,837)
Increase in deposits		150	28
		15,008	56,340
Net change in cash and cash equivalents		(1,210)	269
Cash and cash equivalents at beginning of the year		2,259	1,990
Cash and cash equivalents at the end of the year	28	1,049	2,259

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

Notes to the Financial Statements

For the year ended 31 March 2018

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 Regulator of Social Housing 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 in accordance with 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. 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 FRS 102 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 England, 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 2018

1 Principal accounting policies (continued)

Housing properties

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

Housing property components	Depreciation life
Kitchens	20 years
Bathrooms	30 years
Windows and doors	30 years
Boilers	15 years
PV panels	25 years
Roof	60 years
External wall insulation	36 years
Rewiring	30 years
Structure (rehabilitated)	60 years
Structure (new stock)	100 years

Freehold land 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 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 Social Housing Grant, 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 received for items of cost written off in the statement of comprehensive income are matched against those costs as part of turnover.

Social Housing Grant 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 Social Housing Grant can be used for projects approved by Homes England. However, Social Housing Grant may have to be repaid if certain conditions are not met and, in that event, is a subordinated unsecured repayable debt. The net Social Housing Grant received and not spent is included in current liabilities, taking into account all properties under construction.

Investment properties

Market rented properties are treated as investment properties. They are valued externally after construction / acquisition by a qualified RICS Chartered Surveyor. Changes in the value of market rented properties are taken to the statement of comprehensive income. Market rented properties under construction are stated at cost and all commitments are included as capital commitments.

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

Notes to the Financial Statements

For the year ended 31 March 2018

1 Principal accounting policies (continued)

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 18 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.

Capitalisation of interest and administration costs

Interest on loans financing development is capitalised at the group's weighted average cost capital (WACC). 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

Orbit Group Limited 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.

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

Notes to the Financial Statements

For the year ended 31 March 2018

1 Principal accounting policies (continued)

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.
- 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.

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

Notes to the Financial Statements

For the year ended 31 March 2018

1 Principal Accounting Policies (continued)

Disposal proceeds fund

Voluntary purchase grant net of disposal proceeds is with effect from April 2017 no longer credited to this fund. The existing fund balance will appear as a creditor until such time as it is repaid or recycled.

Recycling of capital grant

Where Social Housing Grant Social Housing Grant is recycled the Social Housing Grant is credited to a fund that appears as a creditor and can be used to fund projects approved by Homes England. However, Social Housing Grant may have to be repaid if certain conditions are not met and, in that event, is a subordinated unsecured repayable debt.

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.

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.

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

Notes to the Financial Statements

For the year ended 31 March 2018

1 Principal accounting policies (continued)

Stock and work in progress

Stock and work in progress are stated at the lower of cost and net realisable value. Cost includes land, build costs, applicable overheads and interest. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate. Interest on borrowings incurred during the development period is capitalised.

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 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 2018

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

Current year

	Turnover £000	Operating costs £000	Surplus £000	Operating surplus/ (deficit) £000
Social housing lettings	90,075	(59,071)	-	31,004
Other social housing activities				
Services to group members	292	(861)	-	(569)
Home ownership services	537	(903)	-	(366)
Charges for support services	25	(748)	-	(723)
Impairment of non housing properties	-	-	-	-
Other	857	(4,198)	-	(3,341)
	1,711	(6,710)	-	(4,999)
Non-social housing activities	241	(464)	-	(223)
Surplus on sale of housing properties (note 7)	-	-	11,206	11,206
	92,027	(66,245)	11,206	(36,988)

Prior year

	Turnover £000	Operating costs £000	Surplus £000	Operating surplus/ (deficit) £000
Social housing lettings	86,180	(55,735)	-	30,445
Other social housing activities				
Services to group members	287	(842)	-	(555)
Home ownership services	1,126	(1,501)	-	(375)
Charges for support services	601	(1,540)	-	(939)
Impairment of non housing properties	-	(355)	-	(355)
Other	1,081	(2,698)	-	(1,617)
	3,095	(6,936)	-	(3,841)
Non-social housing activities	438	(498)	-	(60)
Surplus on sale of housing properties (note 7)	-	-	10,611	10,611
	89,713	(63,169)	10,611	37,155

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

Notes to the Financial Statements

For the year ended 31 March 2018

3 Income and expenditure from social housing lettings

	General needs housing £000	Supported housing and housing for older people £000	2018 £000	2017 £000
Rent receivable net of identifiable service charges and voids	72,623	8,617	81,240	78,313
Service charge Income	2,657	3,108	5,765	4,795
Amortisation of social housing and other capital grants	2,484	586	3,070	3,072
Turnover from social housing lettings	77,764	12,311	90,075	86,180
Expenditure				
Management	(10,413)	(1,855)	(12,268)	(10,198)
Service charge costs	(2,287)	(4,346)	(6,633)	(5,577)
Routine maintenance	(12,091)	(1,239)	(13,330)	(14,777)
Planned maintenance	(8,543)	(3,502)	(12,045)	(11,670)
Bad debts	(962)	(127)	(1,089)	(684)
Depreciation of housing properties	(11,823)	(1,722)	(13,545)	(12,378)
Other costs	-	(161)	(161)	(451)
Operating costs on social housing lettings	(46,119)	(12,952)	(59,071)	(55,735)
Operating surplus on social housing lettings	31,645	(641)	31,004	30,445
Void losses	(922)	(378)	(1,300)	(1,639)

Depreciation on housing properties includes £446,000 written off due to components being replaced earlier than the expected life of those components (2017: £551,000).

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

Notes to the Financial Statements

For the year ended 31 March 2018

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:

	2018 Number	2017 Number
Average number employed		
Office staff	10	13
Scheme staff	4	5
	14	18
Full-time	11	12
Part-time	3	6
	14	18

The number of employees reduced during 2017-18 in line with Orbit Heart of England's aim that all employees will be employed by Orbit Group Limited.

	2018 Number	2017 Number
Full-time equivalents *		
Office staff	10	12
Scheme staff	3	3
	13	15

*A full time equivalent would be 35 hours per week

	2018 £000	2017 £000
Staff costs for the above		
Wages and salaries	449	485
Social security costs	39	44
Other pension costs	37	40
	525	569

Senior staff emoluments

The full time equivalent number of staff whose remuneration in the year was in excess of £60,000 was nil.

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

Notes to the Financial Statements

For the year ended 31 March 2018

5 Operating surplus

	2018	2017
	£000	£000
Operating surplus is arrived at after charging/(crediting)		
Housing properties:		
- Depreciation charge	13,545	12,378
- Amortisation of social housing grant	(3,070)	(3,072)
Other fixed assets:		
- Depreciation of other tangible fixed assets	198	192
- Impairment	-	355
- Loss on sale of other tangible fixed assets	71	-
Operating lease rentals		
- Land and buildings	164	162
- Office equipment and computers	80	160
- Vehicles	43	42
- White goods	15	6
Auditor's remuneration:		
- In their capacity as auditors'	24	22
- In respect of other services	2	8

A donation of £6,732,000 (2017: £7,063,000) was made to Orbit Group Limited in accordance with the Orbit wide agreement to support development funding. Previously donations made to Orbit Group Limited to support development funding were accounted for in the statement of comprehensive income.

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

Notes to the Financial Statements

For the year ended 31 March 2018

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. 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 (2017: £nil).

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

	2018	2017
	£000	£000
K Bolister	2	2
Julie Hopes	1	2
Glyn Kyle	-	2
Grant Richardson	5	5
S Margrave	5	5
William Yardley	2	2
Total	15	18

Expenses paid during the year to board members amounted to £17,000 (2017: £12,000).

	2018	2017
	£000	£000
Travel costs	3	7
Meeting costs	14	5
	17	12

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

Notes to the Financial Statements

For the year ended 31 March 2018

7 Surplus on sale of fixed assets – housing properties

	2018 £000	2017 £000
Sale of housing properties		
Disposal proceeds	16,703	14,795
Carrying value of assets	(4,875)	(3,813)
Grant recycled	1,282	855
RTB clawback	(1,909)	(1,226)
Grant abated	5	-
Surplus on sale of housing properties	11,206	10,611

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 and garages made under the preserved right to buy legislation are shared. The method of sharing is set out in a pre-agreed formula. There were 11 property sales and 97 garage sales under this agreement in the year ended 31 March 2018 (2017: 11 sales).

8 Interest receivable and other income

	2018 £000	2017 £000
Interest receivable from unlisted investments	5	28

9 Interest payable and similar charges

	2018 £000	2017 £000
Loans and bank overdrafts	23,307	21,590
Interest payable capitalised on housing properties under construction	(4,454)	(4,601)
Deferred income credit	(282)	(114)
Premium write off	-	(121)
Total	18,571	16,754

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

Notes to the Financial Statements

For the year ended 31 March 2018

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

	2018	2017
	£000	£000
(a) Analysis of charge in year:		
Current tax:		
UK corporation tax on profits of the year	-	-
Adjustment in respect of previous year	-	15
	-	15

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 2018

11 Housing properties at cost

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	
At 1 April 2017	791,123	124,257	36,393	2,351	1,318	955,442
Adjustment for capitalised interest	8,078					8,078
Restated Cost at 1 April 2017	799,201	124,257	36,393	2,351	1,318	963,520
Additions	11,254	65,839	1,204	-	-	78,297
Reclassification	(10,392)	-	-	-	-	(10,392)
Transfer on completion	93,104	(93,104)	-	-	-	-
Transfer to stock/WIP	(708)	-	-	-	-	(708)
Transfer to other group members	-	(1,034)	-	-	-	(1,034)
Disposals	(4,565)	-	(159)	-	-	(4,724)
At 31 March 2018	887,894	95,958	37,438	2,351	1,318	1,024,959
Less accumulated depreciation						
At 1 April 2017	(101,284)	-	(8,672)	(102)	(161)	(110,219)
Adjustment for depreciation	(3)	-	-	-	-	(3)
Eliminated on disposals	1,724	-	110	-	-	1,834
Depreciation	(12,114)	-	(961)	(7)	(17)	(13,099)
At 31 March 2018	(111,677)	-	(9,523)	(109)	(178)	(121,487)
Less: Provisions for impairment						
At 1 April 2017	(465)	-	-	-	-	(465)
At 31 March 2018	(465)	-	-	-	-	(465)
Net book amount						
At 31 March 2018	775,752	95,958	27,915	2,242	1,140	903,007
At 31 March 2017 Restated	697,452	124,257	27,721	2,249	1,157	852,836

During the year total expenditure on works to existing properties was £30.1 million (2017: £30.8 million) of this £8.6 million (2017: £8.5 million) has been capitalised.

Additions to properties during the year include capitalised interest and finance costs of £4.4 million (2017: £4.6 million restated) and development administration costs/project management fees of £1.8 million (2017: £2.9 million).

The net book value of housing and other properties comprises:

	2018 £000	2017 £000
Freehold land and buildings	901,627	851,197
Long leasehold land and buildings	2,024	2,402
Short leasehold land and buildings	2	2
	903,653	853,601

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

Notes to the Financial Statements

For the year ended 31 March 2018

12 Investment properties non-social housing properties held for letting

	2018 £000	2017 £000
At 1 April	-	-
Transfer from housing properties WIP	6,695	-
Additions	3,697	-
Increase in value	4,248	-
At 31 March	14,640	-

Investment properties were valued as at 31 March 2018. The Group's investment properties have been valued by GVA, professional external valuers. The full valuation of properties was undertaken in accordance with the Appraisal and Valuation Manual of the Royal Institute of Chartered Surveyors as follows:

In valuing investment properties, a discounted cash flow methodology was adopted with key assumptions:

Discount rate	5%
Annual inflation rate, after first two years	0%

13 Other fixed assets

	Freehold offices £000	Leasehold offices £000	Commercial premises £000	Furniture, fixtures & equipment £000	Total £000
Cost					
At 1 April 2017	17	3,158	402	2,309	5,886
Additions	-	-	-	84	84
Disposal	-	-	-	(11)	(11)
Write off	-	(92)	-	(160)	(252)
At 31 March 2018	17	3,066	402	2,222	5,707
Less: accumulated depreciation					
At 1 April 2017	(17)	(1,645)	(147)	(2,077)	(3,886)
Charge for year	-	(105)	(13)	(80)	(198)
Write off	-	90	-	91	181
At 31 March 2018	(17)	(1,660)	(160)	(2,066)	(3,903)
Less impairment					
At 1 April 2017	-	(1,002)	-	-	(1,002)
At 31 March 2018	-	(1,002)	-	-	(1,002)
Net book amount					
At 31 March 2018	-	404	242	156	802
At 31 March 2017	-	511	255	232	998

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

Notes to the Financial Statements

For the year ended 31 March 2018

14 Fixed asset investments

	2018	2017
	£000	£000
Monies deposited for Affordable Housing Finance Plc	1,433	783
	1,433	783

In July 2016, Orbit Heart of England raised a £25 million fixed rate bond with Affordable Housing Finance Plc via The Housing Finance Corporation. It is a condition of the funding that the borrower shall enter into a Liquidity Reserve Fund Trust deed with the Liquidity Fund Trustee (AHF). An amount equal to twelve months interest be held with AHF in a Liquidity Reserve Fund, which in this case amounts to £723,000. The AHF Bond is secured by a first fixed charge on properties, however following a property sale in the year £58,000 is held in a cash security deposit account to cover the amount below the required security threshold.

15 Debtors

	2018	2017
	£000	£000
Rental debtors	3,798	3,927
Less: provision for doubtful debts	(1,269)	(1,254)
	2,529	2,673
Prepayments and accrued Income	557	968
Amounts due from other Group members	39,176	34,632
SHG receivable	4,065	1,819
Other debtors	549	925
Provision for bad debts	(69)	(2)
	46,807	41,015
Debtors after one year	839	635

16 Current asset investments

	2018	2017
	£000	£000
Monies deposited with Funding for Homes Ltd	-	800
	-	800

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

Notes to the Financial Statements

For the year ended 31 March 2018

17 Creditors: amounts falling due within one year

	2018	2017
	£000	£000
Housing loans (Note 22)	13,400	28,423
Amounts due to Group members	45,987	38,883
Other creditors	2,435	2,080
Grants received in advance	956	567
Accruals and deferred income	7,292	4,914
Rents received in advance	2,179	1,770
Disposals proceeds and recycled capital grant fund (note 21)	1,321	2,873
Deferred capital grant (note 19)	3,070	3,072
Deferred income credit	-	107
Total	76,640	82,689

18 Creditors: amounts falling due after more than one year

	2018	2017
	£000	£000
Housing loans (net of loan arrangement fees) (note 22)	49,495	24,566
Loans inter-company (note 22)	488,295	459,972
Deferred capital grant (note 19)	237,495	230,029
Leaseholder maintenance provision	4,303	4,507
Disposal proceeds and recycled capital grant funds (note 21)	2,155	2,178
Loan premium Affordable Homes Plc	4,410	4,585
Other creditors	708	1,304
Total	786,861	727,141

Housing loans shown above are net of £505,000 (2017: £434,000) loan arrangement fees carried forward.

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

Notes to the Financial Statements

For the year ended 31 March 2018

19 Deferred capital grant

	2018 £000	2017 £000
At 1 April	233,101	234,694
Grant received in the year	7,451	3,123
Released to income in the year	(3,070)	(3,072)
Elimination on disposal	250	253
Transfer to/ (from) RCGF	1,807	(1,447)
Transfer from other group members	1,026	(450)
At 31 March	240,565	233,101
Amounts to be released within 1 year	3,070	3,072
Amounts to be released in more than 1 year	237,495	230,029
At 31 March	240,565	233,101

20 Provisions for liabilities and charges

	At beginning of the year £000	Transfer to/ (from) SOCI £000	Release of provision during the year £000	At end of year £000
Home Improvement Agency (HIA) hardship	4	-	(4)	-
Stratford Sound Insulation	1,013	-	(437)	576
Office Dilapidations	-	145	-	145
	1,017	145	(441)	721

Analysed as

Amounts to be released in less than 1 year	721	-
Amounts to be released in more than 1 year	-	1,017
	721	1,017

The HIA hardship fund relates to grants payable to customers and will be utilised in the next financial year and the Stratford sound insulation provision relates to major works costs associated with a dispute in connection with properties transferred to the Group in 1996, which was settled in 2014. This will be utilised as works are completed.

The Stratford sound insulation provision relates to major works. This will be utilised as works are completed.

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

Notes to the Financial Statements

For the year ended 31 March 2018

21 Disposal proceeds and recycled capital grant funds

	RCGF £000	DPF £000	Total £000
At 1 April 2017	4,064	987	5,051
Grants recycled	1,277	-	1,277
Other	(2,867)	-	(2,867)
Interest accrued	13	2	15
At 31 March 2018	2,487	989	3,476

Amount due for repayment to Homes England

	RCGF £000	DPF £000	Total £000
Within one year	332	989	1,321
After more than one year	2,155	-	2,155
At 31 March 2018	2,487	989	3,476

22 Housing loans and finance lease obligations

Note (a)

	2018 £000	2017 £000
Due within one year		
Orbit Treasury Limited	13,400	12,423
Debenture stock	-	16,000
	13,400	28,423
Due after more than one year		
Orbit Treasury Limited	388,583	360,260
Orbit Capital plc	99,712	99,712
Debenture stock	-	-
Affordable Housing Finance Plc	50,000	25,000
	538,295	484,972
	551,695	513,395

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 22 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 March 2015, the remaining £50 million of the £250 million 30 year sterling bond (maturity date 24 March 2045) priced at 3.50% was issued to investors on 3 August 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 March 2045.

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

Notes to the Financial Statements

For the year ended 31 March 2018

22 Housing loans and finance lease obligations (continued)

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%

On the 28 July 2016 the company raised a £25m fixed rate bond with Affordable Housing Finance Plc (AHF) via The Housing Finance Corporation. The fixed rate bond issued is repayable on 30 July 2043, with interest payable at a fixed rate of 2.893%. The fixed rate bond issued was paid at a premium resulting in an effective interest rate of 1.989%.

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:

	2018 £000	2017 £000
In one year or less, on demand	13,400	28,423
Repayable by instalments:		
- more than one year but not more than two years	13,400	28,423
- In more than two years but not more than five years	40,201	85,268
- In more than 5 years	484,694	355,281
	538,295	468,972
Repayable other than by instalments:		
- In one year or less	-	16,000
Total	551,695	513,395

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 £nil (2017: £107,000.)

The interest rate profile at 31 March 2018 was:

	Total £m	Variable rate £m	Fixed rate £m	Weighted average rate %	Weighted average term of fixing in years
Instalment loans	501,695	401,983	99,712	3.97%	27
Non-instalment loans	50,000	-	50,000	2.39%	28
	551,695	401,983	149,712	3.82%	27

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

Notes to the Financial Statements

For the year ended 31 March 2018

23 Called up share capital

	2018	2017
	£	£
Issued and fully paid shares of £1 each		
At 1 April 2017	3	3
Issued	5	-
Surrendered	-	-
At 31 March 2018	8	3

The issued and surrendered 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

	2018	2017
	£000	£000
Capital expenditure which has been contracted for but has not been provided for in the financial statements	73,088	79,249
Capital expenditure which has been authorised under authority from the Orbit board but has yet to be contracted for	43,446	71,711
	116,534	150,960

The Association expects these commitments to be financed with:

	2018	2017
	£000	£000
Social housing grant	73,500	10,495
Committed loan facilities (Orbit Treasury Limited)	32,220	97,353
Proceeds from the sale of properties	10,814	43,112
	116,534	150,960

25 Contingent liabilities

Stock acquisitions previously undertaken include original government grant funding of £14.9 million 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. As at 31 March 2018, there were £14.4 million contingent liabilities within the Association (2017: £14.5 million).

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

Notes to the Financial Statements

For the year ended 31 March 2018

26 Cash flow from operating activities

	2018 £000	2017 £000 Restated
Surplus for the year	22,608	20,406
<i>Adjustments for non-cash items:</i>		
Sale of other tangible assets	71	-
Cost of sales housing properties and other fixed assets	(11,195)	(10,611)
Depreciation of tangible fixed assets	13,743	12,570
Movement on revaluation of investment properties	(4,248)	-
Impairment of tangible fixed assets	-	355
Increase in bad debt provision	15	4
(Decrease) in other provisions	(230)	(651)
Release of deferred income	(205)	207
(Increase) in debtors	(3,987)	(21,294)
Increase in creditors	13,228	5,360
Government grants utilised in the year	(3,070)	(3,072)
Interest payable	18,571	16,754
Interest receivable	(5)	(28)
Movement in reserves	(6,732)	(7,063)
Movement in fair value of financial instruments	(9)	9
Net cash generated from operating activities	38,555	12,946

27 Reconciliation of net cash flow to movement in net debt

	2018 £000	2017 £000
(Decrease)/ Increase in cash in the year	(1,210)	269
Decrease /(Increase) decrease in bank deposits (with a maturity in excess of 24 hours)	650	(28)
Other changes	262	218
Loans received	(116,177)	(152,697)
Loans repaid	77,877	80,837
Loan arrangement fees	91	451
Loan premium	-	(4,706)
Change in net debt	(38,507)	(75,656)
Net debt at 1 April	(514,611)	(438,955)
Net debt at 31 March	(553,118)	(514,611)

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

Notes to the Financial Statements

For the year ended 31 March 2018

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	2,259	(1,210)	-	1,049
Bank deposits – more than 24 hours	783	650	-	1,433
Housing loans due within one year	(28,423)	16,000	(977)	(13,400)
Housing loans due after one year	(484,972)	(54,300)	977	(538,295)
Loan pool premium reserve FFH	(107)	-	107	-
Loan arrangement fees	434	91	(20)	505
Loan premium affordable homes	(4,585)	-	175	(4,410)
	(514,611)	(38,769)	262	(553,118)

29 Financial commitments

Operating leases

At 31 March 2018 the Association was committed to making the following minimum future payments in respect of operating leases other than land and buildings:

	2018 £000	2017 £000
Leases which expire		
Within 1 year	153	326
Within 2 - 5 years	164	110
After 5 years	-	-
Total	317	436

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 2018.

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.

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

Notes to the Financial Statements

For the year ended 31 March 2018

31 Property portfolio

	2018	2017
	No.	No.
General needs	12,988	12,694
Affordable rent	1,376	1,132
Intermediate rent	9	12
Low cost home ownership	18	18
Supported housing	1,889	1,879
Total owned by Orbit Heart of England	16,280	15,735
Leasehold	835	801
Private retirement schemes	458	458
Owned	5	5
Managed on behalf of others	-	-
Leasehold and other managed	1,298	1,264
Total social housing units	17,578	16,999
Market rent	93	11
Commercial units	20	20
Total non-social housing units	113	31
Total units	17,691	17,030
	2018	2017
	No.	No.
Stock in development at 31 March		
General needs	194	632

32 Related party transactions

The Orbit Heart of England and Orbit South Boards also include a member who is an elected representative of Nuneaton and Bedworth Borough Council. During the year Orbit made payments of £18,000 to the council (2017: £2,000) and received payments from the council of £nil (2017: £nil).

A number of the board members are tenants/leaseholders of the Association or Group. Their tenancies/leases are on normal commercial terms and the members cannot use their position to their advantage. In the current year payments in aggregate to Orbit totalled £16,000 (2017: £11,000). The outstanding amount owed at 31 March 2018 was £nil.

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 Homes England regulated group entities are shown in note 33.

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

Notes to the Financial Statements

For the year ended 31 March 2018

33 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 Homes England, 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 £44.5 million to Orbit Homes (2020) Ltd (2017: £43.8 million) for the purchase of housing property assets and has an outstanding creditor balance with Orbit Homes (2020) Ltd of £3.1 million (2017: £5.8 million).

Orbit Treasury Ltd provides a funding on-lending service to the Group. During the year the Association paid interest costs totalling £15.8 million (2017: £15 million) and fees of £1.4 million (2017: £1.2 million) and has an outstanding debtor balance with Orbit Treasury Ltd of £0.2 million (2017: £0.9 million). 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 £3.5 million (2017: £3.2 million) and fees of £0.1 million (2017: £0.1 million). The allocation of these costs is based upon the level of debt required and secured by the housing property held in the Association.

33. Prior period adjustment

We amended our estimate of the interest rate applicable to our capitalised borrowing costs to reflect the group's Weighted Average Cost of Capital (WACC) with effect from the date of transition to FRS 102. This has given rise to the adjustments to reserves and the prior period comparative as below:

Restated reserves for the year ended 31 March 2017

	Total £000
Reserves at 1 April 2016	70,869
Capitalised interest restated	4,267
Restated reserves at 1 April 2016	75,136
Restated surplus year ended 31 March 2017	20,406
Donations made to Orbit Group Limited	(7,063)
Restated reserves at 31 March 2017	88,479

Restated surplus for the year ended 31 March 2017

	Total £000
Original surplus for the year	16,595
Capitalised interest restated	3,811
Surplus for the year	20,406
Total comprehensive income 31 March 2017	20,406