

Orbit South Housing Association Limited

Financial statements

For the year ended 31 March 2019

Orbit South Housing Association Limited

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Orbit South Housing Association Limited

The Board, Executives and Advisors

Board Members

Name	Role	Appointed	Resigned/ Retired
Fran Beckett	Chair I	1 April 2011	31 March 2019
Andy Hobart	I	14 September 2016	09 September 2018
Kerry Bolister	I	1 March 2015	
Dave Butler	I	1 August 2018	
Helen Gillett	I	1 February 2019	
Symon Tandooran-Sentain	I	9 September 2015	
Jake Boomhauer	R	26 July 2016	
Tonia Mihill	R	1 November 2017	
Stephen Howlett	Chair I	1 November 2018 Chair 1 April 2019	

R = Resident member

I = Independent member

Customer and Communities Senior Management Team

Director	Role
Paul Richards	Group Customer Services Director (Executive Director)
Caroline Davies	Director of Property Services
Anthony Clark	Director of Independent Living
Louise Palese	Director of Customer Services
Martin Chuter	Director of Property Management

Advisors

Independent Auditors	Registered office
KPMG LLP One Snowhill Snow Hill Queensway Birmingham B4 6GH	Garden Court Binley Business Park Harry Weston Road Binley Coventry CV3 2SU

Co-operative and Community Benefit Society Number 27802R

Regulator of Social Housing Number L4060

Orbit South Housing Association Limited

Report of the Board

Orbit South Housing Association Limited is part of the Orbit Group (“Orbit”); founded in 1967, we have been investing in the provision of quality homes and services for over fifty years. This report gives some highlights about our work. There is more detail in the Orbit financial statements

Financial performance

Orbit South Housing Association Limited has had another strong performance during the current year. Turnover has increased by £2.2 million to £114.0 million in 2018/19 compared with the previous year. Rental income has increased by £1.4 million due to the increase in the number of units let during the year, offset by £1.0 million reduction in rent due to the 1% reduction to the majority of tenants in line with current legislation. Service charge income has increased by £2.7 million due to an increase in the levels of services provided and expenditure that is recoverable from tenants.

Property disposals have continued as Orbit continues to review its housing stock and disposes of older, uneconomical properties generating profits of £7.8 million.

Overall operating costs are £76.0 million, a similar level to the prior year. Management costs have been reduced by £3.0 million and planned maintenance costs reduced by £2.1 million. These cost reductions have been offset by higher levels of service charge costs (offsetting the higher service charge income as noted above), higher levels of depreciation and other costs.

The current year operational performance was broadly in line with the prior year giving rise to an operating surplus of £43.0 million. We achieved an operating margin of 37.8% on social housing lettings which was 1.6% higher than the previous year.

Orbit Capital plc arranged its second public bond issue on 7 June 2018 raising £450.0 million which was used to restructure the groups existing debt portfolio and provide long term funding to support the group strategy. This resulted in £27.6 million of interest break costs, of which £13.5 million was allocated to Orbit South Housing Association. The pre tax surplus was therefore lower year on year by £9.5 million.

Tangible fixed assets rose by £50.7 million with an increase of 152 properties to 19,321 properties at year end. Total net assets rose by £15.2 million, representing the surplus for the year.

We will continue to invest profits earned in the year in improving our existing properties through our investment programmes, in providing better services to customers, investing in our communities and in the development of new homes.

Strategy

This year we have revisited our vision and values to ensure they reflect our ambition as we start to think and plan beyond 2020. Our vision provides us with clear direction and our values outline the way we will work to achieve our vision.

Our vision is to lead in building thriving communities.

Our values are

Driven

Responsible

Innovative

Invest

Achieving together

Orbit is on track to achieve the targets set in its 2020 vision. To deliver 12,000 new homes, £30 million investment committed into sustainable communities, to ensure all our homes are safe and warm with a minimum EPC rating of C, 90% customer satisfaction, 75% of customer contacts taking place online and to provide a full range of home rental and ownership options.

Orbit South Housing Association Limited

Report of the Board

Corporate Social Responsibility

Orbit's commitment to our social purpose is central to our mission and vision and improving the communities where we work is at the forefront of everything we do. Operating responsibly is key to our ethos, as is ensuring our contractors and suppliers operate responsibly too.

Customer satisfaction

Customer satisfaction across the Group increased to 86.1% from 82.7% last year. Everyone at Orbit knows they have a part to play in exceeding customers' expectations and our commitment to this is detailed in our customer promise.

Customer feedback has highlighted that being a responsible landlord also means being an invisible landlord who is responsive to repairs and other requests. We have seen customer satisfaction improve following focused investment around responsive repairs and this is an area we know we can continue to work on.

We have also invested in two new teams, which have been designed to improve our customer experience.

The **Tenancy Sustainment** team offer coaching sessions specifically designed to assist customers who may need additional support with their tenancy. This could be anything from setting up utilities, claiming benefits, going back to work, getting involved in the local community or improving their wellbeing. Tenancy Coaches also signpost customers to our Better Days programme which provides customers with specialist support relating to employment, digital, money, and wellbeing.

The **Property Management** team is a visible presence in our communities, helping to make our developments look and feel better. They are on hand to respond as required and have had a positive impact on our customer service scores.

Investment in our communities

Through its **Community Investment** programme, Orbit invests money, services and support into the areas it serves. This includes community groups, counselling services and one-to-one support.

Orbit's **Better Days** programme has helped over 70 different groups and organisations who in turn have reached out to over 3,000 people. By focusing on four key areas – money, employment, wellbeing and digital, Better Days provides targeted support to those customers who need it most. This resulted in over 300 customers successfully applying for jobs with assistance from Orbit, over 1,400 receiving employability and skills training and over £6m being secured in benefits and support payments to customers.

Orbit has also added a **placemaking team** to support the regeneration of six priority areas. These areas will spearhead our placemaking strategy through focused activity ranging from assets, investment and community groups.

In November, Orbit announced its involvement in the launch of the **Community Impact Partnership** – a brand new initiative between four major housing groups (Orbit, L&Q, Clarion and Peabody) to offer grants and loans to social enterprises and charities operating within their communities.

This partnership sees Orbit move from the role of grants provider to that of social investor as it looks at additional ways to support other organisations which have a social purpose within its communities.

The first award was made to *The Work People, Hastings* – a social enterprise which provides career advice and job placement to over 1,600 candidates each year. The Work People, Hastings will be using the £107,000 fund – broken down into a blended investment of a £69,500 loan and a £37,500 grant – for capital to support its ongoing growth and development, particularly in the areas of management capacity, digital and data analytics.

Orbit South Housing Association Limited

Report of the Board

Warmer homes

Orbit is committed to ensuring all of its homes achieve EPC rating B and C or better by 2030. Not only does this meet Orbit's social responsibility ambitions, but it also supports our determination to tackle fuel poverty.

Forming part of our forward-thinking design standards, building energy efficiency homes will reduce fuel bills for customers and will be better for the environment.

To date, 75.7% of Orbit homes have achieved a rating of EPC C or above.

Strategic asset management

We have a robust strategic asset management plan and invest heavily in the property we own, to ensure it meets our own high maintenance standards. In the last 12 months we have invested £19.9 million to improve and upgrade our existing Orbit South stock, including fitting new boilers, general external property maintenance, upgrading kitchens and bathrooms and refurbishing interior décor.

Over the next five years we plan to invest £40.0 million across the group over what we already have scheduled into our existing property maintenance scheme.

Customer involvement

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

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. The annual report to customers summarises performance against the key regulatory standards.

Value For Money

Ensuring Value for Money for our customers and our business is at the heart of our culture and enables us to meet our key strategic targets as set by the group board and create operating profits to build thriving communities. Our value for money statement is published within our group financial statements.

Our People

We are proud to be included in the Sunday Times 100 Best Companies to Work For, Not for Profit listing. This reflects Orbit as an employer of choice and as a values-based business with a strong performance culture. To have achieved this in the very first year of applying is a tremendous accolade and one which we are keen to retain.

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. We comply with the Code of Governance in all material aspects and with the Regulator of Social Housing'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.

Orbit South Housing Association Limited

Report of the Board

Governance and Viability Standard

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

Our V2 rating reflects our commitment to leverage our asset base to build new homes.

Our G1 rating, demonstrates our strong ability to manage our risks.

Subsequent events

There are no subsequent events to report.

Going concern

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

Risk management

Our overall approach to risk management is based on good practice and our internal control environment is continually reviewed and monitored by the Orbit Audit and Risk Assurance Committee on behalf of the Board. Risk Management is a fundamental element of our Internal Control Environment and Assurance strategy, which feeds into our annual statement of internal controls.

On behalf of the Orbit South Housing Association Limited Board

A handwritten signature in black ink, appearing to read 'Stephen Howlett', is written over a light grey circular stamp.

Stephen Howlett
Chair

18 July 2019

Orbit South Housing Association Limited

Report of the Board

Internal control

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

- ✓ Internal audit including externally commissioned reviews
- ✓ Health and safety management system
- ✓ Insurance performance
- ✓ Business Continuity Planning and Incident Management System
- ✓ Policy / Procedure Management
- ✓ Information governance and management of personal data
- ✓ Risk management strategy
- ✓ Governance

The outcome of the assurance review is as follows:

'Based on the risk and assurance work undertaken 2018-19, 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 the board of Orbit South Housing Association Limited.

Orbit South Housing Association Limited

Report of the Board

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

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

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

The financial statements are required by law to give a true and fair view of the state of affairs of the group and the association and of the income and expenditure of the group and the association 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;
- Assess the group and the association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- Use the going concern basis of accounting unless it either intends to liquidate the group or the association or to cease operations, or has no realistic alternative but to do so.

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

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

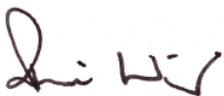
Annual general meeting

The annual general meeting will be held on 25 September 2019.

Independent auditors

KPMG LLP was appointed as the external auditors for the year ended 31 March 2019. A resolution to re-appoint the group's auditors for external audit services will be proposed at the annual general meeting.

The report of the board was approved on 18 July 2019 and signed on its behalf by:



Richard Wright
Secretary

Orbit South Housing Association Limited

Independent Auditor's report to Orbit South Housing Association Limited

For the year ended 31 March 2019

Opinion

We have audited the financial statements of Orbit South Housing Association Limited ("the association") for the year ended 31 March 2019 which comprise the statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Reserves, and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view, in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, of the state of affairs of the association as at 31 March 2019 and of its income and expenditure for the year then ended;
- comply with the requirements of the Co-operative and Community Benefit Societies Act 2014; and
- have been properly prepared in accordance with the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

Basis for opinion

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

Brexit other matter paragraph

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The association's Board has prepared the financial statements on the going concern basis as they do not intend to liquidate the association or to cease its operations, and as they have concluded that the association's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the Board's conclusions, we considered the inherent risks to the association's business model, including the impact of Brexit, and analysed how those risks might affect the association's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the association will continue in operation.

Other information

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

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements

Orbit South Housing Association Limited

Independent Auditor's report to Orbit South Housing Association Limited

For the year ended 31 March 2019

or our audit knowledge. Based solely on that work, we have not identified material misstatements in the other information.

Matters on which we are required to report by exception

Under the Co-operative and Community Benefit Societies Act 2014 we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

Board's responsibilities

As more fully explained in their statement set out on page 7, the association's Board is responsible for the preparation of financial statements which give a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it either intends to liquidate the association or to cease operations, or has no realistic alternative but to do so.

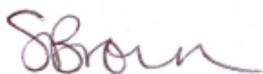
Auditor's responsibilities

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

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

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

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



Sarah Brown

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

One Snowhill, Snow Hill Queensway

Birmingham

B4 6GH

26 July 2019

Orbit South Housing Association Limited

Statement of Comprehensive Income

For the year ended 31 March 2019

	Note	2019 £000	2018 £000
Turnover	2	114,014	111,808
Cost of sales	2	(2,644)	(2,371)
Operating costs	2	(76,179)	(75,414)
Surplus on sale of housing properties	7	7,821	8,036
Operating surplus	2	43,012	42,059
Gain/(loss) on sale of fixed assets	5	248	(857)
Interest receivable	8	11	4
Interest payable	9	(15,238)	(17,079)
Loan break costs		(13,480)	-
Other financing costs	9	(76)	(98)
Movement in fair value of financial instruments		86	24
Surplus before taxation		14,563	24,053
Taxation	10	-	-
Surplus for the year		14,563	24,053
Actuarial gain in respect of pension schemes	29	590	693
Total comprehensive income		15,153	24,746

All amounts derive from continuing operations.

The accompanying notes form part of these financial statements.

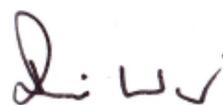
The financial statements on pages 10 to 37 were approved by the Board and signed on its behalf by:



Stephen Howlett
Chair



Helen Gillett
Board Member



Richard Wright
Secretary

18 July 2019

Orbit South Housing Association Limited

Statement of Changes in Reserves

For the year ended 31 March 2019

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

	Income and expenditure reserve £000	Total reserves £000
Balance as at 1 April 2018	159,519	159,519
Surplus for the year	14,563	14,563
Actuarial gain on pension liability	590	590
Balance as at 31 March 2019	174,672	174,672

Orbit South Housing Association Limited

Statement of Financial Position

For the year ended 31 March 2019

	Note	2019 £'000	2018 £'000
Fixed assets			
Tangible fixed assets	11&12	1,151,431	1,100,700
Fixed assets investments	13	1,351	1,194
		1,152,782	1,101,894
Debtors: amounts falling due after more than one year			
	14	1,100	2,347
Current assets			
Trade and other debtors	14	70,864	68,529
Cash and cash equivalents		2,154	1,443
		73,018	69,972
Less: creditors: amounts falling due within one year	15	(88,600)	(69,444)
Less: provisions falling due within one year	18	-	(586)
Net current liabilities			
		(15,582)	(58)
Total assets less current liabilities			
		1,138,300	1,104,183
Creditors: amounts falling due after more than one year			
	16	(960,482)	(940,938)
Provisions for liabilities			
Other provisions	18	(712)	(712)
Pension liabilities	29	(2,434)	(3,014)
Total net assets			
		174,672	159,519
Reserves			
Income and expenditure reserve			
		174,672	159,519

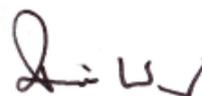
The financial statements on pages 10 to 37 were approved by the Board and signed on its behalf by:



Stephen Howlett
Chair



Helen Gillett
Board Member



Richard Wright
Secretary

18 July 2019

Orbit South Housing Association Limited

Notes to the Financial Statements

For the year ended 31 March 2019

1. Principal accounting policies

Legal status

Orbit South Housing Association Limited is incorporated under the Co-operative and Community Benefit Societies Act 2014 and is registered with the Regulator of Social Housing as a not for profit Registered Provider of social housing as defined by the Housing and Regeneration Act 2008. The parent body from the beginning of the year was Orbit Group Limited.

Basis of accounting

The financial statements have been prepared on a going concern basis, under the historical cost basis of accounting in accordance with the Housing SORP 2014, Statement of Recommended Practice for Registered Social Housing Providers, and comply with the Accounting Direction for Private Registered Providers of Social Housing 2015. As a public benefit entity Orbit South Housing Association Limited has applied all paragraphs of FRS 102 which relate to public benefit entities in preparing the financial statements. The principal accounting policies, which have been consistently applied unless otherwise stated throughout the year, are set out below.

Going concern

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

Judgements and key sources of estimation uncertainty

In the process of applying the Association's accounting policies, management has made certain judgements that have a significant impact on the financial statements. These are detailed below.

Pension liabilities

In determining the valuation of the pension schemes assets and liabilities a number of assumptions are made around factors that are uncertain. These include life expectancy, inflation rate, discount rates and salary and pension inflation rates. The Association is exposed to risk if the actuarial assumptions differ from actual experience and through volatility in the plan assets. More detail is disclosed in note 29..

Financial instrument valuation

Financial instrument are fair valued at each period end. Assumptions are made using market observable inputs and data.

Fixed asset and stock impairment

Fixed assets and are reviewed twice annually for evidence of impairment indicators, details of which are set out later in these policies. Stock is reviewed monthly.

Arrears

Judgement is made around the recoverability of debt and a provision is made based on the age and type of debt. Former arrears are provided in full. Current arrears are provided for based on age.

Group services

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

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

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

Turnover

Orbit South Housing Association Limited

Notes to the Financial Statements

For the year ended 31 March 2019

1. Principal accounting policies (continued)

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

Properties for sale

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

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

Revenue recognition

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

Operating costs

Direct employee, administration and operating costs are apportioned to either the statement of comprehensive income or capital schemes on the basis of costs of staff and the extent to which they are directly engaged in the operations concerned.

Housing properties

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

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

Freehold land is not depreciated. Attributable overheads and profit are included in cost of components.

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

Orbit South Housing Association Limited

Notes to the Financial Statements

For the year ended 31 March 2019

1. Principal accounting policies (continued)

Housing properties in the course of construction are stated at cost and not depreciated and are transferred to completed properties when they are ready for letting. When housing properties are to be transferred to another association, the net costs, after Social Housing Grant are dealt with in current assets.

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

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

Works to existing housing properties

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

Social housing and other grants

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

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

Social Housing Grant can be recycled by the Association under certain conditions, if a property is sold, or if another relevant event takes place. In these cases, the SHG can be used for projects approved by the Homes and Communities Agency. However, Social Housing Grant may have to be repaid if certain conditions are not met and, in that event, is a subordinated unsecured repayable debt. The net Social Housing Grant received and not spent is included in current liabilities, taking into account all properties under construction.

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

The total accumulated amount of financial assistance and other government grant received or receivable at the date of the statement of financial position, based upon properties owned at that date. These are disclosed in note 17 of the accounts which shows the extent to which amounts have been recognised in the statement of comprehensive income or are held as deferred income.

Capitalisation of interest and administration costs

Interest on loans financing development is capitalised at the group weighted average cost of capital. Administration costs relating to development activities are capitalised only to the extent they are incremental to the development process and directly attributable to bringing the property into its intended use.

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.

Orbit South Housing Association Limited

Notes to the Financial Statements

For the year ended 31 March 2019

1. Principal accounting policies (continued)

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 operate two 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 29 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.

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. 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.

Impairment reviews are carried out in accordance with section 14.6 of SORP, with consideration of the following potential indicators of impairment:

- Development issues
- Change in legislation or equivalent
- Average void time
- Proportion of properties vacant
- Loss made on property sales
- Schemes being redeveloped/demolished

Orbit South Housing Association Limited

Notes to the Financial Statements

For the year ended 31 March 2019

1. Principal accounting policies (continued)

Disposals of housing properties

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

Disposal proceeds fund

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

Recycling of capital grant

Where Social Housing Grant (SHG) is recycled the SHG is credited to a fund that appears as a creditor and can be used to fund projects approved by Homes England. 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 as appropriate where it is not recoverable.

Taxation

The Association has adopted charitable rules and it is therefore believed there will be no liability to taxation.

Loan finance issue costs

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

Loan interest costs

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

Property managed by agents

Where an Association carries the majority of the financial risk on property managed by agents, all the income and expenditure arising from the property is included in the statement of comprehensive income. Where the agency carries the majority of the financial risk, the statement of comprehensive income includes only that income and expenditure which relates solely to the risk carried by the Association. In both cases, where revenue grants are claimed by the Association, these are included in the statement of comprehensive income.

Investments

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

Supporting people income and costs

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

Service charge sinking funds

Service charge sinking funds are dealt with as creditors.

Liquid resources

Liquid resources comprise bank deposits that are readily convertible into cash and loans to fund the purchase of housing properties.

Stock and work in progress

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

Orbit South Housing Association Limited

Notes to the Financial Statements

For the year ended 31 March 2019

1. Principal accounting policies (continued)

Deferred income

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

Accrued Income

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

Provisions

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

Statement of Cash Flows

The Association has taken advantage of the exemptions available in FRS102 in preparing these financial statements, and has not prepared, per the requirements of Section 7, a Statement of Cash Flows. This information is included in the consolidated financial statements of Orbit Group Limited as at 31 March 2019 as published on the Orbit website www.orbit.org.uk.

Orbit South Housing Association Limited

Notes to the Financial Statements

For the year ended 31 March 2019

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

2019	Turnover £000	Cost of sales £000	Operating costs £000	Operating surplus/ (deficit) £000
Social housing lettings (Note 3)	106,392	-	(66,180)	40,212
Other social housing activities				
Managed on behalf of others	2	-	-	2
Services to Group members	688	-	(1,208)	(520)
Home ownership services	2,054	-	(2,533)	(479)
Charges for support service	84	-	(1,087)	(1,003)
Other	536	-	(3,868)	(3,332)
Properties for sale	2,644	(2,644)	-	-
	6,008	(2,644)	(8,696)	(5,332)
	112,400	(2,644)	(74,876)	34,880
Non-social housing activities	1,614	-	(1,303)	311
	114,014	(2,644)	(76,179)	35,191
Surplus on sale of housing properties (note 7)				7,821
Total				43,012
2018				
	Turnover £000	Cost of sales £000	Operating costs £000	Operating surplus/ (deficit) £000
Social housing lettings (note 3)	103,057	-	(65,792)	37,265
Other social housing activities				
Managed on behalf of others	-	-	-	-
Services to Group members	719	-	(926)	(207)
Home ownership services	1,596	-	(1,617)	(21)
Charges for support service	337	-	(1,245)	(908)
Other	1,595	-	(4,454)	(2,859)
LCHO first tranche sales	144	(119)	-	25
Properties for Sale	2,252	(2,252)	-	-
	6,643	(2,371)	(8,242)	(3,970)
	109,700	(2,371)	(74,034)	33,295
Non-social housing activities	2,108	-	(1,380)	728
	111,808	(2,371)	(75,414)	34,023
Surplus on sale of housing properties (note 7)				8,036
Total				42,059

Orbit South Housing Association Limited

Notes to the Financial Statements

For the year ended 31 March 2019

3. Income and expenditure from social housing lettings

	General needs housing £000	Supported housing and housing for older people £000	2019 £000	2018 £000
Rent receivable net of identifiable service charges	84,047	4,446	88,493	87,946
Service charge income	9,984	3,094	13,078	10,348
Amortisation of social housing and other capital grants	4,504	317	4,821	4,763
Other income from lettings	-	-	-	-
	98,535	7,857	106,392	103,057
Expenditure				
Management	(7,809)	(1,592)	(9,401)	(12,426)
Service charge costs	(11,226)	(3,427)	(14,653)	(10,487)
Routine maintenance	(13,779)	(902)	(14,681)	(14,382)
Planned maintenance	(8,702)	(1,164)	(9,866)	(12,042)
Bad debts	(810)	(24)	(834)	(864)
Depreciation and Impairment of Housing Properties	(15,960)	(785)	(16,745)	(15,537)
Other costs	-	-	-	(54)
Operating costs on social housing lettings	(58,286)	(7,894)	(66,180)	(65,792)
Surplus / (loss) on social housing lettings	40,249	(37)	40,212	37,265
Void losses	(2,185)	(123)	(2,308)	(1,405)

Depreciation on housing properties includes £808,000 written off due to components being replaced earlier than the expected life of those components (2018: £516,000).

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.

	2019 Number	2018 Number
Average number employed		
Office staff	7	7
Scheme staff	1	3
	8	10
Full-time	7	9
Part-time	1	1
	8	10
	8	10

Orbit South Housing Association Limited

Notes to the Financial Statements

For the year ended 31 March 2019

4. Staff costs (continued)

Full time equivalents

A full time equivalent would be 35 hours per week.

Staff costs for the above

Wages and salaries

Social security costs

Other pension costs

2019	2018
£000	£000
255	271
26	26
27	30
308	327

Number employed at 31 March

Office staff

Scheme staff

2019	2018
Number	Number
7	7
1	3
8	10

5. Operating surplus

Operating surplus is arrived at after charging/(crediting)

Depreciation of housing properties

Impairment of housing properties

Depreciation of other tangible fixed assets

Impairment of other tangible fixed assets

Gain/(loss) on sale of property, plant and equipment - other

Amortisation of social housing grant

2019	2018
£000	£000
16,822	15,537
(77)	-
59	84
-	107
248	(857)
(4,821)	(4,763)

Operating lease rentals

Land and buildings

Office equipment and vehicles

Aerials

White goods

556	565
146	150
-	29
92	21

Auditor's remuneration (excluding VAT)

Fees payable to the Association's auditor for the audit of the financial statements

Fees payable to the Association's auditor for other services

Total audit services

Total non-audit services

33	25
-	(4)
33	21
-	-

Orbit South Housing Association Limited

Notes to the Financial Statements

For the year ended 31 March 2019

6. Directors emoluments

The directors of the Association are its board members. Certain of the board members are tenants/leaseholders of the Association or the Group. Their tenancies/leases are on normal commercial terms and the members cannot use their position to their advantage. Payments made to board members are shown below. Payments made to the chair of Orbit South Housing Association Limited in her role as an Orbit board member are disclosed in the financial statements of Orbit Group Limited. No compensation was paid to directors for loss of office (2018: £nil).

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

	2019 £000	2018 £000
K Bolister	2	2
J Boomhauer	5	5
J Hopes	-	1
S Tandooran-Sentain	5	5
W Yardley	-	2
T Mihill	4	2
D Butler	1	-
Total	17	17

Expenses paid during the year to board members amounted to £5,000 (2018: £14,000).

	2019 £000	2018 £000
Travel costs	4	2
Meeting costs	1	11
Accommodation and hospitality	-	1
	5	14

7. Surplus on sale of fixed assets - housing properties

	2019			2018		
	Letting £000	Shared equity £000	Total £000	Letting £000	Shared equity £000	Total £000
Disposal proceeds	12,615	93	12,708	11,350	116	11,466
Carrying value of fixed assets	(5,718)	(1)	(5,719)	(4,201)	-	(4,201)
	6,897	92	6,989	7,149	116	7,265
Capital grant recycled	1,255	-	1,255	1,203	-	1,203
RTB clawbacks	(362)	-	(362)	(432)	-	(432)
Disposal Proceeds fund/Grant Abated	(61)	-	(61)	-	-	-
Surplus on disposal	7,729	92	7,821	7,920	116	8,036

Orbit South Housing Association Limited

Notes to the Financial Statements

For the year ended 31 March 2019

8. Interest receivable and other income

	2019	2018
	£000	£000
Interest receivable and similar income	11	4

9. Interest payable

	2019	2018
	£000	£000
Loan arrangement fees	19	19
Loans and bank overdrafts	19,817	23,243
	19,836	23,262
Interest payable capitalised on housing properties under construction	(4,423)	(6,008)
Loan premium write off	(175)	(175)
	15,238	17,079

Other financing costs

Defined benefit pension charge	76	98
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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 (2018: £nil). The board is not aware of any circumstances which will affect the future taxation status of the Association.

Orbit South Housing Association Limited

Notes to the Financial Statements

For the year ended 31 March 2019

11. Housing properties

	Housing properties for letting		Supported housing	Low cost home ownership	Extra Care establishments	Total
	Complete £000	In Development £000	Complete £000	Complete £000	Complete £000	
Cost						
At 1 April 2018	1,087,981	113,670	36,441	3,576	999	1,242,667
Additions	18,286	50,584	2,410	-	-	71,280
Transfer on completion	73,746	(73,746)	-	-	-	-
Disposals	(6,657)	-	(1,075)	-	-	(7,732)
At 31 March 2019	1,173,356	90,508	37,776	3,576	999	1,306,215
Less: accumulated depreciation						
At 1 April 2018	(135,979)	-	(5,228)	(92)	(76)	(141,375)
Eliminated on disposal	2,907	-	305	-	-	3,212
Depreciation	(15,403)	-	(591)	(10)	(9)	(16,013)
At 31 March 2019	(148,475)	-	(5,514)	(102)	(85)	(154,176)
Less: provisions for impairment						
At 1 April 2018	(1,443)	-	-	-	-	(1,443)
Charge for the year	77	-	-	-	-	77
At 31 March 2019	(1,366)	-	-	-	-	(1,366)
Net book amount						
At 31 March 2019	1,023,515	90,508	32,262	3,474	914	1,150,673
At 31 March 2018	950,559	113,670	31,213	3,484	923	1,099,849

Additions to properties during the year include capitalised interest and finance costs of £4.4 million (2018 restated: £6.0 million) and development administration costs / project management fees of £1.3 million (2018: £1.5 million).

The Association reviewed its properties for impairment and a reversal of a prior impairment of £77k has been made for the year for Arthur Street (2018: £nil) in respect of existing properties that are to be re-developed as part of a regeneration project.

Net book value of housing and other properties comprises:

	2019 £000	2018 £000
Freehold land and buildings	1,150,596	1,100,501
Long leasehold land and buildings	69	87
	1,150,665	1,100,588

Orbit South Housing Association Limited

Notes to the Financial Statements

For the year ended 31 March 2019

12. Other fixed assets

	Freehold offices £000	Commercial premises £000	Motor vehicles £000	Furniture, fixtures & equipment £000	Total £000
Cost or valuation					
At 1 April 2018	1,243	150	19	1,600	3,012
Additions	-	-	-	42	42
Disposals	(78)	-	-	-	(78)
Write off	-	-	(19)	(191)	(210)
At 31 March 2019	1,165	150	-	1,451	2,766
Less:					
accumulated depreciation					
At 1 April 2018	(484)	(63)	(19)	(1,488)	(2,054)
Charge for year	(3)	(18)	-	(38)	(59)
Write off	-	-	19	191	210
Eliminated on disposal	2	-	-	-	2
At 31 March 2019	(485)	(81)	-	(1,335)	(1,901)
Less:					
provisions for impairment					
At 1 April 2018	(107)	-	-	-	(107)
At 31 March 2019	(107)	-	-	-	(107)
Net book amount					
At 31 March 2019	573	69	-	116	758
At 31 March 2018	652	87	-	112	851

13. Fixed asset investments

	2019 £000	2018 £000
Monies deposited for Affordable Housing Finance Plc	1,351	1,194

In July 2016, Orbit South Housing Association raised a £25 million fixed rate bond and in December 2016 a further £25 million fixed rate EIB loan both with Affordable Housing Finance Plc via The Housing Finance Corporation. It is a condition of the funding that the borrower shall enter into a Liquidity Reserve Fund Trust deed with the Liquidity Fund Trustee (AHF). An amount equal to twelve months interest be held with AHF in a Liquidity Reserve Fund, which in this case amounts to £1,148,750. The AHF Bond is secured by a first fixed charge on properties, however following a property sales in the year £192,000 is held in a cash security deposit account to cover the amount below the required security threshold.

Orbit South Housing Association Limited

Notes to the Financial Statements

For the year ended 31 March 2019

14. Debtors

	2019 £000	2018 £000
Due within one year:		
Rental debtors	4,524	4,353
Less: provision for doubtful debts	(1,471)	(1,317)
	3,053	3,036
Service charges due from Leaseholders	198	135
Amounts due from group undertakings	65,072	62,702
Prepayments and accrued income	1,078	592
SHG receivable	-	286
Provision for bad debts	(162)	(10)
Other debtors	1,625	1,788
	70,864	68,529
Due after more than one year:		
Other debtors	1,100	2,347

15. Creditors: amounts falling due within one year

	2019 £000	2018 £000
Housing loans inter-company (note 20)	6,410	13,357
Amounts due to group undertakings	60,630	34,868
Other creditors including taxation and social security	2,208	2,087
Accruals and deferred income	7,709	8,942
Deposits in advance	4	4
Rents received in advance	2,742	2,608
Grants received in advance	1,141	833
RCGF and DPF within one year (note 19)	2,935	1,982
Deferred capital grant (note 17)	4,821	4,763
Total	88,600	69,444

16. Creditors: amounts falling due after more than one year

	2019 £000	2018 £000
Housing loans inter-company (note 20)	49,554	49,529
Loans inter-company (note 20)	524,860	502,063
Deferred capital grant (note 17)	374,064	375,240
Deferred income for renewals and maintenance contributions	4,359	6,476
Other creditors	925	611
RCGF and DPF outside of one year (note 19)	2,485	2,609
Loan premium	4,235	4,410
Total	960,482	940,938

Housing loans shown above are net of £446,000 (2018: £471,000) loan arrangement fees carried forward.

Orbit South Housing Association Limited

Notes to the Financial Statements

For the year ended 31 March 2019

17. Deferred capital grant

	2019 £000	2018 £000
At 1 April 2018	380,003	377,643
Grant received in the year	4,221	6,742
Transfer (from) RCGF and DPF	(805)	(360)
Transfer (from)/to intercompany	(58)	512
Elimination on the disposal of assets	345	229
Released to income in the year	(4,821)	(4,763)
At 31 March 2019	378,885	380,003

Analysed as:

	2019 £000	2018 £000
Amounts to be released within 1 year	4,821	4,763
Amounts to be released in more than 1 year	374,064	375,240
Total	378,885	380,003

18. Provisions for liabilities

	At beginning of the year £000	Release of provision during the year £000	At end of year £000
Dilapidation and remedial works	583	(583)	-
Home Improvement Agency Hardship	3	(3)	-
Water Rates	712	-	712
	1,298	(586)	712

Analysed as:

	2019 £000	2018 £000
Amounts to be released in less than 1 year	-	586
Amounts to be released in more than 1 year	712	712
	712	1,298

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

Orbit South Housing Association Limited

Notes to the Financial Statements

For the year ended 31 March 2019

19. Disposal proceeds and recycled capital grant funds

	RCGF £000	DPF £000	Total £000
At 1 April 2018	4,450	141	4,591
Grants recycled	1,255	-	1,255
Interest accrued	29	-	29
Utilised in the year	(360)	(95)	(455)
At 31 March 2019	5,374	46	5,420

Amount due for repayment to Homes England

	RCGF £000	DPF £000	Total £000
Within one year	2,889	46	2,935
After more than one year	2,485	-	2,485
At 31 March 2019	5,374	46	5,420

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

20. Housing loans and finance lease obligations

	2019 £000	2018 £000
Due within one year		
Orbit Treasury Limited	6,410	13,357
Due after more than one year		
Orbit Treasury Limited	185,889	387,367
Orbit Capital plc	338,971	114,696
Affordable Housing Finance Plc	50,000	50,000
	574,860	552,063
Total	581,270	565,420

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 22 January. OC is a wholly owned subsidiary of Orbit Group and was established for the purpose of issuing publicly listed bonds. OC issued its first bond on 24 March 2015 raising a £250 million 30 year sterling bond (maturity date 24 March 2045) priced at 3.50%. The company arranged its second public bond issue on 7 June 2018 raising £450 million 30 year sterling bond (maturity date 14 June 2048) priced at 3.375% which was used to restructure the groups existing debt portfolio and provide long term funding to support the group strategy.

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 (£250m) and 14 June 2048 (£450m).

Orbit South Housing Association Limited

Notes to the Financial Statements

For the year ended 31 March 2019

20. Housing loans and finance lease obligations (continued)

On the 28 July 2016 the company raised a £25 million 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%. In December 2016 a further £25 million fixed rate EIB loan was raised with Affordable Housing Finance Plc via The Housing Finance Corporation. The EIB loan is repayable by instalments starting in July 2027 and matures in July 2046 with interest payable at a fixed rate of 1.702%.

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:

	2019 £000	2018 £000
In one year or less, on demand	6,410	13,357
Repayable by instalments:		
- more than one year but not more than two years	6,410	13,358
- In more than two years but not more than five years	19,230	40,072
- In more than 5 years	524,220	498,633
	549,860	552,063
Repayable other than by instalments:		
- In more than five years	25,000	-
Total	581,270	565,420

The interest rate profile at 31 March 2019 was:

	Total £000	Variable rate £000	Fixed rate £000	Weighted average rate %	Weighted average term until maturity years
Instalment loans	556,270	192,299	363,971	6.38%	25
Non instalment loans	25,000	-	25,000	2.89%	25
	581,270	192,299	388,971	6.23%	25

21. Called up share capital

	2019 £	2018 £
Issued and fully paid shares of £1 each		
At 1 April 2018	12	14
Issued	3	1
Surrendered	(7)	(3)
At 31 March 2019	8	12

Orbit South Housing Association Limited

Notes to the Financial Statements

For the year ended 31 March 2019

21. Called up share capital (continued)

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.

22. Capital commitments

	2019	2018
	£000	£000
Capital expenditure which has been contracted for but has not been provided for in the financial statements	102,304	94,615
Capital expenditure which has been authorised under authority from the Orbit board but has yet to be contracted for	49,195	31,997
	151,499	126,612

The Association expects these commitments to be financed with:

	2019	2018
	£000	£000
Social housing grant	5,472	8,233
Committed loan facilities (Orbit Treasury Limited)	116,815	93,970
Proceeds from sale of properties	29,212	24,409
	151,499	126,612

23. Contingent liabilities

As at 31 March 2019, there were £16 million contingent liabilities within the Association (2018: £16 million).

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

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

Orbit South Housing Association Limited

Notes to the Financial Statements

For the year ended 31 March 2019

24. Financial commitments

Operating leases

At 31 March 2019 the Association was committed to making the following minimum future payments in respect of operating leases other than land and buildings:

	2019	2018
	£000	£000
Leases which expire		
Within 1 year	511	605
Within 2 - 5 years	510	868
After 5 years	2	-
Total	1,023	1,473

25. 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 2019.

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

26. 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 £70,000 to the Council (2018: £17,000) and received payments from the council of £nil (2018: £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 £23,000 (2018: £16,000). The outstanding amount owed at 31 March 2019 was less than £nil.

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

Further detail of non-consolidated management arrangements and transactions with non HCA regulated group entities are shown at note 30.

Orbit South Housing Association Limited

Notes to the Financial Statements

For the year ended 31 March 2019

27. Number of units under development at end of year

	2019 Number	2018 Number
General needs	1,338	328
Low Cost Home Ownership	-	-
Private Market Rent	88	145
Total social housing units	1,426	473

28. Property portfolio

	2019 Number	2018 Restated Number
General needs	11,747	11,898
Affordable rent	3,530	3,232
Intermediate rent	69	153
Supported Housing	1,636	1,654
Total owned by Orbit	16,982	16,937
Low Cost Home Ownership	168	166
Leasehold	972	940
Managed on behalf of others	533	457
Leasehold and other managed	1,505	1,397
Total social housing units	18,655	18,500
Private retirement schemes	653	653
Commercial Units	13	16
Total non social housing units	666	669
Total units	19,321	19,169

The prior year has been restated to reflect current year allocations, primarily between 'leasehold' and 'managed on behalf of others', and to move private retirement schemes to non social housing.

Orbit South Housing Association Limited

Notes to the Financial Statements

For the year ended 31 March 2019

29. Pension costs

Pension schemes operated by Orbit South Housing Association Limited

Movement in pension cost liabilities during the year

	2019	2018
	£000	£000
Net deficit at 1 April 2018	(3,014)	(3,660)
Service costs	(17)	(18)
Contributions	91	76
Net return on assets less interest on pension scheme liabilities	(66)	(83)
Actuarial gain	590	693
Other finance costs	(18)	(22)
Deficit in pension scheme at 31 March 2019	(2,434)	(3,014)

(a) Local Government Pension Scheme – Kent County Council

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

Total employer contributions paid to the scheme for the year were £16,000 (2018: £16,000).

Triennial actuarial valuation

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

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

	2019	2018
Rate of increase in salaries	3.90%	3.80%
Rate of increase in pensions in payment and deferred pensions	2.40%	2.30%
Discount rate applied to scheme liabilities	2.40%	2.55%
Inflation assumption – CPI	2.40%	2.30%
Inflation assumption – RPI	3.40%	3.30%

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

Orbit South Housing Association Limited

Notes to the Financial Statements

For the year ended 31 March 2019

29. Pension costs (continued)

Life expectancy from age 65 (years)

		2019	2018
		Number	Number
Retiring today	Males	22.0	23.1
	Females	24.0	25.2
Retiring in 20 years	Males	23.7	25.3
	Females	25.8	27.5

(b) Local Government Pension Scheme - Bexley London Borough

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

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

	2019	2018
Rate of increase in salaries	n/a	n/a
Rate of increase in pensions payment and deferred pensions	2.40%	2.20%
Discount rate applied to scheme liabilities	2.40%	2.60%
Inflation assumption – CPI	2.30%	2.10%

Life Expectancy from age 65 (years)

		2019	2018
		Number	Number
Retiring today	Males	23.2	23.1
	Females	26.2	26.1
Retiring in 20 years	Males	25.4	25.3
	Female	28.4	28.4

Orbit South Housing Association Limited

Notes to the Financial Statements

For the year ended 31 March 2019

29. Pension costs (continued)

Scheme assets

	2019	2018
	£000	£000
Equities	7,605	7,017
Government bonds	415	559
Other bonds	1,188	982
Property	1,506	1,447
Other – cash	215	340
Absolute Return fund	707	601
Other	969	994
Total fair value of assets	12,605	11,940
Present value of scheme liabilities	(15,039)	(14,954)
Net pension liability	(2,434)	(3,014)

Statement of financial position at 31 March 2019

	2019	2018
	£000	£000
Present value of the defined benefit obligation	15,009	14,922
Fair value if fund assets (bid value)	(12,605)	(11,940)
Deficit	2,404	2,982
Present value of unfunded obligation	30	32
Net defined benefit liability/(asset)	2,434	3,014

Orbit South Housing Association Limited

Notes to the Financial Statements

For the year ended 31 March 2019

29. Pension costs (continued)

Scheme liabilities

	2019 £000	2018 £000
Opening defined benefit obligation	14,954	15,590
Service cost	17	18
Interest cost	378	407
Change in financial assumptions	709	(634)
Change in demographic assumptions	(605)	-
Estimated benefits paid net of transfers in	(416)	(429)
Contributions by scheme participants	4	4
Unfunded pension payments	(2)	(2)
Closing defined benefit obligation	15,039	14,954

Reconciliation of opening and closing balances of fair value scheme assets

	2019 £000	2018 £000
Opening fair value of scheme assets	11,940	11,930
Interest on assets	302	310
Return on assets less interest	441	62
Other actuarial gains	253	(3)
Administration expenses	(8)	(8)
Contribution by employer including unfunded	91	76
Contributions by scheme participants	4	4
Estimated benefits paid net of transfers in and including unfunded	(418)	(431)
Fair value of scheme assets at the end of the year	12,605	11,940

Analysis of amounts charged to income and expenditure account

	2019 £000	2018 £000
Amounts charged to operating costs		
Service costs	17	18
Net interest on the defined liability (asset)	76	97
Administration expenses	8	8
	101	123

Orbit South Housing Association Limited

Notes to the Financial Statements

For the year ended 31 March 2019

29. Pension costs (continued)

Movement in deficit during the year

	2019	2018
	£000	£000
Deficit in pension scheme at 1 April 2018	(3,014)	(3,660)
Service Costs	(17)	(18)
Contributions	91	76
Other finance costs	(17)	(22)
Net return on assets less interest on pension scheme liabilities	(67)	(83)
Actuarial (losses)/gains	590	693
Deficit in pension scheme at 31 March 2019	(2,434)	(3,014)

30. Non-consolidated management arrangements

Orbit South Housing Association Limited has entered into arrangements with a number of other organisations in connection with the management of some of the properties. The financial transactions affecting those managing agents are not consolidated where the risk rests with these agents.

During the year the Association has transacted with three fellow group subsidiaries not regulated by Homes England, Orbit Homes (2020) Ltd, Orbit Treasury Ltd and Orbit Capital plc.

Orbit Homes (2020) Ltd provides design and build services to the Group. During the year the Association made payments totalling £44 million (2018: £56.6 million) to Orbit Homes (2020) Ltd for the purchase of housing property assets, £1.3 million (2018: £2.6 million) in project management fees and has an outstanding creditor balance with Orbit Homes (2020) Ltd of £3.9 million (2018: £3.6 million).

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 £19.2 million (2018: £16.7 million) and fees of £2.2 million (2018: £1.5 million) and has an outstanding debtor balance of £nil (2018: £nil million).

The Association also paid interest costs of £10.3 million (2018: £4 million) and fees of £0.4 million (2018: £0.2 million) to Orbit Capital plc and had an outstanding debtor balance of £nil (2018: £nil) and creditor balance of £nil (2018: £nil) with Orbit Capital plc. The allocation of these costs is based upon the level of debt required and secured by the housing properties held by the Association.