

**Orbit South Housing Association Limited**

**Financial statements**

**For the year ended 31 March 2018**

# Orbit South Housing Association Limited

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## **Orbit South Housing Association Limited**

### **Orbit in Numbers**

#### **Celebrating 50 years of building communities**

Orbit South 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%*

## Orbit South Housing Association Limited

### The Board, Executives and Advisors

#### Board Members

Name	Role	Appointed	Resigned
Fran Beckett	Chair	1 April 2011	
Kerry Bolister	I	1 March 2015	
Jake Boomhauer	R	26 July 2016	
Andy Hobart	I	14 September 2016	
Julie Hopes	I	18 April 2012	7 July 2017
Bill Yardley	I	15 July 2014	22 September 2017
Symon Tandooran-Sentain	I	9 September 2015	
Tonia Mihill	R	1 November 2017	

- R = Resident member
- I = Independent member

#### Customer and Communities 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 Hamblins 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 27802R

Regulator of Social Housing Number L4060

## Orbit South Housing Association Limited

### Strategic Report and Operating and Financial Review

Statement of comprehensive income	2017-2018 £m	2016-2017 £m Restated	2015-2016 £m Restated	2014-2015 £m Restated	2013-2014 £m
Turnover	112	109	106	100	91
Operating costs and cost of sale	(78)	(76)	(68)	(69)	(63)
Surplus on sale of housing	8	8	9	6	-
<b>Operating surplus</b>	<b>42</b>	<b>41</b>	<b>47</b>	<b>37</b>	<b>28</b>
(Loss) / surplus on sale of fixed assets	(1)	-	-	-	25
Net interest and other financing costs	(17)	(15)	(18)	(15)	(14)
Donations	-	-	-	(5)	(6)
<b>Surplus for the year</b>	<b>24</b>	<b>26</b>	<b>29</b>	<b>17</b>	<b>33</b>

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	1,104	1,052	961	899	445
Net current assets / liabilities	0	(14)	(9)	(17)	(31)
<b>Total assets less current liabilities</b>	<b>1,104</b>	<b>1,038</b>	<b>952</b>	<b>882</b>	<b>414</b>
Creditors due after > 1 year	941	893	827	781	336
Provisions	1	1	1	-	-
Pension liability	3	4	2	3	2
Revenue reserves	159	140	122	98	76
	<b>1,104</b>	<b>1,038</b>	<b>952</b>	<b>882</b>	<b>414</b>

Key indicators (Group)	2017-2018	2016-2017 Restated	2015-2016 Restated	2014-2015 Restated	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. Overall surplus has reduced in the year to £24 million (2017: £26 million) however this is largely as a result of increased interest payable. Turnover grew by 2.9% to £112 million. Our key financial indicators have all been achieved for the year and exceeded target levels.

The statement of financial position has also increased in strength, with fixed assets/investment increasing to £1,104 million (2017: £1,038 million, 6% increase) and reserves to £160 million (2017: £140 million, 14% increase.) We now have 19,169 properties an increase of 534 from 2017.

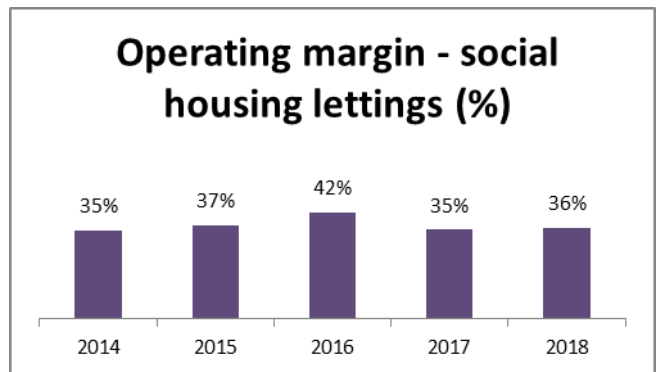
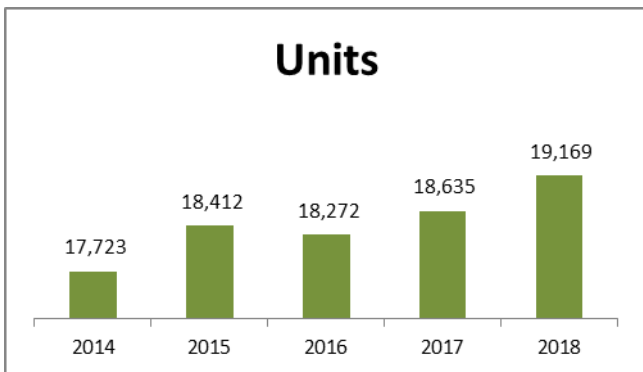
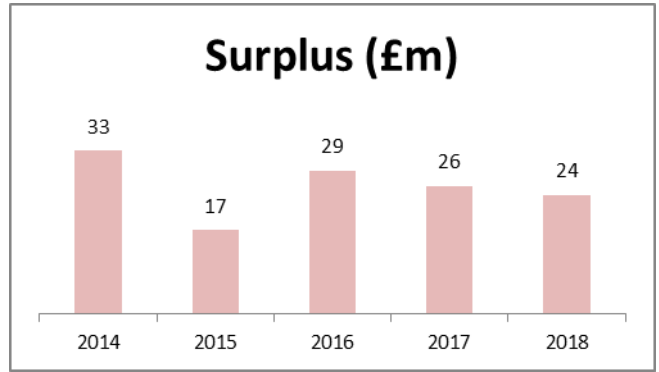
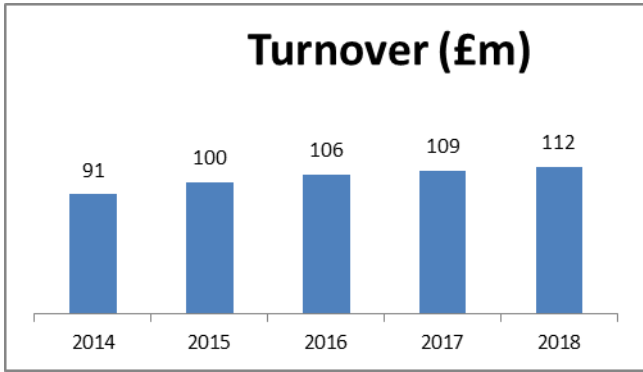
Operating costs remained stable at £75 million (2017: £75 million). Our largest area of expenditure was the maintenance of our properties, which was £36.4 million of which £13.8 million was spent on the replacement of components (including kitchens, bathrooms and boiler replacements) and work to improve the energy efficiency of our properties. Management costs were £12.4 million (2017: £10.9 million) due to an increase in stock condition survey costs..

Operating margin (overall) has increased to 38% (2017: 38%) whilst operating margin on social housing lettings has increased to 36% (2017: 35%).

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

**Orbit South Housing Association Limited**

**Strategic Report and Operating and Financial Review**



# Orbit South Housing Association Limited

## 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.

# Orbit South Housing Association Limited

## 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 ambition:

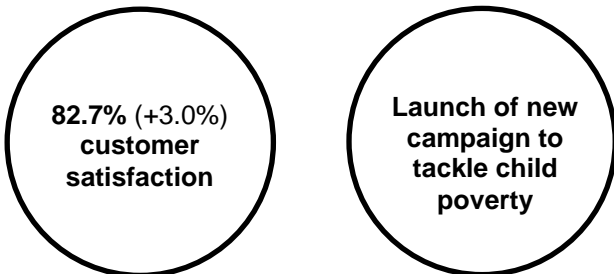
1. Leading service and business performance – delivering 90% customer satisfaction
2. Accelerated and scalable growth – continuing to build 2,000 new homes per annum
3. A high quality stock portfolio – investing £1.1 billion between 2017 and 2022 in new and existing homes to create places where people 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.



## Orbit South Housing Association Limited

### 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 Orbit 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.

## Orbit South Housing Association Limited

### Strategic Report and Operating and Financial Review

Orbit completed its 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.

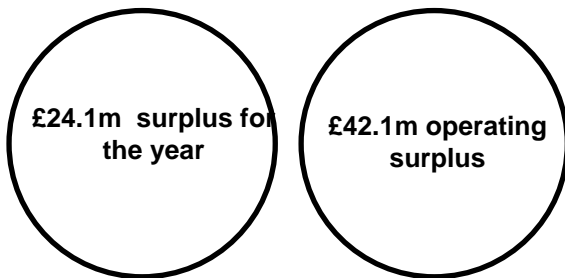
#### Asset management

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 South Housing Association Limited



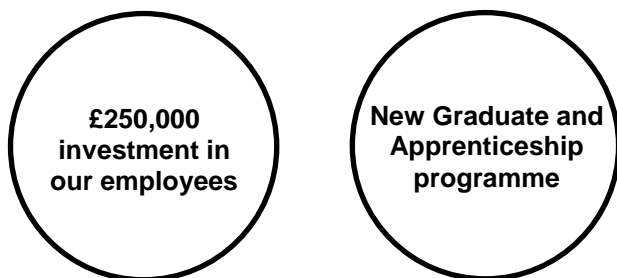
With turnover at £111.8 million, our business has grown by 2.9% year on year. Rental income rose by £2.3 million due to the increased number of properties in management offsetting the decrease of 1.0% in social and affordable rents.

We achieved an operating margin of 37.6%, with the core social lettings business returning a margin of 36.1% (2017:35%)

Surplus on sale of housing at £8 million reduced marginally from 2017 (£8.3 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



## **Orbit South Housing Association Limited**

### **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.

## Orbit South Housing Association Limited

### Strategic Report and Operating and Financial Review

#### 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.

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

#### 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.

	<b>Metric</b>	<b>%/£</b>	<b>Result</b>	<b>Performance against peers (estimated)*</b>
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.

## Orbit South Housing Association Limited

### Strategic Report and Operating and Financial Review

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.

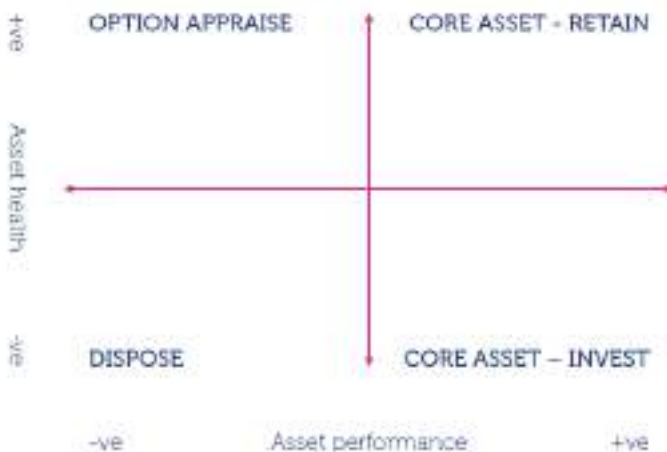
We remain committed to being a leading social housing developer and have completed a £450 million bond, in part, to fund this development. We also continue to improve the quality of our homes, conducting a whole stock condition survey to focus investment where it is needed.

#### 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.

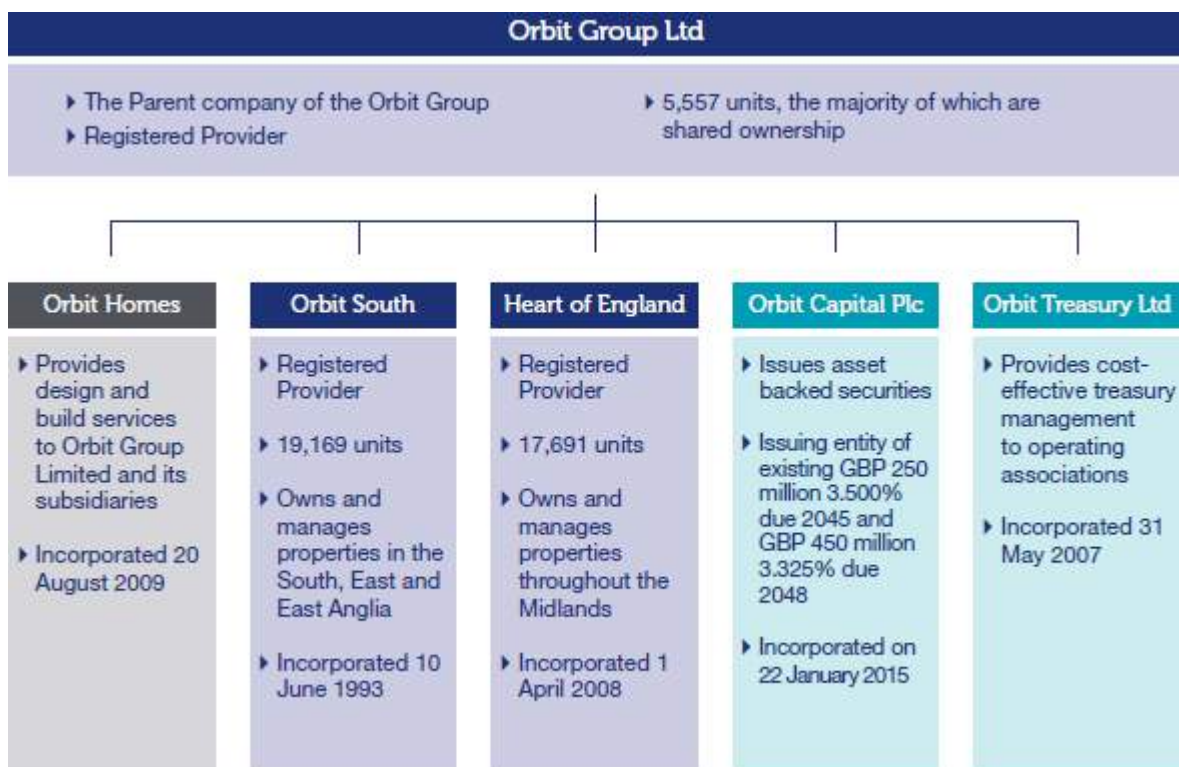
We have also been able to pro-actively target the properties we want to sell. Traditionally stock sales have been a reactive process, selling properties as and when they become void. Having now identified the properties we would like to dispose, as void or new properties become available they can be 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 6 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.

## Orbit South Housing Association Limited

### 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

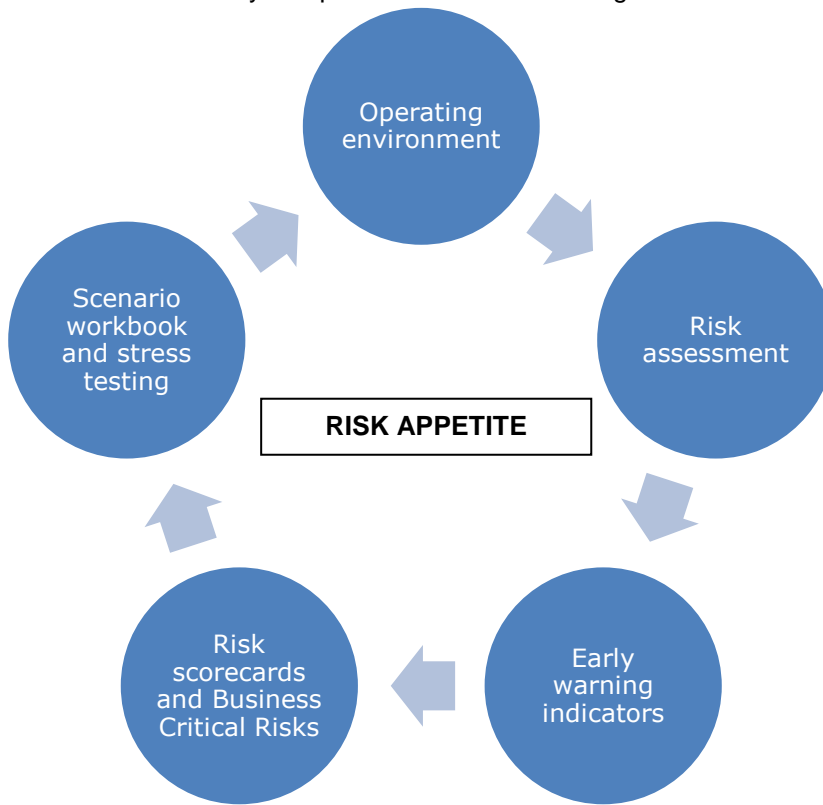
The Group Board maintains overall responsibility for strategic risk management. There are systems in place to ensure the Board and the Executive team can analyse, understand, manage and mitigate strategic and business critical risks.

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.

# Orbit South Housing Association Limited

## 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..

## Orbit South Housing Association Limited

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



## **Orbit South Housing Association Limited**

### **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.

## **Orbit South Housing Association Limited**

### **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 Orbit South Housing Association board**



**Fran Beckett**  
**19 July 2018**

## **Orbit South Housing Association Limited**

### **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.

## **Orbit South Housing Association Limited**

### **Report of the Board**

#### **Statement of board's responsibilities in respect of the strategic report, 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 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**

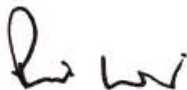
The annual general meeting will be held on 13 September 2018.

#### **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

## **Orbit South Housing Association Limited**

### **Independent auditor's report to Orbit South Housing Association Limited**

**For the year ended 31 March 2018**

#### **Opinion**

We have audited the financial statements of Orbit South Housing Association Limited ("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.

## **Orbit South Housing Association Limited**

### **Independent auditor's report to Orbit South 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](http://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

# Orbit South Housing Association Limited


## Statement of Comprehensive Income

For the year ended 31 March 2018

	Note	2018 £000	2017 £000 Restated
Turnover	2	111,808	108,685
Cost of sales	2	(2,371)	(1,083)
Operating costs	2	(75,414)	(75,085)
Surplus on sale of housing properties	7	8,036	8,285
Operating surplus	2	42,059	40,802
Loss on sale of fixed assets		(857)	-
Interest receivable	8	4	29
Interest payable	9	(17,079)	(14,915)
Other financing costs	9	(98)	(91)
Movement in fair value of financial instruments		24	44
<b>Surplus before taxation</b>		<b>24,053</b>	25,869
Taxation	10	-	-
<b>Surplus for the year</b>		<b>24,053</b>	25,869
Actuarial gain /(loss) in respect of pension schemes	33	693	(1,075)
<b>Total comprehensive income</b>		<b>24,746</b>	24,794

All amounts derive from continuing operations.

The accompanying notes form part of these financial statements.



**Fran Beckett**  
Chair

19 July 2018



**Andy Hobart**  
Board Member



**Richard Wright**  
Secretary

## Orbit South Housing Association Limited

### Statement of Changes in Reserves

For the year ended 31 March 2018

	Note	Income and expenditure reserve £000	Total reserves £000
<b>Balance as at 31 March 2017 Restated</b>	35	140,150	<b>140,150</b>
Surplus for the year		24,053	<b>24,053</b>
Actuarial loss on pension liability		693	<b>693</b>
Donations paid to Orbit Group Ltd		(5,377)	<b>(5,377)</b>
<b>Balance as at 31 March 2018</b>		<b>159,519</b>	<b>159,519</b>

	Note	Income and expenditure reserve £000 Restated	Total reserves £000 Restated
<b>Balance as at 31 March 2016</b>		114,834	114,834
Capitalised interest restated		6,725	6,725
Restated reserves as at 31 March 2017	35	121,559	121,559
Restated surplus for the year ended 31 March 2017		25,869	25,869
Actuarial loss on pension liability		(1,075)	(1,075)
Donations paid to Orbit Group Ltd		(6,203)	(6,203)
<b>Balance as at 31 March 2017</b>		<b>140,150</b>	<b>140,150</b>



# Orbit South Housing Association Limited

## Statement of Financial Position

For the year ended 31 March 2018

	Note	2018 £'000	2017 £'000 Restated
<b>Fixed assets</b>			
Tangible fixed assets	11&12	1,100,700	1,050,096
Investments fixed assets	13	1,194	724
		<b>1,101,894</b>	1,050,820
<b>Debtors: amounts falling due after more than one year</b>			
	15	2,347	1,057
<b>Current assets</b>			
Properties for sale	14	-	59
Trade and other debtors	15	68,529	78,985
Cash and cash equivalents		1,443	2,986
		<b>69,972</b>	82,030
Less: creditors: amounts falling due within one year	16	(69,444)	(96,127)
Less: provisions falling due within one year	19	(586)	-
<b>Net current liabilities</b>		<b>(58)</b>	(14,097)
<b>Total assets less current liabilities</b>		<b>1,104,183</b>	1,037,780
<b>Creditors: amounts falling due after more than one year</b>			
Disposal proceeds and recycled capital grants funds	17	(2,609)	(2,288)
Other creditors	17	(938,329)	(890,969)
		<b>(940,938)</b>	(893,257)
<b>Provisions for liabilities</b>			
Other provisions	19	(712)	(713)
Pension liabilities	33	(3,014)	(3,660)
<b>Total net assets</b>		<b>159,519</b>	140,150
<b>Reserves</b>			
<b>Income and expenditure reserve</b>		<b>159,519</b>	140,150

The financial statements on pages 21 to 53 were approved by the board and signed on its behalf by:

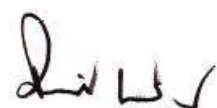


Fran Beckett  
Chair

19 July 2018



Andy Hobart  
Board Member



Richard Wright  
Secretary

## Orbit South Housing Association Limited

### Statement of Cash Flows

For the year ended 31 March 2018

		<b>2018</b>	<b>2017</b>
	<b>Note</b>	<b>£000</b>	<b>£000</b>
<b>Net cash generated from operating activities</b>	25	<b>23,543</b>	33,664
<b>Cashflows from investing activities</b>			
Purchase of tangible fixed assets		<b>(66,900)</b>	(110,566)
Proceeds from sale of tangible fixed assets		<b>10,969</b>	14,088
Grant received		<b>7,950</b>	3,666
Interest received		<b>4</b>	29
Taxation paid		<b>-</b>	-
		<b>(47,977)</b>	(92,783)
<b>Cashflow from financing activities</b>			
Interest paid		<b>(23,573)</b>	(19,373)
(Other finance costs) / income received		<b>(17)</b>	4,254
New secured loans		<b>112,032</b>	167,251
Repayments of borrowings		<b>(65,082)</b>	(91,665)
Increase in deposits		<b>(469)</b>	(724)
		<b>22,891</b>	59,743
<b>Net change in cash and cash equivalents</b>	26	<b>(1,543)</b>	624
Cash and cash equivalents at beginning of the year		<b>2,986</b>	2,362
<b>Cash and cash equivalents at end of the year</b>		<b>1,443</b>	2,986

# Orbit South Housing Association Limited

## Statement of Cash Flows

For the year ended 31 March 2018

### 1. Principal accounting policies

#### Legal status

Orbit South 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 Orbit South 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, Orbit Group Limited 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 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.

#### Properties for sale

Properties developed for outright sale are included in turnover, cost of sales and operating costs. Properties developed for shared ownership sale are divided into first tranche sales and other sales. First tranche sales are included in turnover, cost of sales and operating costs. Subsequent tranches are not included in turnover and cost of sales, but are shown as a separate item after the operating surplus in the statement of comprehensive income. All other sales of fixed asset properties are dealt with in this latter way.

Properties developed for outright sale and shared ownership first tranche proportions are included in current assets as they are intended to be sold. Shared ownership subsequent tranche proportions are included in fixed assets.

#### Revenue recognition

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

# Orbit South Housing Association Limited

## Statement of Cash Flows

For the year ended 31 March 2018

### 1. Principal accounting policies (continued)

#### 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.

#### Housing properties

Housing properties are stated at cost, less accumulated depreciation and impairment provision. 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.

#### 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.

#### Social housing and other grants

Social Housing Grant is receivable from Homes England. This is recognised within income through the amortisation of the grant over the useful economic life of the asset as are any other grants received for the development of social housing. Grant is amortised even if there are no related depreciation charges.

Social Housing Grant due from Homes England or received in advance is included as a current asset or liability within the statement of financial position.

# Orbit South Housing Association Limited

## Statement of Cash Flows

For the year ended 31 March 2018

### 1. Principal accounting policies (continued)

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 SHG can be used for projects approved by the Homes and Communities Agency. 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.

#### **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, based upon properties owned at that date. These are disclosed in note 17 of the accounts 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 weighted average cost of capital. 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 and when incurred.

#### **Pension costs**

Orbit South Housing Association Limited operates defined benefit funded pension schemes. The assets of the schemes are held separately from those of the association in independently administered funds. The requirements of FRS 102 are fully reflected in the financial statements and associated notes. Note 33 provides a summary of the pension valuation report, together with prior year statements which state last year's revenue and reserves. For funding purposes, surpluses or deficiencies are dealt with as advised by the actuary.

For defined benefit schemes the amounts charged to operating surplus are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the statement of comprehensive income account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of comprehensive income.

# Orbit South Housing Association Limited

## Statement of Cash Flows

For the year ended 31 March 2018

### 1. Principal accounting policies (continued)

The difference between the fair value of the assets held in the defined benefit pension scheme and the scheme's liabilities measured on an actuarial basis using the projected unit method are recognised in the Operating Association's statement of financial position as a pension scheme liability. Changes in the defined benefit pension scheme liability arising from factors other than cash contribution by the Association are charged to the statement of comprehensive income account in accordance with applicable accounting standards.

For funding purposes, the actuary has accepted an undertaking from the Operating Association that contributions to clear the deficit will be made over a period beyond the expected service lives of the remaining participating employees in line with other participating employees in the scheme.

#### 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 South Housing Association to conduct an impairment test upon all rented social housing properties.

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

- Orbit South Housing Association Limited 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 South Housing Association Ltd 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 South Housing Association Ltd 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.

# Orbit South Housing Association Limited

## Statement of Cash Flows

For the year ended 31 March 2018

### 1. Principal accounting policies (continued)

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

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

#### **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 (SHG) is recycled the SHG is credited to a fund that appears as a creditor and can be used to fund projects approved by the Homes and Communities Agency. However, SHG may have to be repaid if certain conditions are not met and, in that event, is a subordinated unsecured repayable debt.

#### **Value added tax**

Orbit South Housing Association Limited 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.

#### **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 an 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 properties.

#### **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.

## **Orbit South Housing Association Limited**

### **Statement of Cash Flows**

**For the year ended 31 March 2018**

#### **1. Principal accounting policies (continued)**

##### **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 where the timing and amount is uncertain. The amounts and timing of cash flows relating to these liabilities are based on management estimates.



# Orbit South Housing Association Limited

## Statement of Cash Flows

For the year ended 31 March 2018

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

2018	Turnover £000	Cost of sales £000	Operating costs £000	Surplus £000	Operating surplus/ (deficit) £000
<b>Social housing lettings (Note 3)</b>	<b>103,057</b>	-	<b>(65,792)</b>	-	<b>37,265</b>
<b>Other social housing activities</b>					
Managed on behalf of others	-	-	-	-	-
Services to Group members	719	-	(926)	-	(207)
Home ownership services	1,596	-	(1,617)	-	(21)
Charges for support service	337	-	(1,245)	-	(908)
Other	1,595	-	(4,454)	-	(2,859)
LCHO first tranche sales	144	(119)	-	-	25
Properties for sale	2,252	(2,252)	-	-	-
	<b>6,643</b>	<b>(2,371)</b>	<b>(8,242)</b>	-	<b>(3,970)</b>
Non-social housing activities	2,108	-	(1,380)	-	728
Surplus on sale of housing properties (note 7)	-	-	-	8,036	8,036
<b>Total</b>	<b>111,808</b>	<b>(2,371)</b>	<b>(75,414)</b>	<b>8,036</b>	<b>42,059</b>
<b>2017</b>					
	<b>Turnover £000</b>	<b>Cost of sales £000</b>	<b>Operating costs £000</b>	<b>Surplus £000</b>	<b>Operating surplus/ (deficit) £000</b>
<b>Social housing lettings (note 3)</b>	99,863	-	(64,767)	-	35,096
<b>Other social housing activities</b>					
Managed on behalf of others	4	-	-	-	4
Services to Group members	693	-	(897)	-	(204)
Home ownership services	2,922	-	(3,283)	-	(361)
Charges for support service	1,029	-	(1,306)	-	(277)
Other	1,168	-	(3,355)	-	(2,187)
LCHO first tranche sales	1,372	(1,083)	-	-	289
	<b>7,188</b>	<b>(1,083)</b>	<b>(8,841)</b>	-	<b>(2,736)</b>
Non-social housing activities	1,634	-	(1,477)	-	157
Surplus on sale of housing properties (note 7)	-	-	-	8,285	8,285
<b>Total</b>	<b>108,685</b>	<b>(1,083)</b>	<b>(75,085)</b>	<b>8,285</b>	<b>40,802</b>

## Orbit South Housing Association Limited

### Statement of Cash Flows

For the year ended 31 March 2018

#### 3. Income and expenditure from social housing lettings

	<b>General needs housing £000</b>	<b>Supported housing and housing for older people £000</b>	<b>2018 £000</b>	<b>2017 £000</b>
Rent receivable net of identifiable service charges	81,313	6,633	<b>87,946</b>	85,619
Service charge income	7,086	3,262	<b>10,348</b>	9,244
Amortisation of social housing and other capital grants	4,218	545	<b>4,763</b>	5,000
Other income from lettings	-	-	-	-
	<b>92,617</b>	<b>10,440</b>	<b>103,057</b>	<b>99,863</b>
<b>Expenditure</b>				
Management	(11,066)	(1,360)	<b>(12,426)</b>	(10,929)
Service charge costs	(6,473)	(4,014)	<b>(10,487)</b>	(9,913)
Routine maintenance	(13,325)	(1,057)	<b>(14,382)</b>	(14,344)
Planned maintenance	(8,625)	(3,417)	<b>(12,042)</b>	(12,787)
Bad debts	(784)	(80)	<b>(864)</b>	(807)
Depreciation of housing properties	(14,266)	(1,271)	<b>(15,537)</b>	(14,379)
Impairment of housing properties	-	-	-	(1,443)
Other costs	-	(54)	<b>(54)</b>	(165)
<b>Operating costs on social housing lettings</b>	<b>(54,539)</b>	<b>(11,253)</b>	<b>(65,792)</b>	<b>(64,767)</b>
<b>Surplus / (loss) on social housing lettings</b>	<b>38,078</b>	<b>(813)</b>	<b>37,265</b>	<b>35,096</b>
Void losses	(1,113)	(292)	<b>(1,405)</b>	(1,503)

Depreciation on housing properties includes £516,000 written off due to components being replaced earlier than the expected life of those components (2017: £442,000).

## Orbit South Housing Association Limited

### Statement of Cash Flows

For the year ended 31 March 2018

#### 4. Staff costs

Members of staff that work for Orbit South are contractually employed by either Orbit South 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.

	<b>2018</b>	<b>2017</b>
	<b>Number</b>	<b>Number</b>
<b>Average number employed</b>		
Office staff	7	9
Scheme staff	3	4
	<b>10</b>	13
Full-time	9	11
Part-time	1	2
	<b>10</b>	13
<b>Full time equivalents</b>	<b>10</b>	12

A full time equivalent would be 35 hours per week.

	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
<b>Staff costs for the above</b>		
Wages and salaries	271	399
Social security costs	26	36
Other pension costs	30	33
	<b>327</b>	468

	<b>2018</b>	<b>2017</b>
	<b>Number</b>	<b>Number</b>
<b>Number employed at 31 March</b>		
Office staff	7	9
Scheme staff	3	4
	<b>10</b>	13

#### Directors and senior staff emoluments - FTE

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

## Orbit South Housing Association Limited

### Statement of Cash Flows

For the year ended 31 March 2018

#### 5. Operating surplus

	2018	2017
	£000	£000
<b>Operating surplus is arrived at after charging/(crediting)</b>		
Depreciation of housing properties	15,537	14,379
Impairment of housing properties	-	1,443
Depreciation of other tangible fixed assets	84	133
Impairment of other tangible fixed assets	107	-
Loss on sale of property, plant and equipment - other	(857)	-
Amortisation of social housing grant	(4,763)	(5,000)
<b>Operating lease rentals</b>		
Land and buildings	565	629
Office equipment and vehicles	150	211
Aerials	29	144
White goods	21	67
<b>Auditor's remuneration (excluding VAT)</b>		
Fees payable to the Association's auditor for the audit of the financial statements	25	23
Fees payable to the Association's auditor for other services	(4)	8
Total audit services	21	31
Tax compliance services	-	-
Total non-audit services	-	-

A donation of £5,377,000 (2017: £6,203,000) 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.

## Orbit South Housing Association Limited

### Statement of Cash Flows

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 Orbit South 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 and other benefits:

	2018 £000	2017 £000
K Bolister	2	2
J Boomhauer	5	3
J Hopes	1	2
G Kyle	-	2
S Shubhankar	-	5
K Strong	-	5
S Tandooran-Sentain	5	5
W Yardley	2	2
T Mihill	2	-
<b>Total</b>	<b>17</b>	<b>26</b>

Expenses paid during the year to board members amounted to £14,000 (2017: £13,000).

	2018 £000	2017 £000
Travel costs	2	7
Meeting costs	11	5
Accommodation and hospitality	1	1
	<b>14</b>	<b>13</b>

#### 7. Surplus on sale of fixed assets - housing properties

	2018			2017		
	Letting £000	Shared equity £000	Total £000	Letting £000	Shared equity £000	Total £000
Disposal proceeds	11,350	116	11,466	11,807	48	11,855
Carrying value of fixed assets	(4,201)	-	(4,201)	(4,211)	(38)	(4,249)
	<b>7,149</b>	<b>116</b>	<b>7,265</b>	7,596	10	7,606
Capital grant recycled	1,203	-	1,203	1,376	-	1,376
RTB clawbacks	(432)	-	(432)	(697)	-	(697)
<b>Surplus on disposal</b>	<b>7,920</b>	<b>116</b>	<b>8,036</b>	8,275	10	8,285

## Orbit South Housing Association Limited

### Statement of Cash Flows

For the year ended 31 March 2018

#### 8. Interest receivable and other income

	2018 £000	2017 £000
Interest receivable and similar income	4	29

#### 9. Interest payable

	2018 £000	2017 £000 Restated
Loan arrangement fees	19	17
Loans and bank overdrafts	23,243	20,319
	23,262	20,336
Interest payable capitalised on housing properties under construction (see Note 35)	(6,008)	(5,300)
Loan premium write off	(175)	(121)
	17,079	14,915
<b>Other financing costs</b>		
Defined benefit pension charge	98	91

#### 10. Tax on surplus on ordinary activities

The Association was accepted as a charity for tax purposes by HMRC with effect from 1 April 2008. No taxation is anticipated in the year of £nil (2017: £nil). The board is not aware of any circumstances which will affect the future taxation status of the Association.

# Orbit South Housing Association Limited

## Statement of Cash Flows

For the year ended 31 March 2018

### 11. Housing properties

	Housing properties for letting		Supported housing	Low cost home ownership	Care establishments	Total
	Complete	In Development	Completed	Complete	Complete	
Cost	£000	£000	£000	£000	£000	£000
At 1 April 2017	999,387	127,335	35,549	3,576	999	1,166,846
Prior period adjustment (see note 35)	11,183	-	-	-	-	11,183
Restated opening balance 1 April 2017	1,010,570	127,335	35,549	3,576	999	1,178,029
Additions	12,928	86,220	919	-	-	100,067
Transfer on completion	74,916	(74,916)	-	-	-	-
Transfer to stock/WIP	-	-	-	-	-	-
Transfer to other group members	(5,887)	(24,729)	-	-	-	(30,616)
Disposals	(4,546)	(240)	(27)	-	-	(4,813)
<b>At 31 March 2018</b>	<b>1,087,981</b>	<b>113,670</b>	<b>36,441</b>	<b>3,576</b>	<b>999</b>	<b>1,242,667</b>
<b>Less: accumulated depreciation</b>						
At 1 April 2017	(123,385)	-	(4,701)	(82)	(76)	(128,244)
Eliminated on disposal	1,875	-	15	-	-	1,890
Depreciation	(14,469)	-	(542)	(10)	-	(15,021)
<b>At 31 March 2018</b>	<b>(135,979)</b>	<b>-</b>	<b>(5,228)</b>	<b>(92)</b>	<b>(76)</b>	<b>(141,375)</b>
<b>Less: provisions for impairment</b>						
At 1 April 2017	(1,443)	-	-	-	-	(1,443)
Charge for the year	-	-	-	-	-	-
<b>At 31 March 2018</b>	<b>(1,443)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,443)</b>
<b>Net book amount</b>						
<b>At 31 March 2018</b>	<b>950,559</b>	<b>113,670</b>	<b>31,213</b>	<b>3,484</b>	<b>923</b>	<b>1,099,849</b>
<b>At 31 March 2017 Restated</b>	<b>885,742</b>	<b>127,335</b>	<b>30,848</b>	<b>3,494</b>	<b>923</b>	<b>1,048,342</b>

Additions to properties during the year include capitalised interest and finance costs of £6 million (2017 restated: £5.3 million) and development administration costs / project management fees of £1.5 million (2017: £2.6 million).

The Association reviewed its properties for impairment and an impairment of £nil has been made for the year (2017: £1.4 million) in respect of existing properties that are to be re-developed as part of a regeneration project.

### Net book value of housing and other properties comprises:

	2018	2017
	£000	£000
Freehold land and buildings	1,100,501	1,049,895
Long leasehold land and buildings	87	91
	<b>1,100,588</b>	<b>1,049,986</b>

## Orbit South Housing Association Limited

### Statement of Cash Flows

For the year ended 31 March 2018

#### 12. Other fixed assets

	Freehold offices £000	Commercial premises £000	Motor vehicles £000	Furniture, fixtures & equipment £000	Total £000
<b>Cost or valuation</b>					
At 1 April 2017	2,304	150	19	1,574	4,047
Additions	74	-	-	69	143
Disposals	-	-	-	-	-
Write off	(1,135)	-	-	(43)	(1,178)
<b>At 31 March 2018</b>	<b>1,243</b>	<b>150</b>	<b>19</b>	<b>1,600</b>	<b>3,012</b>
<b>Less: accumulated depreciation</b>					
At 1 April 2017	(752)	(59)	(19)	(1,463)	(2,293)
Charge for year	(38)	(4)	-	(42)	(84)
Write off	306	-	-	17	323
Eliminated on disposal	-	-	-	-	-
<b>At 31 March 2018</b>	<b>(484)</b>	<b>(63)</b>	<b>(19)</b>	<b>(1,488)</b>	<b>(2,054)</b>
<b>Less: provisions for impairment</b>					
At 1 April 2017	-	-	-	-	-
Charge/(credit) for year	(107)	-	-	-	(107)
<b>At 31 March 2018</b>	<b>(107)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(107)</b>
<b>Net book amount</b>					
<b>At 31 March 2018</b>	<b>652</b>	<b>87</b>	<b>-</b>	<b>112</b>	<b>851</b>
<b>At 31 March 2017</b>	<b>1,552</b>	<b>91</b>	<b>-</b>	<b>111</b>	<b>1,754</b>

#### 13. Fixed asset investments

	2018 £000	2017 £000
Monies deposited for Affordable Housing Finance Plc	1,194	724

In July 2016, Orbit South Housing Association 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 £1,194,000 (2017: £724,000).



## Orbit South Housing Association Limited

### Statement of Cash Flows

For the year ended 31 March 2018

#### 14. Properties for sale

	2018	2017
	£000	£000
Shared ownership - completed properties	-	59

#### 15. Debtors

	2018	2017
	£000	£000
<b>Due within one year:</b>		
Rental debtors	4,353	5,277
Less: provision for doubtful debts	(1,317)	(1,740)
	3,036	3,537
Service charges due from Leaseholders	135	199
Amounts due from subsidiaries	62,702	72,938
Prepayments and accrued income	592	922
SHG receivable	286	720
Provision for bad debts	(10)	(16)
Other debtors	1,788	685
	<b>68,529</b>	<b>78,985</b>
<b>Due after more than one year:</b>		
Other debtors	2,347	1,057

#### 16. Creditors: amounts falling due within one year

	2018	2017
	£000	£000
Housing loans (note 21)	13,357	12,626
Amounts due to group undertakings	34,868	64,321
Other creditors including taxation and social security	2,087	3,416
Accruals and deferred income	8,942	5,919
Deposits in advance	4	-
Rents received in advance	2,608	2,115
Grants received in advance	833	825
RCGF and DPF within one year (note 20)	1,982	1,905
Deferred capital grant (note 18)	4,763	5,000
<b>Total</b>	<b>69,444</b>	<b>96,127</b>

## Orbit South Housing Association Limited

### Statement of Cash Flows

For the year ended 31 March 2018

#### 17. Creditors: amounts falling due after more than one year

	2018	2017
	£000	£000
Housing loans (note 21)	49,529	24,565
Loans inter-company (note 21)	502,063	480,844
Deferred capital grant (note 18)	375,240	372,643
Deferred income for renewals and maintenance contributions	6,476	7,056
Other creditors	611	1,276
RCGF and DPF outside of one year (note 20)	2,609	2,288
Loan premium	4,410	4,585
<b>Total</b>	<b>940,938</b>	<b>893,257</b>

Housing loans shown above are net of £471,000 (2017: £435,000) loan arrangement fees carried forward.

#### 18. Deferred capital grant

	2018	2017
	£000	£000
At 1 April	377,643	379,439
Grant received in the year	6,742	4,436
Transfer (from) RCGF and DPF	(360)	(245)
Transfer (from)/to intercompany	512	(512)
Elimination on the disposal of assets	229	(475)
Released to income in the year	(4,763)	(5,000)
<b>At 31 March</b>	<b>380,003</b>	<b>377,643</b>

Analysed as:

	2018	2017
	£000	£000
Amounts to be released within 1 year	4,763	5,000
Amounts to be released in more than 1 year	375,240	372,643
<b>Total</b>	<b>380,003</b>	<b>377,643</b>

## Orbit South Housing Association Limited

### Statement of Cash Flows

For the year ended 31 March 2018

#### 19. Provisions for liabilities

	At beginning of the year £000	Transfer to/ (from) SOCl £000	Release of provision during the year £000	At end of year £000
Dilapidation and remedial works	-	583	-	583
Home Improvement Agency Hardship	1	2	-	3
Water Rates	712	-	-	712
	713	585	-	1,298

Analysed as:

	2018 £000	2017 £000
Amounts to be released in less than 1 year	586	-
Amounts to be released in more than 1 year	712	713
	1,298	713

The Home Improvement Agency Hardship fund relates to grants payable to customers and will be utilised in the next financial year.

The Water provision relates to costs arising from a historic contractual arrangement, and will be utilised as required.

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

	RCGF £000	DPF £000	Total £000
<b>At 1 April 2017</b>	4,052	141	4,193
Grants recycled	1,203	-	1,203
Interest accrued	14	-	14
Utilised in the year	(819)	-	(819)
<b>At 31 March 2018</b>	<b>4,450</b>	<b>141</b>	<b>4,591</b>

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

	RCGF £000	DPF £000	Total £000
Within one year	1,844	138	1,982
After more than one year	2,606	3	2,609
<b>At 31 March 2018</b>	<b>4,450</b>	<b>141</b>	<b>4,591</b>

The amount utilised in the year related to new developments and one off purchase of housing assets.

## Orbit South Housing Association Limited

### Statement of Cash Flows

For the year ended 31 March 2018

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

	2018 £000	2017 £000
<b>Due within one year</b>		
Orbit Treasury Limited	13,357	12,626
<b>Due after more than one year</b>		
Orbit Treasury Limited	387,367	366,148
Orbit Capital plc	114,696	114,696
Affordable Housing Finance Plc	50,000	25,000
	<b>552,063</b>	505,844
<b>Total</b>	<b>565,420</b>	518,470

All loans are in sterling. The majority of loans in the Group are routed through a separate treasury vehicle, Orbit Treasury Limited. All members of the Group have entered into a fully cross-collateralised structure. Orbit Treasury Limited borrows money on behalf of the Group and on-lends these to the individual Operating Associations as required. The benefits of setting up the treasury vehicle include streamlined and efficient treasury procedures and strategy.

Orbit Capital plc (OC) is a public limited company incorporated on 22nd January. OC is a wholly owned subsidiary of Orbit Group and was established for the purpose of issuing publicly listed bonds. OC issued its first bond on 24 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.

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%.

#### Note (a)

Housing loans are secured by specific and floating 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	13,357	12,626
<b>Repayable by instalments:</b>		
- more than one year but not more than two years	13,358	12,626
- In more than two years but not more than five years	40,072	37,877
- In more than 5 years	498,633	455,341
	<b>552,063</b>	505,844
<b>Total</b>	<b>565,420</b>	518,470

## Orbit South Housing Association Limited

### Statement of Cash Flows

For the year ended 31 March 2018

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

The Greenwich NatWest (formerly Orchardbrook Ltd), bank and certain other loans were secured by fixed charges on individual properties. The loans from Greenwich NatWest are paid in half yearly instalments. The interest rates are 10.7% and 11.9% and the final instalments fall to be repaid in 2026 and 2032.

The interest rate profile at 31 March 2018 was:

	Total £m	Variable rate £m	Fixed rate £m	Weighted average rate %	Weighted average term until maturity years
Instalment loans	515,420	400,724	114,696	3.95%	22
Non instalment loans	50,000	-	50,000	2.30%	28
	<b>565,420</b>	<b>400,724</b>	<b>164,696</b>	<b>3.81%</b>	<b>22</b>

#### 22. Called up share capital

	2018 £	2017 £
<b>Issued and fully paid shares of £1 each</b>		
<b>At 1 April 2017</b>	<b>14</b>	<b>14</b>
Issued	1	2
Surrendered	(3)	(2)
<b>At 31 March 2018</b>	<b>12</b>	<b>14</b>

The share capital of Orbit South Housing Association is raised by the issue of shares with a nominal value of £1 each. The Association's Co-operative and Community Benefit Society status means the maximum shareholding permitted per member is 1 share. There is no authorised share capital and the Orbit Board may issue as many £1 shares as it wishes. However, the Board operates a restricted shareholding policy with all shares currently held by serving, 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 general meeting of the Association.

## Orbit South Housing Association Limited

### Statement of Cash Flows

For the year ended 31 March 2018

#### 23. Capital commitments

	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
Capital expenditure which has been contracted for but has not been provided for in the financial statements	<b>94,615</b>	140,002
Capital expenditure which has been authorised under authority from the Orbit board but has yet to be contracted for	<b>31,997</b>	65,467
	<b>126,612</b>	205,469

The Association expects these commitments to be financed with:

	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
Social housing grant	<b>8,233</b>	11,126
Committed loan facilities (Orbit Treasury Limited)	<b>93,970</b>	166,702
Proceeds from sale of properties	<b>24,409</b>	27,641
	<b>126,612</b>	205,469

#### 24. Contingent liabilities

As at 31 March 2018, there were £16 million contingent liabilities within the Association (2017: £16 million).

Stock acquisitions previously undertaken include original government grant funding of £16 million which has an obligation to be recycled in accordance with the original grant funding terms and conditions.

Orbit South is responsible for the recycling of the grant in the event of the housing properties being disposed.

## Orbit South Housing Association Limited

### Statement of Cash Flows

For the year ended 31 March 2018

#### 25. Cash flow from operating activities

	2018	Restated 2017
	£000	£000
Surplus for the year	24,053	25,869
<i>Adjustments for non-cash items</i>		
Depreciation charge on other fixed assets	85	133
Gain of sale of property plant & equipment housing properties	(8,036)	(8,285)
Cost of sales - other fixed assets	857	3
Depreciation charge on housing properties	15,010	14,379
Amortisation of grant on housing properties	(4,763)	(5,000)
Interest payable	17,079	14,915
Interest receivable	(4)	(29)
Other financing costs	98	91
Movement in fair value of financial instruments	(24)	(44)
Movement in reserves	(5,377)	(6,203)
Provision for impairment on housing properties	-	1,443
Provision for impairment of other fixed assets	107	-
Movement in other provisions	580	(72)
(Decrease)/increase in bad debt provision	(422)	236
Decrease in stocks	59	590
Adjustment for pension funding	(51)	(74)
Decrease/(increase) in debtors	8,161	(22,895)
Increase/(decrease) in creditors	(23,289)	19,153
Release of deferred income	(580)	(546)
<b>Net cash inflow from operating activities</b>	<b>23,543</b>	<b>33,664</b>

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

	2018	2017
	£000	£000
(Decrease)/increase in cash in the year	(1,543)	624
Increase in bank deposits (with a maturity in excess of 24 hours)	470	724
Other changes	19	10,794
Loans and bond finance received	(112,032)	(167,251)
Loans repaid	65,082	91,665
Loan arrangement fees	17	452
Loan premium	175	(4,706)
<b>Change in net debt</b>	<b>(47,812)</b>	<b>(67,698)</b>
Net debt at 1 April	(518,910)	(451,212)
<b>Net debt at 31 March</b>	<b>(566,722)</b>	<b>(518,910)</b>

## Orbit South Housing Association Limited

### Statement of Cash Flows

For the year ended 31 March 2018

#### 27. 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	2,986	(1,543)	-	1,443
Bank deposits – less than 24 hours	-	-	-	-
	2,986	(1,543)	-	1,443
Bank deposits – in excess of 7 days	724	470	-	1,194
Housing loans due within one year	(12,626)	-	(731)	(13,357)
Housing loans due after one year	(505,844)	(46,950)	731	(552,063)
Loan arrangement fees	435	17	19	471
Loan premium	(4,585)	-	175	(4,410)
	(518,910)	(48,006)	194	(566,722)

#### 28. 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
<b>Leases which expire</b>		
Within 1 year	605	726
Within 2 - 5 years	868	331
After 5 years	-	-
<b>Total</b>	<b>1,473</b>	<b>1,057</b>

#### 29. Ultimate parent entity

The immediate parent undertaking and ultimate parent entity and controlling entity of Orbit South 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 Orbit South Housing Association Limited are included in the Group financial statements. The consolidated financial statements of Orbit Group Limited are published on the Orbit website [www.orbit.org.uk](http://www.orbit.org.uk)



## Orbit South Housing Association Limited

### Statement of Cash Flows

#### For the year ended 31 March 2018

#### 30. Related party transactions

The Orbit Heart of England and Orbit South Boards also include a member who is an elected representative of Nuneaton & Bedworth Borough Council. During the year Orbit made payments of £17,000 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 aggregate payments to Orbit totalled £16,000 (2017: £11,000). The outstanding amount owed at 31 March 2018 was less than £nil.

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

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

#### 31. Number of units under development at end of year

	2018	2017
	Number	Number
General needs	328	552
Low Cost Home Ownership	-	-
Private Market Rent	145	-
<b>Total social housing units</b>	<b>473</b>	<b>552</b>

#### 32. Property portfolio

	2018	2017
	Number	Number
General needs	11,898	11,942
Affordable rent	3,232	2,683
Intermediate rent	153	171
Supported Housing	1,654	1,655
<b>Total owned by Orbit</b>	<b>16,937</b>	<b>16,451</b>
<b>Low Cost Home Ownership</b>	<b>40</b>	<b>40</b>
Leasehold	1,523	1,472
Private retirement schemes	653	653
Managed on behalf of others	-	2
<b>Leasehold and other managed</b>	<b>2,176</b>	<b>2,127</b>
<b>Total social housing units</b>	<b>19,153</b>	<b>18,618</b>
Commercial Units	16	17
<b>Total non social housing units</b>	<b>16</b>	<b>17</b>
<b>Total units</b>	<b>19,169</b>	<b>18,635</b>

## Orbit South Housing Association Limited

### Statement of Cash Flows

For the year ended 31 March 2018

#### 33. Pension costs

##### Pension schemes operated by Orbit South Housing Association Limited

Movement in pension cost liabilities during the year

	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
<b>Net deficit at 1 April 2017</b>	<b>(3,660)</b>	(2,569)
Service costs	<b>(18)</b>	(36)
Contributions	<b>76</b>	116
Unfunded pensions payments	<b>-</b>	-
Net return on assets less interest on pension scheme liabilities	<b>(83)</b>	(71)
Actuarial gain/(loss)	<b>693</b>	(1,075)
Other finance costs	<b>(22)</b>	(25)
<b>Deficit in pension scheme at 31 March 2018</b>	<b>(3,014)</b>	(3,660)

##### (a) Local Government Pension Scheme – Kent County Council

The Association participates in The Local Government Pension Scheme (LGPS defined benefit statutory scheme) which is administered by Kent County Council (KCC). These figures have been prepared in accordance with Financial Reporting Standard 102 (FRS102).

Total employer contributions paid to the scheme for the year were £16,000 (2017: £53,000).

##### Triennial actuarial valuation

Triennial actuarial valuations of the LGPS are performed by an independent, professionally qualified actuary. The most recent valuation of KCC's scheme was completed as at 31 March 2016 using financial assumptions that comply with FRS102.

The major financial assumptions used by the actuary in the FRS 102 valuation are:

	<b>2018</b>	<b>2017</b>
Rate of increase in salaries	<b>3.80%</b>	4.20%
Rate of increase in pensions in payment and deferred pensions	<b>2.30%</b>	2.70%
Discount rate applied to scheme liabilities	<b>2.55%</b>	2.70%
Inflation assumption – CPI	<b>2.30%</b>	2.70%
Inflation assumption – RPI	<b>3.30%</b>	3.60%

The estimate of the duration of the employer liabilities is 19 years.

## Orbit South Housing Association Limited

### Statement of Cash Flows

For the year ended 31 March 2018

#### 33. Pension costs (continued)

##### Life expectancy from age 65 (years)

		2018	2017
		Number	Number
<b>Retiring today</b>	Males	23.1	23.0
	Females	25.2	25.0
<b>Retiring in 20 years</b>	Males	25.3	25.1
	Females	27.5	27.4

#### (b) Local Government Pension Scheme - Bexley London Borough

Orbit South Housing Association Limited also participates in the Bexley London Borough Pension Fund, which is a defined benefit scheme.

Triennial actuarial valuations of the LGPS are performed by an independent, professionally qualified actuary. The most recent valuation of Bexley London Borough's scheme was completed as at 31 March 2016 using financial assumptions that comply with FRS102.

	2018	2017
Rate of increase in salaries	n/a	3.80%
Rate of increase in pensions payment and deferred pensions	2.20%	2.30%
Discount rate applied to scheme liabilities	2.60%	2.50%
Inflation assumption – CPI	2.10%	2.30%

##### Life Expectancy from age 65 (years)

		2018	2017
		Number	Number
<b>Retiring today</b>	Males	<b>23.1</b>	23.0
	Females	<b>26.1</b>	26.0
<b>Retiring in 20 years</b>	Males	<b>25.3</b>	25.2
	Female	<b>28.4</b>	28.3

## Orbit South Housing Association Limited

### Statement of Cash Flows

For the year ended 31 March 2018

#### 33. Pension costs (continued)

##### Scheme assets

	Value at 31 March 2018 £'000s	Value at 31 March 2017 £'000s
Equities	7,017	8,127
Government bonds	559	63
Other bonds	982	1,081
Property	1,447	1,426
Other – cash	340	275
Absolute Return fund	601	332
Other	994	626
Total fair value of assets	11,940	11,930
Present value of scheme liabilities	(14,954)	(15,590)
<b>Net pension liability</b>	<b>(3,014)</b>	<b>(3,660)</b>

##### Statement of financial position at 31 March 2018

	Value at 31 March 2018 £'000s	Value at 31 March 2017 £'000s
Present value of the defined benefit obligation	14,922	15,556
Fair value if fund assets (bid value)	(11,940)	(11,930)
Deficit	2,982	3,626
Present value of unfunded obligation	32	34
<b>Net defined benefit liability/(asset)</b>	<b>3,014</b>	<b>3,660</b>

# Orbit South Housing Association Limited

## Statement of Cash Flows

For the year ended 31 March 2018

### 33. Pension costs (continued)

#### Scheme liabilities

	Value at 31 March 2018 £'000s	Value at 31 March 2017 £'000s
<b>Opening defined benefit obligation</b>	15,590	12,743
Service cost	18	37
Interest cost	407	453
Change in financial assumptions	(634)	3,060
Experience loss on defined benefit obligation	-	(91)
Change in demographic assumptions	-	(200)
Estimated benefits paid net of transfers in	(429)	(427)
Past service cost	-	-
Contributions by scheme participants	4	17
Unfunded pension payments	(2)	(2)
<b>Closing defined benefit obligation</b>	<b>14,954</b>	<b>15,590</b>

#### Reconciliation of opening and closing balances of fair value scheme assets

	Value at 31 March 2018 £'000s	Value at 31 March 2017 £'000s
Opening fair value of scheme assets	11,930	10,175
Interest on assets	310	362
Return on assets less interest	62	1,215
Other actuarial gains	(3)	479
Administration expenses	(8)	(5)
Contributions by employer including unfunded	76	116
Contributions by scheme participants	4	17
Estimated benefits paid net of transfers in and including unfunded	(431)	(429)
Fair value of scheme assets at the end of the year	<b>11,940</b>	<b>11,930</b>

#### Analysis of amounts charged to income and expenditure account

	Value at 31 March 2018 £'000s	Value at 31 March 2017 £'000s
<b>Amounts charged to operating costs</b>		
Service costs	<b>18</b>	37
Net interest on the defined liability (asset)	<b>97</b>	91
Administration expenses	<b>8</b>	5
	<b>123</b>	133

## Orbit South Housing Association Limited

### Statement of Cash Flows

For the year ended 31 March 2018

#### 33. Pension costs (continued)

##### Movement in deficit during the year

	Value at 31 March 2018 £'000s	Value at 31 March 2017 £'000s
Deficit in pension scheme at 1 April 2017	(3,660)	(2,569)
Service Costs	(18)	(36)
Contributions	76	116
Unfunded pension payments	-	-
Other finance costs	(22)	(25)
Past service costs	-	-
Net return on assets less interest on pension scheme liabilities	(83)	(71)
Actuarial (losses)/gains	693	(1,075)
<b>Deficit in pension scheme at 31 March 2018</b>	<b>(3,014)</b>	<b>(3,660)</b>

#### 34. Non-consolidated management arrangements

Orbit South Housing Association Limited has entered into arrangements with a number of other organisations in connection with the management of some of the properties. 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 £56.6 million (2017: £69.3 million) to Orbit Homes (2020) Ltd for the purchase of housing property assets, £2.6 million (2017: £2.7 million) in project management fees and has an outstanding creditor balance with Orbit Homes (2020) Ltd of £3.6 million (2017: £7 million). The Association received £nil (2017: £270,000) in respect of Yare and Maidstone offices.

Orbit Treasury Ltd and Orbit Capital plc provide a funding on-lending service to Group members. During the year the Association paid interest costs to Orbit Treasury plc totalling £16.7 million (2017: £14.8 million) and fees of £1.5 million (2017: £1.2 million) and has an outstanding debtor balance of £nil (2017: £0.9 million).

The Association also paid interest costs of £4 million (2017: £3.7 million) and fees of £0.2 million (2017: £0.1 million) to Orbit Capital plc and had an outstanding debtor balance of £nil (2017: £nil) and creditor balance of £nil (2017: £nil) with Orbit Capital plc. The allocation of these costs is based upon the level of debt required and secured by the housing properties held by the Association.

## Orbit South Housing Association Limited

### Statement of Cash Flows

#### For the year ended 31 March 2018

##### 35. 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

	<b>Total</b>
	<b>£000</b>
Reserves at 1 April 2016	114,834
Capitalised interest restated	6,725
Restated reserves at 1 April 2016	121,559
Restated surplus year ended 31 March 2017	25,869
Actuarial loss in respect of pension schemes	(1,075)
Donations made to Orbit Group Limited	(6,203)
<b>Restated reserves at 31 March 2017</b>	<b>140,150</b>

##### Restated surplus for the year ended 31 March 2017

	<b>Total</b>
	<b>£000</b>
Original surplus for the year	21,411
Capitalised interest restated	4,458
<b>Surplus for the year</b>	<b>25,869</b>
Actuarial loss in respect of pension schemes	(1,075)
<b>Total comprehensive income 31 March 2017</b>	<b>24,794</b>