Orbit South Housing Association Limited

Financial statements

For the year ended 31 March 2017

Co-operative and Community Benefit Society Number 27802R

Homes and Communities Agency Number L4060

Orbit South Housing Association Limited

CONTENTS

Orbit South Housing Association Limited

Strategic report

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. Today we provide services to over 100,000 customers, ensuring all generations can live in a home they can afford. Proud of the journey we have taken, it is our people who have helped to shape our organisation to become what it is today. We are one of the largest developing housing associations in the UK delivering around 1,700 homes a year and recently celebrated ownership of our 40,000th home.

Purpose

Our purpose of ‘Building Communities’ remains unchanged; to improve the social, economic and environmental prospects of people and communities.

In 2013 we launched our 2020 Vision with nine ambitious targets to provide the best homes and services possible for customers. This vision guides our transformation journey to 2020, enables us to accelerate our growth and enables us to respond to a changing external environment.

Over the last four years we have built 6,000 new homes whilst expanding our offer of home rental and ownership options and cemented our position as a key influencer across the housing sector. As we celebrate 50 years as a successful organisation we look to the next phase of transformation to ensure our mission of building communities remains relevant to a changing customer base, builds capacity for accelerating growth and ensures we are exploiting maximum value from technology.

2016-17 Group highlights

2016-17 was another successful year as we progress towards achieving our 2020 Vision. Our performance against our nine key targets is highlighted below:

	2020 target	Progress: 2016-17
Housing	Deliver 12,000 homes	6,000 homes delivered - 1,788 homes were built in 2016-17 (1,073 affordable rent, 505 shared ownership and 210 market sale)
	Provide customers a full range of home rental and ownership options	Private rent and aspire to buy offers in place
	Provide a flexible housing journey	Marketing of both rental and home ownership options
Communities	Provide 10,000 training and job opportunities	5,897 customers supported into training - 1,480 in 2016-17 1,018 people supported into jobs - 324 in 2016-17
	Invest £30m in communities	£11.8m invested in our communities - £3.8m invested in 2016-17
	Upgrade homes to EPC Band C	68% of our properties are at EPC band C or above
Customer	90% customer satisfaction	78.6% customer satisfaction (STAR survey 2016)
	Support 20,000 customers with financial and energy advice	15,665 people have benefitted from financial and energy advice - 6,183 in 2016-17
	75% customer transactions online	24% of customer transactions taking place online

There have been a number of successes from across the business in the year including taking ownership of our 40,000th home. In the last financial year, we achieved record year-end sales results for shared ownership having sold 529 homes, up 55 per cent on the previous year.

Our shared ownership sales demonstrate this homeownership option is now widely recognised as an affordable product for people who are struggling to get on the housing ladder. This year we also piloted a project with existing shared ownership customers, generating additional revenues and providing more flexible options into home ownership.

Our pioneering digital tenancy sign-up tool, Orbit Move, was recognised for innovation in the housing sector, winning both a Housing Innovation award and regional Chartered Institute of Housing (CIH) award for 'Excellence in the use of Technology' as well as making the shortlist in the National Housing Awards.

We were also shortlisted in the Community Impact, the European Contact Centre Customer Service Awards, TPAS and UK Customer Experience awards for a number of projects and services which support our customers.

We have improved customer satisfaction around repairs, with a significant reduction in the number of calls received by 28% year on year. We continue to invest in and develop our Customer Service Centre, providing additional training for advisors, creating a new Customer Relations team to improve first time resolution of issues and revamped our approach to handling complaints, resulting in a 30% improvement in resolution at this first point of contact. Our focus on compliance remains strong with 100% gas safety compliance achieved at the end of the year.

We have outsourced the management of a portfolio of our garages, and sold some sites to fund investment in the remaining portfolio. Our fees for service charges have also been reviewed providing consistency and ensuring cost recovery.

Orbit South Housing Association Limited

Strategic report

2016-17 financial performance

Financial summary

Statement of comprehensive income	2016-17 £m	Restated 2015-16 £m	2014-15 £m	2013-14 £m	2012-13 £m
Turnover	109	106	100	91	87
Operating costs and cost of sale	(76)	(68)	(69)	(63)	(68)
Surplus on sale of housing	8	9	6	-	-
Operating surplus	**41**	**47**	**37**	**28**	**19**
Surplus on sale of housing	-	-		25	7
Net interest and other financing costs	(20)	(22)	(18)	(14)	(13)
Donations	-	-	(5)	(6)	(5)
Surplus for the year	**21**	**25**	**14**	**33**	**7**

Statement of financial position	2016-17 £m	2015-16 £m	2014-15 £m	2013-14 £m	2012-13 £m
Tangible fixed assets/investments	1,040	954	896	445	397
Net current assets/(liabilities)	(13)	(9)	(17)	(31)	(21)
Total assets less current liabilities	**1,027**	**945**	**879**	**414**	**376**
Creditors due after >1 year	893	827	781	336	331
Provisions	1	1	-	-	
Pension liability	4	2	3	2	3
Revenue reserves	129	115	95	76	42
	1,027	**945**	**879**	**414**	**376**

Key indicators (Group)	2016-17	2015-16	2014-15	2013-14	2012-13
Debt per unit (£k)	33.1	31.0	27.9	24.2	23.8
Months cash/secured loans available	36	14	18	30	24
Months approved loans available	36	20	24	30	36
Interest cover	2.4	1.99	2.19	2.46	1.86

2016-17 saw continuing strong financial performance. Overall surplus has reduced in the year to £21m (2016: £25m) however this is largely as a result of increased maintenance investment and impairment costs. Turnover grew by 2.8% to £109m. 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 £1,040m (2016: £954m, 9% increase) and reserves to £129m (2016: £115m, 12% increase.) We now have 18,635 properties an increase of 363 from 2016.

Operating costs increased to £76m (2016: £68m). Our largest area of expenditure is the maintenance of our properties, which was £29.2m of which £9m 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 have increased to £10.9m (2016: £10.4m)

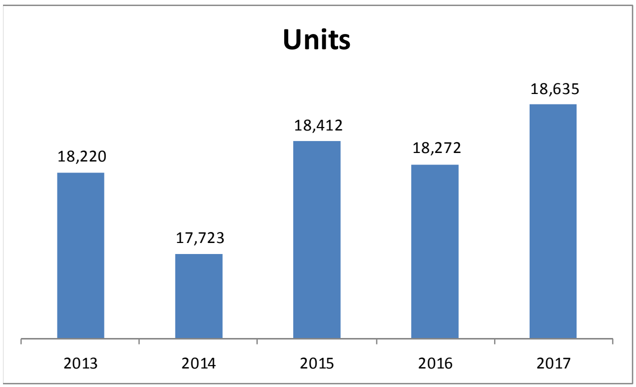
Operating margin (overall) has increased to 41% (2016: 36%) whilst operating margin on social housing lettings is static at 35%.

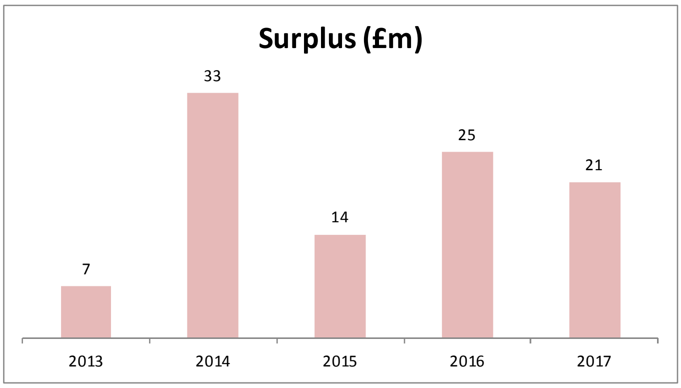
Donations from 2015-16 are accounted for as a distribution from reserves and is shown in the statement of changes in reserves.

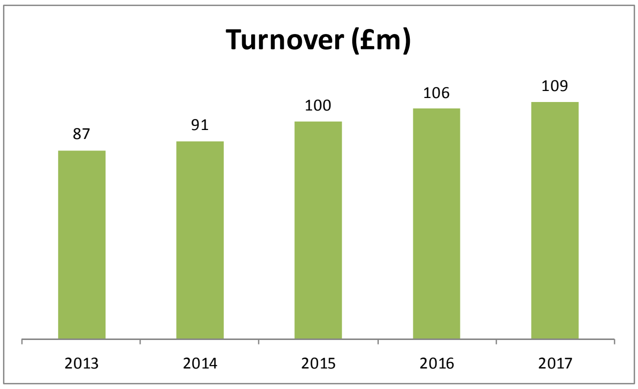
Strategic report

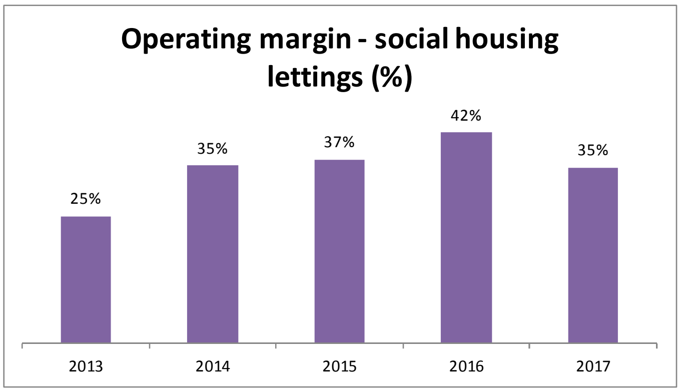
The profits generated will continue to be reinvested, firstly in improving our existing properties through our investment programmes, in improving services to customers, in our communities and in the development of new homes.

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









2017-18 Group priorities

Our environment continues to change at pace and can often reflect a challenging political, economic and regulatory landscape. Now more than ever, we see the importance of delivering our 2020 Vision for our customers.

Analysis of the external environment shows social and economic challenges are making life harder for our customers and communities. In light of our departure from the European Union, we know Brexit could exacerbate the skills shortage in the construction sector, affecting supply. It is also likely to occupy much of the national policy agenda, with possible delays in the development of key housing and welfare-related policy. Living costs are set to rise over the coming years, and the cumulative impact of tax and welfare policies will lead to further reduction in income for many people living in the communities where we work.

We expect the new government to continue to drive housing growth, which supports and provides homes for all families. Developing housing associations like us have been recognised as a key delivery partners offering greater flexibility in tenure. Devolving powers and funding to combined authorities will provide new opportunities for us, as new delivery partners are shaped. In the coming years we will need to be agile in our working and approach and so turn our attention to ‘improvement and evolution’.

Building on work from 2016-17, our focus remains on four core business plan areas; service, profit and people, underpinned by continued improvement of our compliance and risk infrastructure.

Actions

SERVICE

Building on the delivery of our stability plans we now focus on driving improvement in our core operations. A clear **customer offer** based on what matters most to our customers will be the basis for an efficient and good quality service model. This will see Orbit make progress on our road to **multi-channel delivery models**. A continued focus on **improving the reliability of core services** to drive up customer satisfaction and productivity is imperative. This will be underpinned by greater management focus on the quality of customer experiences. During the year we will also **invest £3.5m in our communities**, funding activities that achieve customer, community and business benefits, with targeted initiatives that sustain tenancies and reduce service costs.

PROPERTY

During 2017-18 we will deliver over **1,900 new homes** for private and social rent, market sale and shared ownership, also improving the customer experience as people move into their new homes. We will also invest c£32m in the maintenance of our existing stock to **ensure homes are warm and of good quality** for our 100,000 existing customers. A new **Asset Management strategy** will support the rationalisation of our portfolio and maximise returns to support reinvestment into the business.

PROFIT

To deliver our objectives we will continue to **drive efficiencies** and increase profits as we seek to demonstrate value for money across our business operations. A new **income strategy** will align our rent and service charge functions and seek to mitigate the ongoing impact of welfare reform. During the year our operating margin will remain at or above **25%, generating a profit** in 2017-18 of **£59m**. We aim to secure funding of **£75m** to enable us to deliver new homes.

PEOPLE

Orbit is committed to supporting the **professional development** of our employees – we're passionate about ensuring our people have the skills and tools to deliver excellence. We will continue to invest in **coaching, training and talent management**, whilst rolling out a new **pay and reward strategy** to ensure we can attract and retain the best people.

We will deliver a values led, performance driven culture that will take a 'one Orbit' approach to delivery, improving engagement at all levels. We have moved to a **single Orbit brand** that will simplify our offer and maximise our impact and influence. We will also **clarify roles and responsibilities** as we seek to simplify systems and structures.

COMPLIANCE AND RISK

We will continue to develop a stronger internal control environment through key compliance work streams. This includes **embedding the new health and safety compliance team**, as well as supporting a disciplined culture of responsibility and **accountability for data, policy, and procedural compliance** throughout the organisation. Close scrutiny of performance to ensure Orbit delivers all of the health and safety compliance requirements will remain a key priority.

Value for money (VFM)

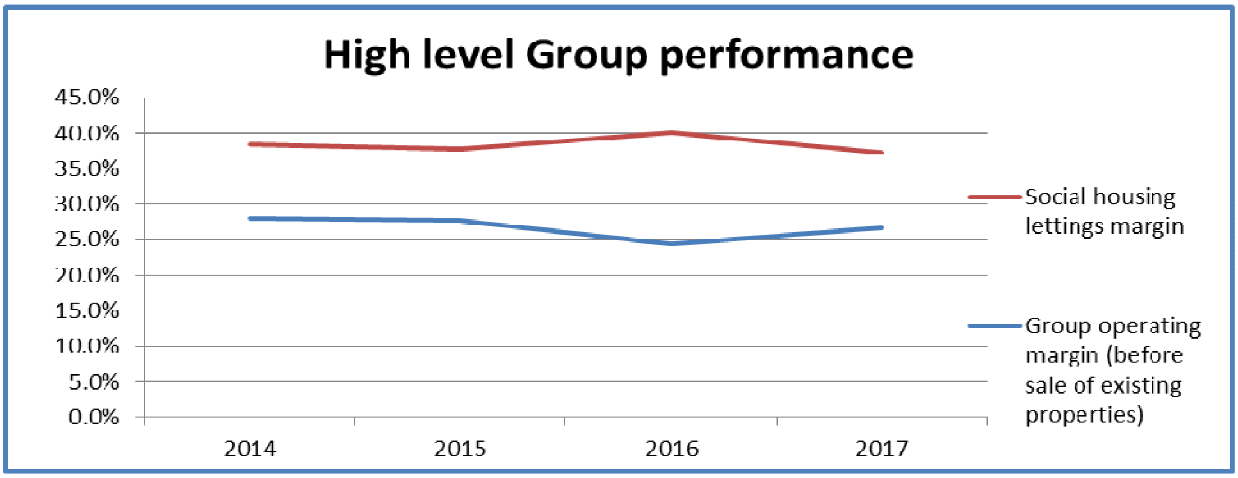
VFM gains

We targeted £3.1m of efficiency savings in our 2016-17 budgets. A total of £5.2m has been achieved as shown in the table below.

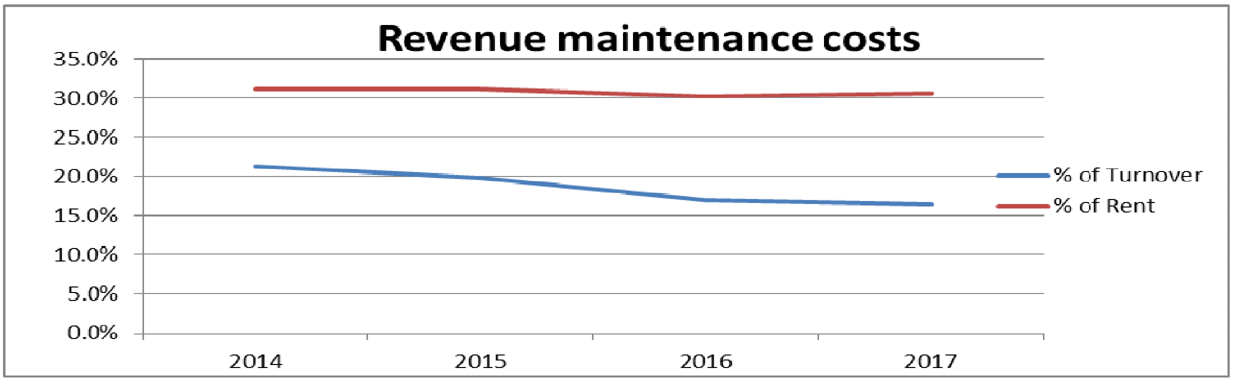
Efficiency achieved	**£000**
Operational and cash efficiencies	1,809
Treasury management	1,250
Development	920
Operational transactional efficiencies	784
Savings passed onto residents	416
Total	**5,179**

These savings have been made through some specific process improvement projects, procurement of new contracts and maximising opportunities as they have arisen.

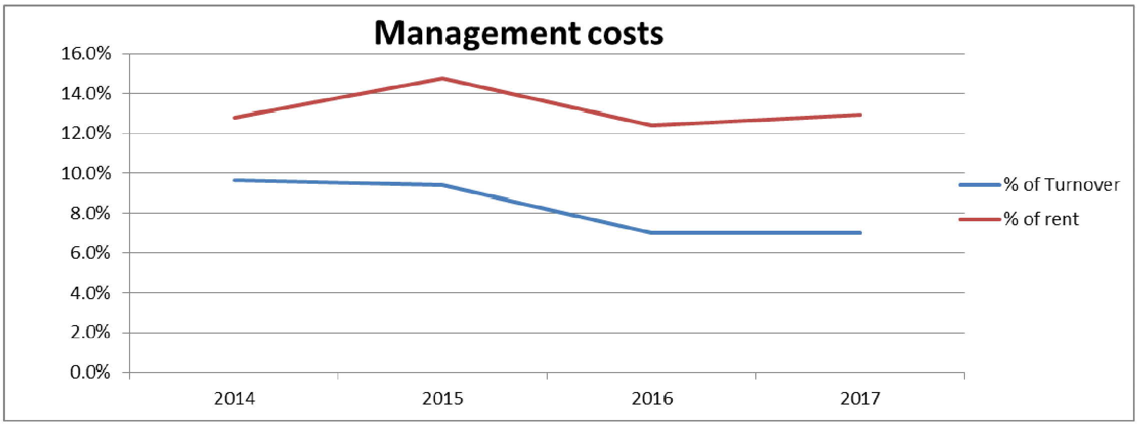
These graphs show high level financial trends and are generally positive.



The high level performance shows an improvement in the headline operating margin, reflecting the improving efficiency of the business. This is a despite a small downturn on operating performance of social housing caused by increased investment in planned maintenance and some one-off impairment charges in the accounts this year.



Maintenance spend as a percentage of turnover has continued to reduce. As a percentage of rent, there is a small increase reflecting additional planned investment.



Management costs have increased slightly as a percentage of rental income as a product of investing in the management team.

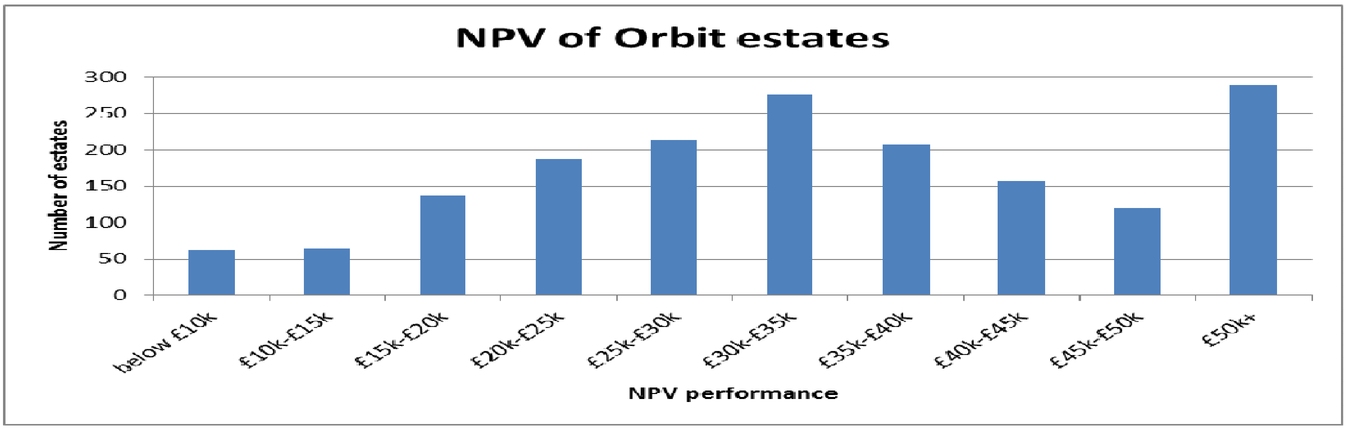
Asset management

Housing assets, how they are utilised and their financial value are the prime source of our strength, independence and self-determination. In this environment, asset management becomes central to making best use of our financial capacity.

Traditionally, asset management for housing associations and local authorities has focused on maintaining existing stock through repairs and maintenance, cyclical and planned programmes. The changing regulatory and operating environments require a more sophisticated and intelligence led approach.

We are investing in the relevant skills; IT infrastructure and data capture to enable a better level of decision making for our existing stock.

The graph below shows the result of assessing the Net Present Values (NPVs) of the 32,286 rented properties we own, split into 1,713 estates. This is a key factor in asset performance. Our policy is to focus on the bottom 10% in terms of NPV performance, running these worst performing estates through an option appraisal and making suggestions for future use. Aligning this financial information with the views of housing management and maintenance experts will lead to recommendations around future use and investment decisions.



Success to date

Shared ownership

We ran a pilot in 2016-17 to actively target shared ownership customers who may wish to buy further shares in their properties. To date the project has succeeded with 18 customers taking the option to staircase ownership in their property. This has bought in £1.5m of sales income, releasing financial capacity from our existing stock.

Garages

We have a significant garage portfolio which, over the years, has not been managed to its potential. The commercial team has worked to review each site and assess suitability for development, improve the profitability of managed sites and make sure health and safety factors are addressed. The project has delivered a better garage management function and sales receipts of £2.1m. A number of sites have also been earmarked for potential residential development.

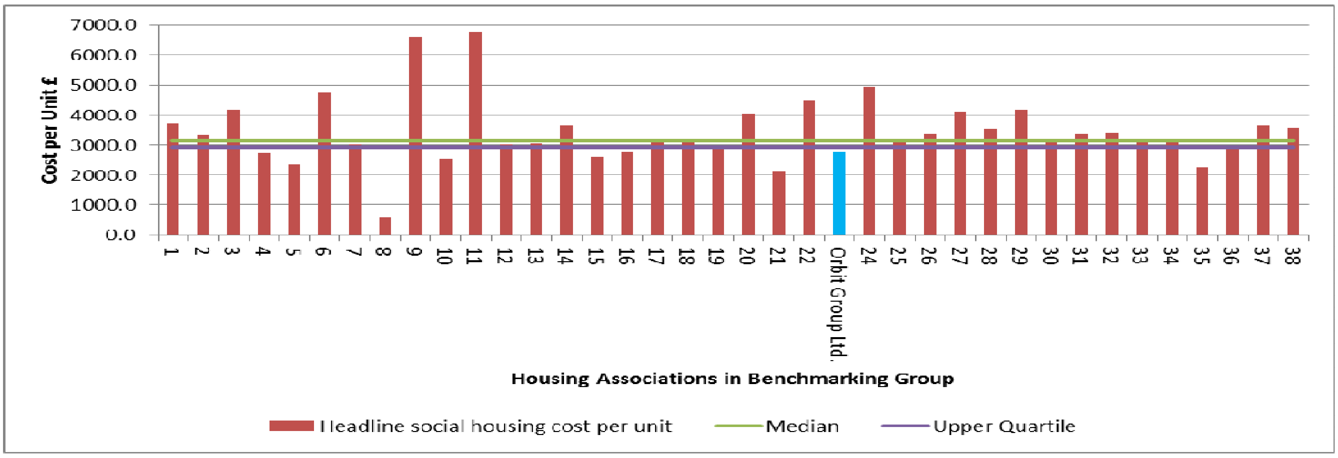
Social impact

Community investment at Orbit delivers tangible results for our communities and to Orbit. HACT have measured the social value generated by our programme at £11.36 for every £1 invested. During 2016-17 the Orbit community investment programme helped:

- 324 customers in to jobs
- 1,480 customers to undertake employment related training and skills
- 2,682 customer with wellbeing programmes to help manage mental health and anti social behavior
- 3,035 customers with financial advice
- 3,148 customers with energy advice

Benchmarking

Orbit uses benchmarking against a relevant set of peers to help understand our costs, inform cost and performance targets and identify areas for potential improvement. We take part in a number of user groups to discuss best practice and understand results. Our benchmarking group compares financial and non-financial statistics. The graph here shows a social lettings operating cost per unit against all associations with 20,000+ properties. Orbit is a top quartile performer.



The full VFM statement will be available on Orbit's website in September 2017.

Orbit South Housing Association Limited

Strategic report

Board members, executive officers and auditors

Board members

Name	Role	Appointed Orbit Heart of England	Appointed Orbit South	Resigned
Fran Beckett	Chair	1 April 2013	1 April 2011	
Kerry Bolister	I	1 March 2015	1 March 2015	
Jake Boomhauer	R		26 July 2016	
Andy Hobart	I	14 September 2016	14 September 2016	
Julie Hopes	I	16 April 2013	18 April 2012	
Glyn Kyle MBE	I	30 March 2016	11 February 2009	31 March 2017
Sam Margrave	R	9 July 2013	-	
Grant Richardson	I	1 February 2013	-	
Kathy Strong	R	-	9 July 2013	18 April 2016
Shubhankar Sumar	R	-	15 July 2014	27 March 2017
Bill Yardley	I	15 July 2014	15 July 2014	
Symon Sentain	I	-	9 September 2015	

Key
I = Independent Member R = Resident Member

Orbit South Housing Association Limited

Strategic report

Orbit Living Senior Management team

Executive Director	Role
Paul Richards	Executive Director – Customer Services (appointed August 2016)
Adam Cooper	Director of Commercial Services
Caroline Davies	Director of Property Services (appointed July 2016)
Kate Farley	Director of Operations (Interim)
Vicky Harwood	Director of Orbit Independent Living (left March 2017)
Elaine Johnston	Director of Operations, Orbit Heart of England (left October 2016)
Louise Palese	Director of Customer Services (appointed December 2016)

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

	Registered Office
Address	Garden Court Binley Business Park Harry Weston Road Binley Coventry CV3 2SU

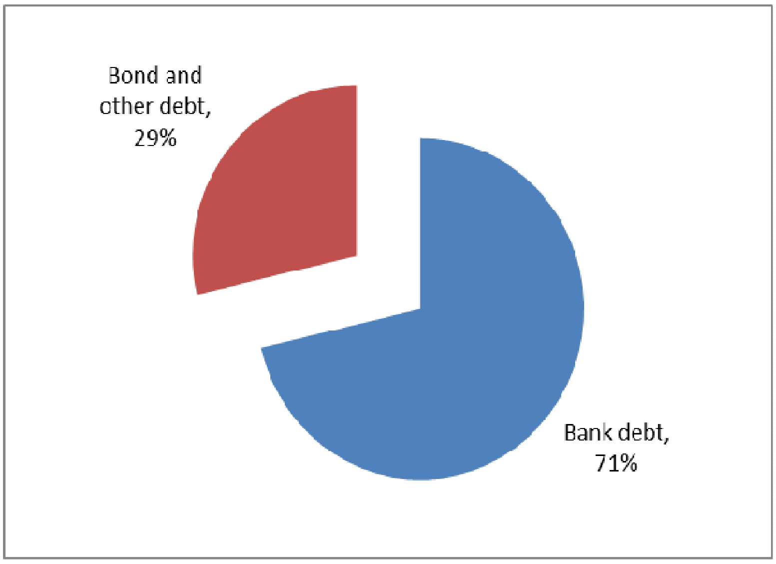
Orbit South Housing Association Limited

Strategic report

Capital structure and treasury policy

As at 31 March, we had £1,470 million of committed debt funding. Drawn funding totalled £1,139 million, an increase from 2016 (£1,037 million). We seek to maintain diversification in funding sources with 71% coming from eight banks and building societies and 29% from capital markets.

Bank vs other debt



Our re-financing risk over the next five years is £414 million, (28% of loan facilities) with over 72% of our debt maturing after five years.

Debt repayment profile

As at 31 March, we maintained £331 million of committed undrawn facilities available for immediate drawing and £28.4 million of cash in hand, representing total available liquidity of £359.4 million. These resources are considered sufficient to fund three years' worth of commitments.

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

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

Key indicators

	Target 2016-17	Actual 2016-17
Immediately available cash and loans against budget	100%	243%

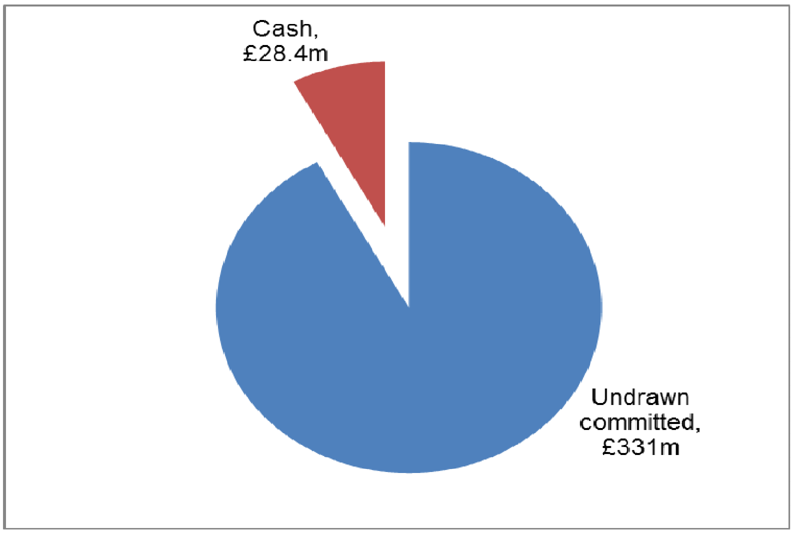
	2016-17	2015-16
Months cash/secured loans available	36	19
Months approved loans available	36	20

All committed facilities are secured by fixed charges. At year-end we held approximately 9,600 unencumbered properties available for use for new loans. These properties are conservatively estimated to provide potential security for a further £692 million of new loans. This ability to raise new loans may enable us to develop a significant number of new homes in the future.

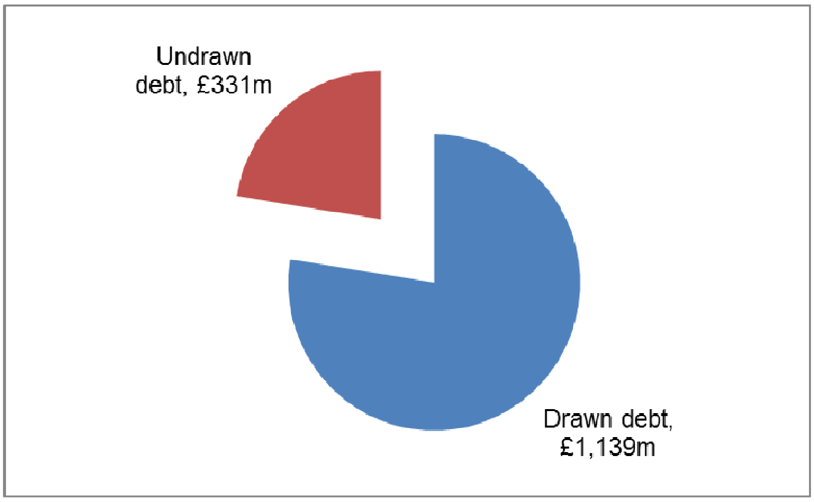
Orbit South Housing Association Limited

Strategic report

Available liquidity

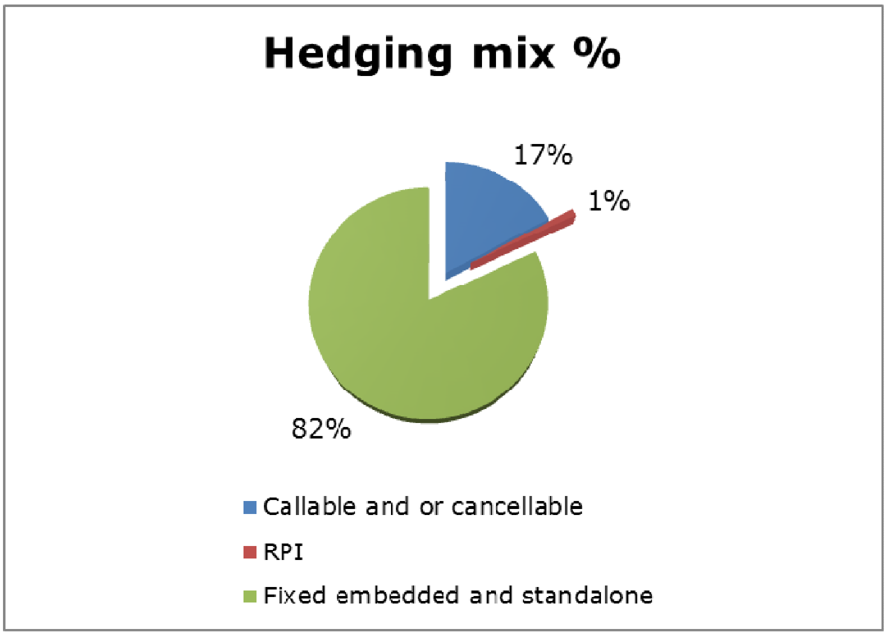


Total committed funding



We continue to carefully manage interest rate risk. Borrowing related to cash in hand is held at floating rates of interest. We target a flexible policy of hedging 65% to 90% of our debt accessing fixed rate instruments predominantly and a small proportion of index linked instruments, with flexibility to depart from these parameters if circumstances make this appropriate. At the year-end this resulted in a portfolio that was 86% fixed.

Our average interest cost for the year is 4.28% reflecting the fixed rate hedging noted above. We do not have any non-sterling or exchange rate exposures.



We maintain a desired interest rate profile through a mixture of embedded instruments (including fixed rate bank loans and bonds) and stand-alone swaps (including fixed and index linked derivatives with bank counterparties). As at year-end, 79% of our hedged activities were undertaken through embedded instruments and stand-alone swaps.

Our weighted average duration of standalone swaps is just over 14 years. This limits the impact of an increase in interest rates.

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

We maintain a formal counterparty policy in respect of those organisations from which we borrow or with which we enter into other finance arrangements and derivative transactions. Similarly, on investments, we regard the primary objective of our treasury management activity to be the security of the principal sums invested.

Our treasury strategy is reviewed and approved at least annually, to ensure it underpins the budget and longer term financial plan. Detailed cash flow forecasts, key ratios and limits are all monitored regularly by either Executive team and/or OTL board.

Cash flows

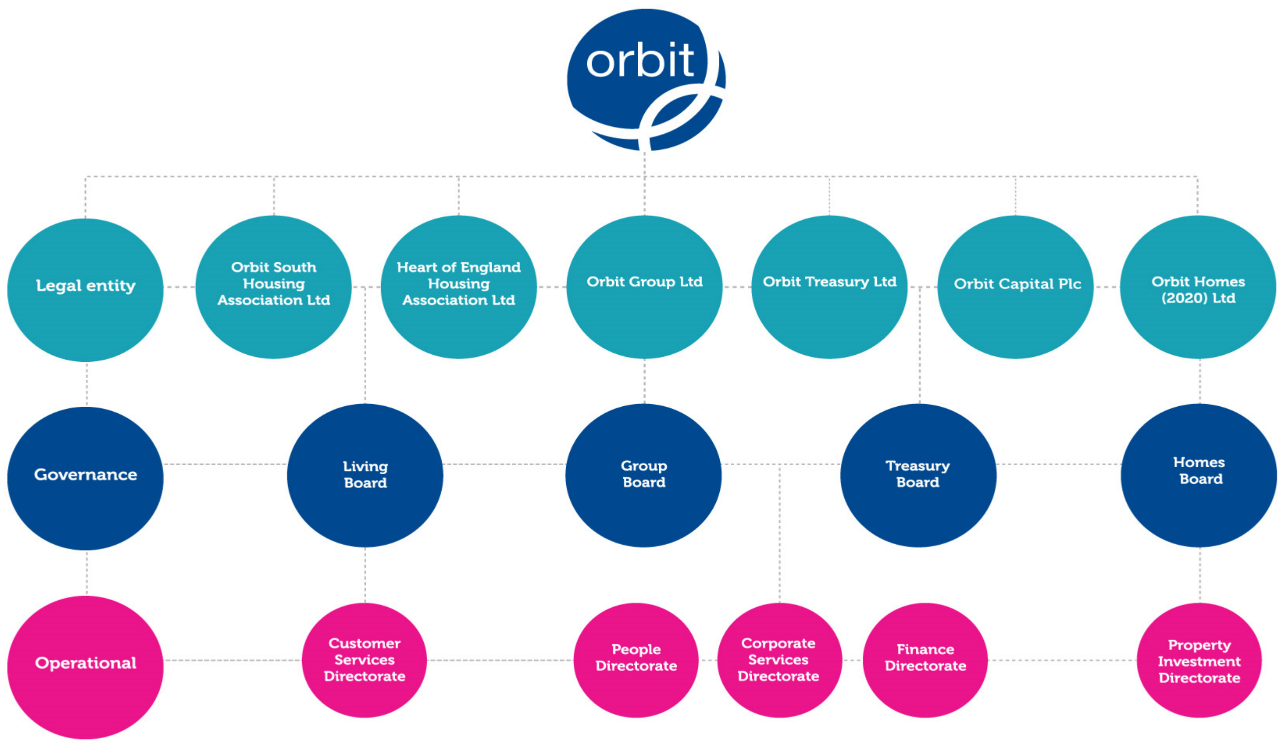
Our Group net cash inflow from operating activities during the year was £137.4million (2016: £131.4 million). The principal sources of cash inflow remain rental income and proceeds from sale of housing properties. The principal sources of cash outflow were the costs associated with the provision of housing accommodation, the acquisition and construction of housing properties and interest payable on loan facilities.

For Orbit South as an individual association, the net cash inflow from operating activities in 2017 was £39.9 million (2016: £37.3 million) primarily due to movements in debtors and creditor balances. The principal sources of both cash inflow and outflow were that of income from the provision of housing accommodation and associated operating costs and the proceeds from the sale of properties under void sale programmes.

Orbit South Housing Association Limited

Housing association governance

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



Orbit Group board and its subsidiaries
The board members during the year 2016-17 are listed on page 9.

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

In addition to Orbit Group Limited, there are two further Registered Providers within Orbit – Heart of England Housing Association Limited (Orbit Heart of England) and Orbit South Housing Association Limited (Orbit South). These two legal entities are governed under a single shared board (the Orbit Living board) which oversees the operational performance of the two legal entities.

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

All members of the Group remunerate their board members for undertaking their duties and responsibilities. The boards delegate the day-to-day management to the Group chief executive and the executive directors who form the Executive team. The Executive team met at least monthly throughout 2016-17 and the directors attend meetings of the Group board and subsidiary boards.

Orbit South Housing Association Limited

Housing association 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 the HCA'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.

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, which includes arrangements for the recruitment, induction, appraisal and development of board members and reviewing the roles and responsibilities of board members. The Committee also considers 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. It also approves and keeps under review our board member payment (non-executive directors) structure and policies, including levels of payment, and recommends changes to the Group board as necessary.

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 the board for approval.

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

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

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

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

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

Orbit South Housing Association Limited

Housing association governance

We have identified seven strategic risks, of which three are deemed to be business critical risks. These are:

Risk	Mitigation
Material change in the economic forecast adversely impacting on the key assumptions within the financial plan: • Reliance on market sales • Interest rate and inflation • Maintenance and development costs • Efficiency gains	There are a number of strategies and processes in place to mitigate the risk. These include stress testing, scenario analysis and management action plans, a welfare reform strategy, a VFM strategy and continuous budgeting. There has been strong financial performance during 2016-17, with scenario testing leading to a restatement of growth targets.
Poor delivery of service leading to low customer satisfaction, cost inefficiencies and regulatory intervention.	There have been a number of actions delivered as part of the stability plan within customer services, focussed on delivery of the responsive and property investment plan, implementation of the property compliance system and a review of the Estates Services team We have seen improved repairs satisfaction during 2016-17 and more intensive contract management processes are now in place.
Condition of existing stock in a poor state leading to a material impact on the financial plan and growth aspiration.	We have created a new Strategic Asset Management team to focus on the development and delivery of our asset management strategy. The financial investments required to deliver the strategy have been modelled within the financial plan to ensure these are deliverable.

The remaining strategic risks are:

Risk	Mitigation
Negligence / poor working practices leading to an unsafe working environment.	We have created a robust Health & Safety strategy, using external expertise, and have a dedicated Compliance team within Property Services. We are also investing in Health & Safety tools e.g. lone worker devices and vehicle management. The above have been audited internally and we have achieved a positive (green) report on Health & Safety management. In the light of the Grenfell fire incident, it is important to note this risk incorporates a review of fire safety management. This takes into account the appropriateness of policies/procedures, the competency of key staff including fire assessors (who are third party experts) and Health & Safety Assurance advisors (two of which are ex fire officers), the management systems in place to identify, record and implement fire risk assessments and subsequent actions. Finally the monitoring of compliance by senior management, executive management and the board is considered. Moving forward the outcomes from the Incident Management team will further feed into our assessment of risk relating to fire safety.
Poor standard of management and leadership unable to adapt to a changing financial and regulatory operating environment.	We have created a staff engagement strategy and people plans specifically focussing on culture. Talent management reviews are also underway. Monitoring is undertaken monthly within teams and coaching qualifications are being completed by senior managers to improve the standard.
Unable to respond to a cyber attack in an effective manner.	The disaster recovery plan has been updated to include this risk and we have third party support with this.

	Specific cyber security insurance is to be purchased to cover any future issues. After an ISO 27001 inspection we retained our accreditation and DRP testing has been undertaken achieving satisfactory outcomes.
Poor quality of data leading to a failure on governance in terms of performance monitoring and decision making.	We have a data strategy project in place in order to review this risk. We have implemented a new performance management framework and are continuously reviewing and improving the reporting under this.

There is continuing focus on these risks and the impact on the business plan, particularly as the external environment changes to ensure that mitigations in place remain robust.

Customer involvement
We are committed to involving customers in decisions affecting their homes. There is representation from customers on the Orbit Living 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.

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
There are no subsequent events requiring adjustment to, or disclosure in, the financial statements.

The health and safety of our customers is paramount and a constant focus of our work. The Grenfell Tower block fire highlighted the importance of health and safety as an ongoing programme of assessment and review. All of Orbit's blocks have valid and up to date fire risk assessments in place, and subject to a robust assessment programme carried out by an independent body. Following the Grenfell Tower, Orbit reassessed each block with a particular focus on cladding and also to give reassurance to customers that their homes were safe. We will of course monitor and take forward any recommendations made as a result of the Grenfell Tower inquiry.

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.

Fran Beckett
Chair

20 July 2017

Orbit South Housing Association Limited

Housing association governance

Statement of internal control for Orbit Group

Purpose

The statement of internal control provides an opinion to internal and external stakeholders on how effectively Orbit governs its business so as to manage the key risks to the successful delivery of its business and financial plan.

Sources of assurance

A key element of providing this opinion is based upon Orbit's internal control environment (ICE) framework, which pulls together assurance from a number of sources which feed into the annual statement of internal controls. Orbit's standard assurance providers include the following:

- ✓ Internal audit
- ✓ External audit
- ✓ Insurance
- ✓ Information governance
- ✓ Treasury advisors
- ✓ Risk management strategy
- ✓ Health and safety management system
- ✓ External specialist reviews

Outcomes

During the 2016-17 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 insight an improving control and compliance culture. The significant majority of reports provide a positive opinion and weaknesses identified have either been addressed or management are in the process of addressing these.
2. External audit opinion is unqualified.
3. Risk management strategy continues to provide key insight into Orbits 7 business critical risks. Stress mitigations have been tested and are effective if key scenarios materialise.
4. The annual health and safety report confirmed that there is a robust H&S management system and there is continuous focus on bedding is a strong culture by management.
5. Insurance risks continue to be managed effectively with no increase in premiums for 2017-18 due to a weakening profile.
6. Orbit's governance arrangements have been externally assessed as positive and all actions identified in the report have been addressed.
7. Effective management of personal data, with weaknesses addressed promptly and no enforcement action.

Overall opinion - Executive team

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

'Based on the risk and assurance work undertaken in 2016-17 the overall opinion is that Orbit's internal control (financial and non-financial) environment supported by risk management and governance arrangements is operating with **sufficient effectiveness** to provide reasonable assurance to the Audit and Risk Assurance Committee and Group board.

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 have elected to prepare the financial statements in accordance with UK Accounting Standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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

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

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

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

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

Annual General Meeting

The annual general meeting will be held on 7 September 2017.

Disclosure of information to auditor

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 he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that our independent auditors are aware of that information.

Independent auditor

KPMG LLP were appointed as external auditors for the year ended 31 March 2017. A resolution to re-appoint the Association's auditors for external audit services will be proposed at the Annual General Meeting.

The report of the board was approved on 20 July 2017 and signed on its behalf by:

Richard Wright
Secretary

Independent auditor's report to the members of Orbit South Housing Association Limited

We have audited the financial statements of Orbit South Housing Association Limited for the year ended 31 March 2017 set out on pages 21 to 54. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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

Respective responsibilities of the Board and auditor

As more fully explained in the statement of board's responsibilities set out on page 19, the association's board is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the association as at 31 March 2017 and of its surplus for the year then ended;
- comply with the requirements of the Co-operative and Community Benefit Societies Act 2014; and
- have been properly prepared in accordance with the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

Matters on which we are required to report by exception

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

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

SBrown

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

25th July 2017

Orbit South Housing Association Limited

Statement of comprehensive income

For the year ended 31 March 2017

	Note	2017 £000	2016 £000 Restated
Turnover	2	**108,685**	105,721
Cost of sales	2	**(1,083)**	(892)
Operating costs	2	**(75,085)**	(67,198)
Gain on sale of property, plant and equipment – housing properties	7	**8,285**	8,997
Operating surplus	2	**40,802**	46,628
Interest receivable	8	**29**	7
Interest payable	9	**(19,373)**	(19,797)
Other financing costs	9	**(91)**	(1,756)
Movement in fair value of financial instruments		**44**	(95)
Surplus on before taxation		**21,411**	24,987
Taxation	10	**-**	-
Surplus for the year		**21,411**	24,987
Actuarial (loss)/gain in respect of pension schemes	32	**(1,075)**	588
Total comprehensive income		**20,336**	25,575

All amounts derive from continuing operations.

The financial statements on pages 21 to 54 were approved by the board and signed on its behalf by:

Fran Beckett
Chair

Andy Hobart
Board Member

Richard Wright
Secretary

20 July 2017

Orbit South Housing Association Limited

Statement of changes in reserves

For the year ended 31 March 2017

	Income and expenditure reserve £000	Total reserves £000
Balance as at 31 March 2016	114,834	**114,834**
Surplus for the year	21,411	**21,411**
Actuarial loss on pension liability	(1,075)	**(1,075)**
Donations paid to Orbit Group Ltd	(6,203)	**(6,203)**
Other comprehensive income	-	**-**
Balance as at 31 March 2017	128,967	**128,967**

Orbit South Housing Association Limited

Statement of financial position

As at 31 March 2017

	Note	2017 £000	2016 £000
Fixed assets			
Tangible fixed assets	11&12	**1,038,913**	954,209
Investments fixed assets	13	**724**	-
		1,039,637	954,209
Debtors: amounts falling due after more than one year	15	**1,057**	780
Current assets			
Properties for sale	14	**59**	648
Trade and other debtors	15	**78,985**	55,081
Cash and cash equivalents		**2,986**	2,362
		83,087	58,871
Less: creditors: amounts falling due within one year	16	**(96,127)**	(67,691)
Net current assets		**(13,040)**	(8,820)
Total assets less current liabilities		**1,026,597**	945,389
Creditors: amounts falling due after more than one year			
Disposal proceeds and recycled capital grants funds	17	**(2,288)**	(2,454)
Other creditors	17	**(890,969)**	(824,805)
		(893,257)	(827,259)
Provisions for liabilities			
Other provisions	19	**(713)**	(727)
Pension liabilities	33	**(3,660)**	(2,569)
Total net assets		**128,967**	114,834
Reserves			
Income and expenditure reserve		**128,967**	114,834
Revaluation reserve		**-**	-
Total reserves		**128,967**	114,834

The financial statements on pages 21 to 54 were approved by the board and signed on its behalf by:

Fran Beckett
Chair

Andy Hobart
Board Member

Richard Wright
Secretary

20 July 2017

Orbit South Housing Association Limited

Statement of cash flows

For the year ended 31 March 2017

	Note	2017 £000	2016 £000 Restated
Net cash generated from operating activities	25	**33,664**	31,372
Cashflows from investing activities			
Purchase of tangible fixed assets		**(110,566)**	(72,506)
Proceeds from sale of tangible fixed assets		**14,088**	13,003
Grant received		**3,666**	6,304
Interest received		**29**	7
Taxation paid		**-**	-
Cashflow from financing activities		**(92,783)**	(53,192)
Interest paid		**(19,373)**	(20,305)
Other finance costs net received		**4,254**	(1,655)
New secured loans		**167,251**	99,468
Repayments of borrowings		**(91,665)**	(54,626)
Increase in deposits		**(724)**	-
		59,743	22,882
Net change in cash and cash equivalents	26	**624**	1,062
Cash and cash equivalents at beginning of the year		**2,362**	1,300
Cash and cash equivalents at end of the year		**2,986**	2,362

Orbit South Housing Association Limited

Notes to the Association financial statements

For the year ended 31 March 2017

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 Homes and Communities Agency (HCA) as a not for profit Registered Provider of social housing as defined by the Housing and Regeneration Act 2008. . The parent body from the beginning of the year was Orbit Group Limited.

Basis of accounting
The financial statements have been prepared on a going concern basis, under the historical cost basis of accounting except as modified by the revaluation of freehold and leasehold offices, in accordance with United Kingdom applicable Accounting Standards including the Financial reporting Standard 102 (FRS 102) and the Housing SORP 2014, Statement of Recommended Practice for Registered Social Housing Providers, and comply with the Accounting Direction for Private Registered Providers of Social Housing 2015. As a public benefit entity Orbit South Housing Association Limited has applied all paragraphs of FRS 102 which relate to public benefit entities in preparing the financial statements. Details of the impact of transition to FRS 102 are shown in note 33. The principal accounting policies, which have been consistently applied unless otherwise stated throughout the year, are set out below.

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

Group services
The Association has taken advantage of the exemptions available in FRS 102 and has not disclosed transactions with the parent undertaking as consolidated financial statements are available from the Registered Office.

A range of services are provided to the Association by the parent body Orbit Group Limited, as set out in the intra-group agreement between the two Associations The Association also has service agreements with other Associations within Orbit particularly in respect of receipt and delivery of housing management services.

With the exception of costs capitalised as development costs, all costs incurred through this agreement are written off to the statement of comprehensive income account in the year in which they are incurred.

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

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.

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 and the associated element of grant is not depreciated. Attributable overheads and profit are included in cost of components.

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

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

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

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

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
Where developments have been financed wholly or partly by social housing and other grants, the cost of those developments has been reduced by the amount of the grant received. Social housing grant (SHG) received for items of cost written off in the statement of comprehensive income are matched against those costs as part of turnover.

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

SHG can be recycled by the Association under certain conditions, if a property is sold, or if another relevant event takes place. In these cases, the SHG can be used for projects approved by the Homes 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. The net SHG received and not spent is included in current liabilities, taking into account all properties under construction.

Financial assistance and other government grant receivable under section 19 of the Act or section 333 ZE of the Greater London Authority Act 1999
The total accumulated amount of financial assistance and other government grant received or receivable at the date of the statement of financial position, 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 has been capitalised since 1 April 2004. Administration costs relating to development activities are capitalised only to the extent they are incremental to the development process and directly attributable to bringing the property into its intended use.

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

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

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

Leased assets
Where assets are financed by leasing agreements that give rights approximating to ownership, they are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as obligations to the lessor. Lease payments are treated as consisting of capital and interest elements and the interest is charged to the statement of comprehensive income account using the annuity method. Rentals paid under operating leases are charged to the statement of comprehensive income account as 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.

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.

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

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 Heart of England to conduct an impairment test upon all rented social housing properties.

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

- Orbit Heart of England recognises both scheme and local authority as cash generating units.
- The principle cash generating units have remained the same as 2014-15.
- The carrying values for each CGU are compared against their EUV-SH values.
- A discounted cash flow valuation is used as a proxy for EUV-SH.
- For practical reasons Orbit Group considers a scheme or collection of units within a local authority to be a CGU as this is how activities are managed.
- Material cost streams (such as major repairs) are also specifically assessed and managed across scheme and local authority level.
- Should disposal be considered, Orbit Group looks at both scheme level and local authority level exit strategies.

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

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

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

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

Disposal proceeds fund
Voluntary purchase grant net of disposal proceeds is credited to this fund, which appears as a creditor until spent.

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

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.

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

Loan interest costs
The full costs of deferred interest rate and indexation loans are shown in the statement of comprehensive income.

Property managed by agents
Where 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.

Stocks
Stocks are stated at value.

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

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

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

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

Orbit South Housing Association Limited

Notes to the Association financial statements

For the year ended 31 March 2017

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

Current year	Turnover £000	Cost of sales £000	Operating costs £000	Surplus £000	Operating surplus/ (deficit) £000
Social housing lettings	**99,863**	**-**	**(64,767)**	**-**	**35,096**
Other social housing activities					
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**
	7,188	**(1,083)**	**(8,841)**	**-**	**(2,736)**
	107,051	**(1,083)**	**(73,608)**	**-**	**32,360**
Non-social housing activities	**1,634**	**-**	**(1,477)**	**-**	**157**
Surplus on sale of property, plant and equipment – housing properties (note 7)	**-**	**-**	**-**	**8,285**	**8,285**
Total	**108,685**	**(1,083)**	**(75,085)**	**8,285**	**40,802**

Prior year	Turnover £000	Cost of sales £000	Operating costs £000	Surplus £000	Operating surplus/ (deficit) £000
Social housing lettings	97,847	-	(56,451)	-	41,396
Other social housing activities					
Managed on behalf of others	9	-	-	-	9
Services to Group members	693	-	(951)	-	(258)
Home ownership services	2,800	-	(2,786)	-	14
Charges for support service	492	-	(1,560)	-	(1,068)
Other	1,662	-	(4,161)	-	(2,499)
LCHO first tranche sales	1,077	(892)	-	-	185
Properties for sale	-	-	-	-	-
	6,733	(892)	(9,458)	-	(3,617)
	104,580	(892)	(65,909)	-	37,779
Non-social housing activities	1,141	-	(1,289)	-	(148)
Surplus on sale of property, plant and equipment – housing properties (note 7)	-	-	-	8,997	8,997
Total	105,721	(892)	(67,198)	8,997	46,628

Orbit South Housing Association Limited

Notes to the Association financial statements

For the year ended 31 March 2017

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

	General needs housing £000	Supported housing and housing for older people £000	2017 £000	2016 £000
Rent receivable net of identifiable service charges	81,017	4,602	**85,619**	84,241
Service charge income	6,499	2,745	**9,244**	8,956
Amortisation of social housing and other capital grants	4,474	526	**5,000**	4,650
Other income from lettings	-	-	**-**	-
	91,990	7,873	**99,863**	97,847
Expenditure				
Management	(9,579)	(1,350)	**(10,929)**	(10,386)
Service charge costs	(6,917)	(2,996)	**(9,913)**	(9,352)
Routine maintenance	(13,284)	(1,060)	**(14,344)**	(13,605)
Planned maintenance	(11,279)	(1,508)	**(12,787)**	(9,407)
Bad debts	(779)	(28)	**(807)**	(469)
Depreciation of housing properties	(13,295)	(1,084)	**(14,379)**	(13,232)
Impairment of housing properties	(1,443)	-	**(1,443)**	-
Other costs	-	(165)	**(165)**	-
Operating costs on social housing lettings	(56,576)	(8,191)	**(64,767)**	(56,451)
Surplus on social housing lettings	35,414	(318)	**35,096**	41,396
Void losses	(1,060)	(443)	**(1,503)**	(1,324)

Depreciation on housing properties includes £442k written off due to components being replaced earlier than the expected life of those components (2016: £688k).

Orbit South Housing Association Limited

Notes to the Association financial statements

For the year ended 31 March 2017

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.

	2017 Number	2016 Number
Average number employed		
Office staff	**9**	12
Scheme staff	**4**	4
	13	16
Full-time	**11**	14
Part-time	**2**	2
	13	16
Full time equivalents	**12**	15

A full time equivalent would be 35 hours per week.

	2017 £000	2016 £000
Staff costs for the above		
Wages and salaries	**399**	485
Social security costs	**36**	48
Other pension costs	**33**	74
	468	607

	2017 Number	2016 Number
Number employed at 31 March		
Office staff	**9**	10
Scheme staff	**4**	4
Operatives	**-**	-
	13	14

4. **Staff costs (continued)**

Directors and senior staff emoluments - FTE

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

Band	**2017 Number**	**2016 Number**
Over £190k	**-**	-
Over £140k	**-**	-
Over £130k	**-**	-
Over £120k	**-**	-
Over £110k	**-**	-
Over £100k	**-**	-
Over £90k	**-**	-
Over £80k	**-**	-
Over £70k	**-**	-
Over £60k	**-**	2
Total	**-**	2

5. **Operating surplus**

	2017 £000	**2016 £000**
Operating surplus is arrived at after charging/(crediting)		
Depreciation of housing properties	**14,379**	13,232
Impairment of housing properties	**1,443**	-
Depreciation of other tangible fixed assets	**133**	144
Amortisation of social housing grant	**(5,000)**	(4,650)
Operating lease rentals		
Land and buildings	**629**	549
Office equipment and vehicles	**211**	210
Aerials	**144**	147
White goods	**67**	61
Auditor's remuneration (excluding VAT)		
Fees payable to the Association's auditor for the audit of the financial statements	**23**	24
Fees payable to the Association's auditor for other services	**8**	-
Total audit services	**31**	24
Tax compliance services	**-**	8
Total non-audit services	**-**	8

A donation of £6,203k (2016: £6,001k) 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 SOCI. The 2015-16 comparative has been restated to reflect the corrected treatment of this as a distribution from reserves, which is shown in the statement of changes in reserves.

Orbit South Housing Association Limited

Notes to the Association financial statements

For the year ended 31 March 2017

6. **Directors emoluments**

The directors of the Association are its board members.

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

	2017 £000	2016 £000
J Ball	**-**	1
K Bolister	**2**	3
J Boomhauer	**3**	-
J Dickinson	**-**	1
J Hopes	**2**	2
G Kyle	**2**	2
S Margrave	**-**	2
G Richardson	**-**	2
S Shubhankar	**5**	2
A Squirrell	**-**	1
K Strong	**5**	2
S Tandooran-Sentain	**5**	2
W Yardley	**2**	2
Total	**26**	22

	2017 £000	2016 £000
Aggregate emoluments (including pension contributions) paid to or received by directors including salaries, honoraria and other benefits	**26**	22
Aggregate emoluments of the highest paid director excluding pension contributions included in aggregate emoluments of directors who are executive staff members	**52**	62

Expenses paid during the year to board members amounted to £13k (2016: £10k).

	2017 £000	2016 £000
Travel costs	**7**	3
Meeting costs	**5**	4
Training	**-**	2
Recruitment	**-**	1
Accommodation and hospitality	**1**	-
	13	10

Orbit South Housing Association Limited

Notes to the Association financial statements

For the year ended 31 March 2017

7. Surplus or loss on sale of fixed assets - housing properties

			2017			2016
	Letting £000	Shared equity £000	Total £000	Letting £000	Shared equity £000	Total £000
Disposal proceeds	**11,807**	**48**	**11,855**	16,930	197	17,127
Carrying value of fixed assets	**(4,211)**	**(38)**	**(4,249)**	(7,865)	(80)	(7,945)
	7,596	**10**	**7,606**	9,065	117	9,182
Capital grant recycled	**1,376**	**-**	**1,376**	875	-	875
RTB clawbacks	**(697)**	**-**	**(697)**	(1,060)	-	(1,060)
Surplus on disposal	**8,275**	**10**	**8,285**	8,880	117	8,997

8. Interest receivable and other income

	2017 £000	2016 £000
Interest receivable and similar income	**29**	7

9. Interest payable

	2017 £000	2016 £000
Loan arrangement fees	**17**	-
Loans and bank overdrafts	**20,319**	20,562
	20,336	20,562
Interest payable capitalised on housing properties under construction	**(842)**	(765)
Loan premium write off	**(121)**	-
	19,373	19,797
Capitalisation rate used to determine the finance costs capitalised during the period	0.75%	0.75%
Other financing costs		
Early redemption fee – Dexia Loan	**-**	1,655
Defined benefit pension charge	**91**	101
	91	1,756

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 (2016: £500). The board is not aware of any circumstances which will affect the future taxation status of the Association.

11. **Housing properties**

	Housing properties for letting		Supported housing		Low cost home ownership	Care establishments	
	Complete	In Development	Complete	In Development	Complete	Complete	Total
	£000	£000	£000	£000	£000	£000	£000
Cost							
At 1 April 2016	960,039	68,548	35,666	-	4,044	999	1,069,296
Additions	9,764	100,009	268	-	42	-	110,083
Transfer on completion	36,824	(36,824)	-	-	-	-	-
Transfer to stock/WIP	-	-	-	-	(473)	-	(473)
Transfer to other group members	-	(4,398)	-	-	-	-	(4,398)
Disposals	(7,240)	-	(385)	-	(37)	-	(7,662)
At 31 March 2017	999,387	127,335	35,549	-	3,576	999	1,166,846
Less: accumulated depreciation							
At 1 April 2016	(112,522)	-	(4,300)	-	(19)	(61)	(116,902)
Eliminated on disposal	2,500	-	94	-	-	-	2,594
Depreciation	(13,363)	-	(495)	-	(63)	(15)	(13,936)
At 31 March 2017	(123,385)	-	(4,701)	-	(82)	(76)	(128,244)
Less: provisions for impairment							
At 1 April 2016	-	-	-	-	-	-	-
Charge for the year	(1,443)	-	-	-	-	-	(1,443)
At 31 March 2017	(1,443)	-	-	-	-	-	(1,443)
Net book amount							
At 31 March 2017	**874,559**	**127,335**	**30,848**	**-**	**3,494**	**923**	**1,037,159**
At 31 March 2016	847,517	68,548	31,336	-	4,016	938	952,394

11. **Housing properties (continued)**

Additions to properties during the year include capitalised interest and finance costs of £842k (2016: £765k) and development administration costs / project management fees of £2,652k (2016: £2,866k).

The Association reviewed its properties for impairment and an impairment of £1,443k has been made for the year (2016: £Nil) in respect of existing properties that are to be re-developed as part of a regeneration project.

11. **Housing properties (continued)**

Net book value of housing and other properties comprises:

	2017 £000	2016 £000
Freehold land and buildings	**1,038,711**	953,927
Long leasehold land and buildings	**91**	94
	1,038,802	954,021

12. **Other fixed assets**

	Freehold offices £000	Leasehold offices £000	Commercial premises £000	Motor vehicles £000	Furniture, fixtures & equipment £000	Total £000
Cost or valuation						
At 1 April 2016	2,304	-	150	19	1,527	4,000
Additions	-	-	-	-	75	75
Disposals	-	-	-	-	(25)	(25)
Transfer to other Group members	-	-	-	-	(3)	(3)
At 31 March 2017	2,304	-	150	19	1,574	4,047
Less: accumulated depreciation						
At 1 April 2016	(677)	-	(56)	(19)	(1,433)	(2,185)
Charge for Year	(75)	-	(3)	-	(55)	(133)
Eliminated on disposal	-	-	-	-	25	25
At 31 March 2017	(752)	-	(59)	(19)	(1,463)	(2,293)
Net book amount						
At 31 March 2017	**1,552**	**-**	**91**	**-**	**111**	**1,754**
At 31 March 2016	1,627	-	94	-	94	1,815

13. **Fixed asset investments**

	2017 £000	2016 £000
Monies deposited for Affordable Housing Finance Plc	**724**	-
	724	-

In July 2016, Orbit South Housing Association raised a £25m 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 £724k.

14. **Properties for sale**

	2017	2016
	£000	£000
Shared ownership - completed properties	**59**	648
	59	648

15. **Debtors**

	2017	2016
Due within one year:	£000	£000
Rental debtors	**5,277**	5,375
Less: provision for doubtful debts	**(1,740)**	(1,503)
	3,537	3,872
Service charges due from Leaseholders	**199**	360
Amounts due from subsidiaries	**72,938**	46,848
Prepayments and accrued income	**922**	1,223
SHG receivable	**720**	281
Provision for bad debts	**(16)**	(73)
Other debtors	**685**	2,570
	78,985	55,081
Due after more than one year:		
Other debtors	**1,057**	780
	1,057	780

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

	2017	2016
	£000	£000
Housing loans (note 21)	**-**	542
Loans from group companies	**12,626**	11,747
Amounts due to group undertakings	**64,321**	33,829
Other creditors including taxation and social security	**3,416**	7,149
Accruals and deferred income	**5,919**	6,176
Rents received in advance	**2,115**	1,948
Grants received in advance	**825**	341
RCGF and DPF within one year (note 20)	**1,905**	1,309
Deferred capital grant (note 18)	**5,000**	4,650
Total	**96,127**	67,691

17. **Other creditors: amounts falling due after more than one year**

	2017 £000	2016 £000
Housing loans (note 21)	**24,565**	10,690
Loans inter-company	**480,844**	430,595
Deferred capital grant (note 18)	**372,643**	374,789
Deferred income for renewals and maintenance contributions	**7,056**	7,602
Other creditors	**1,276**	1,129
RCGF and DPF outside of one year (note 20)	**2,288**	2,454
Loan premium	**4,585**	-
Total	**893,257**	827,259

Housing loans shown above are net of £435k (2016: £nil) loan arrangement fees carried forward.

18. **Deferred capital grant**

	2017 £000	2016 £000
At 1 April	**379,439**	377,785
Grant received in the year	**4,436**	10,679
Transfer (from)/to RCGF and DPF	**(245)**	(872)
Transfer (from)/to intercompany	**(512)**	(2,774)
Elimination on the disposal of assets	**(475)**	(729)
Released to income in the year	**(5,000)**	(4,650)
At 31 March	**377,643**	379,439

Analysed as:

	2017 £000	2016 £000
Amounts to be released within 1 year	**5,000**	4,650
Amounts to be released in more than 1 year	**372,643**	374,789
Total	**377,643**	379,439

19. **Provisions for liabilities**

	At beginning of the year £000	Transfer to/ (from) SOCI £000	Release of provision during the year £000	At end of year £000
Restructuring	14		(14)	-
HIA Hardship	1	5	(5)	1
Thames Water Rates	712	-	-	712
	727	5	(19)	713

Analysed as:

	2017 £000	2016 £000
Amounts to be released in more than 1 year	**713**	727

The HIA hardship fund relates to grants payable to customers and will be utilised in the next financial year.

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

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

	RCGF £000	DPF £000	Total £000
At 1 April 2016	3,623	140	3,763
Grants recycled	1,375	-	1,375
Interest accrued	14	1	15
Utilised in the year	(960)	-	(960)
At 31 March 2017	**4,052**	**141**	**4,193**

Amount due for repayment to the Homes and Communities Agency

	RCGF £000	DPF £000	Total £000
Within one year	1,767	138	1,905
After more than one year	2,285	3	2,288
At 31 March 2017	**4,052**	**141**	**4,193**

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

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

	2017	2016
	£000	£000
Due within one year		
Orbit Treasury Limited	**12,626**	11,747
Greenwich NatWest	**-**	542
	12,626	12,289
Due after more than one year		
Orbit Treasury Limited	**366,148**	340,677
Orbit Capital plc	**114,696**	89,918
Affordable Housing Finance Plc	**25,000**	-
Greenwich NatWest	**-**	10,690
	505,844	441,285
Total	**518,470**	453,574

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 £50m of the £250m 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:

	2017	2016
	£000	£000
In one year or less, on demand	**12,626**	12,289
Repayable by instalments:		
- more than one year but not more than two years	**12,626**	12,898
- In more than two years but not more than five years	**37,877**	37,549
- In more than 5 years	**455,341**	390,838
	505,844	441,285
Total	**518,470**	453,574

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 2017 was:

	Total £m	Variable rate £m	Fixed rate £m	Weighted average rate %	Weighted average term until maturity years
Instalment loans	493.5	225.4	268.1	4.12	23
Non instalment loans	25.0	-	25.0	2.89	27
	518.5	**225.4**	**293.1**	**4.06**	**23**

22. **Called up share capital**

	2017 £	2016 £
Issued and fully paid shares of £1 each		
At 1 April 2016	**14**	14
Issued	**2**	1
Surrendered	**(2)**	(1)
At 31 March 2017	**14**	14

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.

23. **Capital commitments**

	2017 £000	2016 £000
Capital expenditure which has been contracted for but has not been provided for in the financial statements	**140,002**	166,153
Capital expenditure which has been authorised under authority from the Orbit board but has yet to be contracted for	**65,467**	54,633
	205,469	220,786

The Association expects these commitments to be financed with:

	2017 £000	2016 £000
Social housing grant	**11,126**	10,980
Committed loan facilities (Orbit Treasury Limited)	**166,702**	200,851
Proceeds from sale of properties	**27,641**	8,955
	205,469	220,786

24. **Contingent liabilities**

As at 31 March 2017, there were £16m contingent liabilities within the Association (2016: £16m).

<u>Liabilities</u>

Stock acquisitions previously undertaken include original government grant funding of £16m 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.

25. **Reconciliation of operating surplus to net cash inflow from operating activities**

	2017 £000	2016 £000 Restated
Surplus for the year	**21,411**	24,987
Adjustments for non-cash items		
Depreciation charge on other fixed assets	**133**	144
Gain of sale of property plant & equipment housing properties	**(8,285)**	(8,997)
Cost of sales - other fixed assets	**3**	-
Depreciation charge on housing properties	**14,379**	13,232
Amortisation of grant on housing properties	**(5,000)**	(4,650)
Interest payable	**19,373**	19,797
Interest receivable	**(29)**	(7)
Other financing costs	**91**	1,756
Movement in fair value of financial instruments	**(44)**	95
Movement in reserves	**(6,203)**	(6,001)
Provision for impairment on housing properties	**1,443**	(2,255)
Movement in other provisions	**(72)**	490
(Decrease)/increase in bad debt provision	**236**	174
Decrease/(increase) in stocks	**590**	(648)
Adjustment for pension funding	**(74)**	1,135
Increase in debtors	**(22,895)**	(25,591)
Increase in creditors	**19,153**	17,461
Release of deferred income	**(546)**	250
Net cash inflow from operating activities	**33,664**	31,372

The restated figures reflect presentation changes

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

	2017 £000	2016 £000
Increase in cash in the year	**624**	1,062
Increase in bank deposits (with a maturity in excess of 24 hours)	**724**	-
Other changes	**10,794**	-
Loans and bond finance received	**(167,251)**	(100,952)
Loans repaid	**91,665**	54,626
Loan arrangement fees	**452**	-
Loan premium	**(4,706)**	-
Change in net debt	**(67,698)**	(45,264)
Net debt at 1 April	(451,212)	(405,948)
Net debt at 31 March	**(518,910)**	(451,212)

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	2,362	624	-	**2,986**
Bank deposits - less than 24 hours	-	-	-	**-**
	2,362	624	-	**2,986**
Bank deposits - in excess of 7 days	-	724	-	**724**
Housing loans due within one year	(12,289)	542	(879)	**(12,626)**
Housing loans due after one year	(441,285)	(75,249)	10,690	**(505,844)**
Loan arrangement fees	-	452	(17)	**435**
Loan premium	-	(4,706)	121	**(4,585)**
	(451,212)	(77,613)	9,915	**(518,910)**

28. **Financial commitments**

Operating leases

At 31 March 2017 Association was committed to making the following minimum future payments in respect of operating leases other than land and buildings:

	2017 £000	2016 £000
Leases which expire		
Within 1 year	**726**	819
Within 2 - 5 years	**331**	1,156
After 5 years	**-**	153
Total	**1,057**	2,128

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 2017.

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

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 £2k to the Council (2016: £1k) and received payments from the council of £Nil (2016: £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 £11k (2016: £10k). The outstanding amount owed at 31 March 2017 was less than £1k.

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**

	2017	2016
General needs	**552**	447
Low Cost Home Ownership	**-**	-
Properties for market sale	**-**	-
Total social housing units	**552**	447

32. **Property portfolio**

	2017	2016
General needs	**11,942**	12,097
Affordable rent	**2,683**	2,180
Intermediate rent	**171**	184
Supported Housing	**1,655**	1,675
Total owned by Orbit	**16,451**	16,136
Low Cost Home Ownership	**40**	30
Leasehold	**1,472**	1,434
Private retirement schemes	**653**	653
Managed on behalf of others	**2**	2
Leasehold and other managed	**2,127**	2,089
Total social housing units	**18,618**	18,255
Commercial Units	**17**	17
Total non social housing units	**17**	17
Total units	**18,635**	18,272

33. **Pension costs**

Pension schemes operated by Orbit South Housing Association Limited

Movement in pension cost liabilities during the year

	2017 £000	2016 £000
Net deficit at 1 April 2016	**(2,569)**	(3,117)
Service costs	**(36)**	(44)
Contributions	**116**	109
Unfunded pensions payments	**-**	-
Net return on assets less interest on pension scheme liabilities	**(71)**	(77)
Actuarial (loss)/gain	**(1,075)**	588
Past service costs	**-**	-
Other finance costs	**(25)**	(28)
Gain arising on settlement of liabilities	**-**	-
Settlement of liabilities	**-**	-
Deficit in pension scheme at 31 March 2017	**(3,660)**	(2,569)

(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).

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

Total employer contributions paid to the scheme for the year were £53k (2016: £54k).

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:

	2017	2016	2015
Rate of increase in salaries	4.20%	4.20%	4.20%
Rate of increase in pensions in payment and deferred pensions	2.70%	2.40%	2.40%
Discount rate applied to scheme liabilities	2.70%	3.70%	3.30%
Inflation assumption – CPI	2.70%	2.40%	2.40%
Inflation assumption – RPI	3.60%	3.30%	3.20%

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

33. **Pension costs (continued)**

The discount rate is the annualised yield at the 19 year point on the Merrill Lynch AA rated corporate bond yield curve which has been chosen to meet the requirements of FRS 102 and with consideration of the duration of the Employer liabilities. This is consistent with the approach used at the last accounting date.

The Retail Prices Index (RPI) increase assumption is set based on the difference between conventional gilt yields and index-linked gilt yields at the accounting date using data published by the Bank of England (BoE), specifically the 19 year point on the BoE market implied inflation curve. The RPI assumption is therefore 3.6% p.a. (2016: 3.3%). This is consistent with the approach used at the last accounting date.

As future pension increases are expected to be based on the Consumer Prices Index (CPI) rather than RPI, we have made a further assumption about CPI which is that it will be 0.9% p.a. below RPI i.e. 2.7% p.a. (2016: 2.4%). We believe that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods and recent independent forecasts.

Salaries are assumed to increase at 1.5% p.a above CPI in addition to a promotional scale. However, we have allowed for a short-term overlay from 31 March 2016 to 31 March 2020 for salaries to rise in line with CPI. This has bene updated from last year to be consistent with the 2016 valuation of the Fund.

Life expectancy from age 65 (years)

		2017 Number	2016 Number
Retiring today	Males	23.0	22.9
	Females	25.0	25.3
Retiring in 20 years	Males	25.1	25.2
	Females	27.4	27.7

Statement of financial position as at 31 March 2017

	Value at 31 March 2017 £000	Value at 31 March 2016 £000	Value at 31 March 2015 £000
Present value of the defined benefit obligation	**11,514**	9,048	9,575
Fair value if fund assets (bid value)	**8,471**	7,141	7,238
Deficit/(surplus)	**3,043**	1,907	2,337
Present value of unfunded obligation	**34**	31	32
Unrecognised past service cost	**-**	-	-
Impact of asset ceiling	**-**	-	-
Net defined benefit liability/(asset)	**3,077**	1,939	2,369

33. **Pension costs (continued)**

Scheme liabilities

	2017 £000	2016 £000
Opening defined benefit obligation	**9,079**	9,607
Service cost	**37**	44
Interest cost	**332**	313
Change in financial assumptions	**2,414**	(662)
Experience loss on defined benefit obligation	**107**	1
Change in demographic assumptions	**(200)**	-
Estimated benefits paid net of transfers in	**(236)**	(233)
Past service cost	**-**	-
Contributions by scheme participants	**17**	11
Unfunded pension payments	**(2)**	(2)
Closing defined benefit obligation	**11,548**	9,079

Reconciliation of opening and closing balances of fair value scheme assets

	2017 £000	2016 £000
Opening fair value of scheme assets	**7,141**	7,238
Interest on assets	**261**	236
Return on assets less interest	**1,215**	(159)
Other actuarial gains	**27**	-
Administration expenses	**(5)**	(5)
Contributions by employer including unfunded	**53**	55
Contributions by scheme participants	**17**	11
Estimated benefits paid net of transfers in and including unfunded	**(238)**	(235)
Fair value of Scheme assets at the end of the year	**8,471**	7,141

Analysis of amounts charged to income and expenditure

	2017 £000	2016 £000
Amounts charged to operating costs		
Service costs	**37**	44
Net interest on the defined liability (asset)	**71**	77
Administration expenses	**5**	5
	113	126

33. **Pension costs (continued)**

Movement in deficit during the year

	2017 £000	2016 £000
Deficit in pension scheme at 1 April 2016	**(1,939)**	(2,369)
Service Costs	**(36)**	(44)
Contributions	**53**	54
Unfunded pension payments	**-**	-
Other finance costs	**(5)**	(5)
Past service costs	**-**	-
Net return on assets less interest on pension scheme liabilities	**(71)**	(77)
Actuarial (losses)/gains	**(1,079)**	502
Deficit in pension scheme at 31 March 2017	**(3,077)**	(1,939)

(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.

	2017	2016	2015
Rate of increase in salaries	3.80%	3.50%	3.50%
Rate of increase in pensions payment and deferred pensions	2.30%	2.00%	2.00%
Discount rate applied to scheme liabilities	2.50%	3.40%	3.10%
Inflation assumption – CPI	2.30%	2.00%	2.00%

Life Expectancy from age 65 (years)

		2017 Number	2016 Number
Retiring today	Males	**23.0**	23.2
	Females	**26.0**	25.6
Retiring in 20 years	Males	**25.2**	25.5
	Female	**28.3**	28.5

33. **Pension costs (continued)**

Scheme assets

	Value at 31 March 2017 £000	Value at 31 March 2016 £000	Value at 31 March 2015 £000
Equities	**2,148**	1,762	1,879
Government bonds	**-**	-	-
Other bonds	**256**	249	276
Property	**370**	367	352
Other – cash	**59**	73	47
Other	**626**	583	588
Total fair value of assets	**3,459**	3,034	3,142
Present value of scheme liabilities	**(4,042)**	(3,664)	(3,890)
Net pension liability	**(583)**	(630)	(748)

Scheme liabilities

	2017 £000	2016 £000
Opening defined benefit obligation	**3,664**	3,890
Service cost	**-**	-
Interest cost	**121**	118
Actuarial loss/(gain)	**448**	(146)
Member contributions	**-**	-
Estimated benefits paid net of transfers in	**(191)**	(198)
Past service cost	**-**	-
Government bonds	**-**	-
Closing defined benefit obligation	**4,042**	3,664

Expected return on assets

Reconciliation of opening and closing balances of fair value scheme assets

	2017 £000	2016 £000
Opening fair value of scheme assets	**3,034**	3,142
Interest on scheme assets	**101**	95
Re-measurements	**452**	(60)
Contributions by employer	**63**	55
Contributions by members	**-**	-
Benefits/transfers paid	**(191)**	(198)
Fair value of scheme assets as at 31 March 2017	**3,459**	3,034

33. **Pension costs (continued)**

	2017 £000	2016 £000
Deficit in pension scheme at 1 April 2016	(630)	(748)
Service costs	**-**	-
Contributions	**63**	55
Other finance costs	**(20)**	(23)
Actuarial gain	**4**	86
Deficit in pension scheme at 31 March 2017	**(583)**	(630)

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 the HCA, Orbit Homes (2020) Ltd, Orbit Treasury Ltd and Orbit Capital plc.

Orbit Homes (2020) Ltd provides design and build services to the Group. During the year the Association made payments totalling £69.3m (2016: £56.8m) to Orbit Homes (2020) Ltd for the purchase of housing property assets, £2.7m (2016: £2.9m) in project management fees and has an outstanding creditor balance with Orbit Homes (2020) Ltd of £7m (2016: £7.9m). The Association received £270k (2016:£ 265k) 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 £14.8m (2016: £16.1m) and fees of £1.2m (2016: £1.4m) and has an outstanding debtor balance of £0.9m (2016: £nil).

The Association also paid interest costs of £3.7m (2016: £mil) and fees of £0.1m (2016: £0.1m) to Orbit Capital plc and had an outstanding debtor balance of nil (2016: £0.5m) and creditor balance of £nil (2016: £0.5m) 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.