

**HEART OF ENGLAND HOUSING ASSOCIATION  
LIMITED (TRADING AS ORBIT HEART OF ENGLAND)**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 MARCH 2013**

**Industrial and Provident Society  
Number 30446R**

**HCA Number L4526**

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
(TRADING AS ORBIT HEART OF ENGLAND)**

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**Industrial and Provident Society  
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**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
(TRADING AS ORBIT HEART OF ENGLAND)**

**BOARD MEMBERS, EXECUTIVE OFFICERS AND AUDITORS**

**BOARD MEMBERS**

The following are all Members of the Board, all of whom have served throughout the year unless otherwise stated:

<b>Name</b>	<b>Role</b>	<b>Appointed</b>	<b>Left</b>
Robin Dahlberg *	Chair (Independent)	1 July 2011	31 March 2013
Lindsay Dennish	Independent Member	1 December 2011	
Jacqui Dickinson	Resident Member	14 October 2009	
Michael Lawrence	Independent Member	21 November 2008	31 March 2013
Grant Richardson	Independent Member	1 February 2013	
Michael Robertson-Smith	Independent Member	1 April 2008	
Margaret Wellington	Independent Member	1 April 2008	31 March 2013
Valerie Williamson	Resident Member	1 December 2011	31 March 2013

\* Robin Dahlberg was appointed to the Orbit Board and Heart of England Housing Association Limited (the Association) Board on 1 April 2011 and became Chair of the Association on 1 July 2011. He left on 31 March 2013 and Fran Beckett was appointed and became Chair of the Association on 1 April 2013.

From 1 April 2013 the Association has combined with Orbit South Housing Association Limited to form 'Orbit Living'. Management and operations of the two entities have been brought together and a new Shared Strategic Board has been formed from members of the two original Boards. Members of the Orbit Living Board are shown below, along with which legal entity they are members of:

<b>Name</b>	<b>Role</b>	<b>Appointed Orbit Heart of England</b>	<b>Appointed Orbit South</b>
Fran Beckett	Chair (Independent)	1 April 2013	1 April 2011
Jane Ball	Independent Member	16 April 2013	19 November 2009
Lindsay Dennish	Independent Member	1 December 2011	16 April 2013
Jacqui Dickinson	Resident Member	14 October 2009	-
Julie Hopes	Independent Member	16 April 2013	18 April 2012
Glyn Kyle	Independent Member	-	11 February 2009
Terry McGlone	Independent Member	16 April 2013	23 February 2006
Vanessa Nicholls	Resident Member	-	1 October 2007
Grant Richardson	Independent Member	1 February 2013	-
Michael Robertson-Smith	Independent Member	1 April 2008	16 April 2013
Alan Squirrell	Independent Member	16 April 2013	10 March 2010

**EXECUTIVE OFFICERS**

**Orbit Heart of England Senior Management Team (to 31 March 2013)**

Stewart Fergusson	Managing Director (to 31 December 2012)
Paul Tennant	Interim Managing Director (1 January 2013 to 31 March 2013)
Elaine Johnston	Director of Operations
Vicky Harwood	Director of Orbit Independent Living
Jane Cook	Finance Director
Louise Oakley	Head of Business Excellence
Helen Nicholson-Rhodes	Human Resources Business Partner

**Orbit Living Senior Management Team (from 1 April 2013)**

Vivien Knibbs	Executive Director, Orbit Living
Elaine Johnston	Director of Operations, Orbit Heart of England
Jon Kanareck	Director of Operations, Orbit East & South (from 3 June 2013)
David Collick	Director of Property Services
Vicky Harwood	Director of Orbit Independent Living
Louise Oakley	Director of Service Excellence
Neil Martin	Finance Director (from 11 June 2013)

Additionally, Human Resources and Development business partners work in collaboration as part of the Senior Management Team.

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
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**BOARD MEMBERS, EXECUTIVE OFFICERS AND AUDITORS**

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**EXECUTIVE OFFICERS (continued)**

The Executive Officers are members of the senior management team of Orbit Heart of England / Orbit Living. They are employed by Orbit Group Limited and their services are provided to Orbit Heart of England via an Intra Group Agreement.

**DIRECTORS' AND OFFICERS' LIABILITY INSURANCE**

Directors' and Officers' insurance has been maintained throughout the year to indemnify against liability when acting for the Association.

**INDEPENDENT AUDITORS**

PricewaterhouseCoopers LLP  
Cornwall Court  
19 Cornwall Street  
Birmingham  
B3 2DT

**PRINCIPAL SOLICITORS**

Trowers and Hamblins  
Sceptre Court  
40 Tower Hill  
London, EC3N 4DX

**REGISTERED OFFICE**

10 Greenhill Street  
Stratford-upon-Avon  
Warwickshire  
CV37 6LG

## HEART OF ENGLAND HOUSING ASSOCIATION LIMITED (TRADING AS ORBIT HEART OF ENGLAND)

### OPERATING AND FINANCIAL REVIEW

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#### SOCIAL LANDLORD'S BUSINESS, OBJECTIVES AND STRATEGY

Heart of England Housing Association Limited was formed on 1 April 2008 from an amalgamation of South Warwickshire Housing Association Limited and Heart of England Housing Group Limited. Simultaneously it joined Orbit as a subsidiary of Orbit Group Limited and purchased the Midlands properties previously owned by Orbit Housing Association. Heart of England Housing Association Limited, operates under the name 'Orbit Heart of England' (OHE).

The principal activity of the Association is to provide quality affordable homes and effective support services, all designed to meet customers' needs and to help build sustainable communities.

The Association's strategic objective throughout the year was to make a significant contribution to the communities it served. The Association works within Orbit's overall strategic framework, which is developed by all members of Orbit in a consultative process.

At the year end, the Association owned and / or managed 15,367 homes and commercial units, situated within the Midlands.

As part of our on-going stock rationalisation programme, a portfolio of 234 rented and 26 leasehold homes in the Cheltenham and Cotswolds area were sold to Sovereign Housing Association Limited on 28 January 2013.

These changes embrace our ambitions around service delivery, value for money, greater customer engagement and local accountability. They also support our place shaping agenda, linking new housing provision to investment in communities and our existing stock.

The Association continues to evolve and change, and from 1 April 2013 the two operating associations within the group, Orbit South Housing Association Limited and Heart of England Housing Association Limited, have been brought together under a single senior management team and rebranded 'Orbit Living'.

#### GROUP AMBITION

*The ambition and purpose of Orbit throughout the year ended 31 March 2013 has continued to be:-*

### "Building Brighter Futures for People and Communities"

This is something that we have been doing for more than 40 years. We meet the needs of people by providing the stability of a home; supporting those who need help to live independent lives; creating thriving communities; and helping people to achieve their aspirations.

We have now completed our five-year business plan, delivering against a range of challenging and ambitious outcomes set in 2008. Our journey from Good to Great by 2013 focuses on the three main outcomes of Customer, Place and Organisation.

Since 2008 we have: -

- **Built** almost 4,000 homes supporting an estimated 20,000 jobs and generating up to £1.4billion for the economy
- **Increased** our turnover from £117 million to £177 million and our housing stock from 27,000 to 38,000 homes
- **Invested** around £4 million in community projects and provided 1,700 people with jobs, training and educational opportunities
- **Generated** income of around £2.5 million by providing services to 40 other organisations.

# HEART OF ENGLAND HOUSING ASSOCIATION LIMITED (TRADING AS ORBIT HEART OF ENGLAND)

## OPERATING AND FINANCIAL REVIEW

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### ORBIT 2020

### *“Building Communities”*

We are now looking to the future through a major collaborative project involving staff, managers, leaders, Boards, residents and key stakeholders, called ‘Orbit 2020’.

As part of our Orbit 2020 programme we asked five of the country’s top experts to tell us what they think the world will be like in the year 2020 in their particular area of expertise. The five areas which they looked into were:

1. The economy
2. Political Environment and Localism
3. Environmental and energy
4. Social policy
5. Consumers, choice and competition

The next step was the development of concept papers called ‘Cornerstone’ papers, providing the basis for final decisions around our strategy and business planning for the future by setting out a range of clearly defined strategic and operational options and proposals for the future around each of the Cornerstone areas.

This has helped us to develop our 2013/16 Business Plans and ‘direction of travel’ towards 2020 so we can *Build Communities* for many years to come.

### OUR FOCUS FOR 2013/14

Our priorities for 2013/14 have been identified and categorised into 4 main headings: -

#### CUSTOMER OFFER

- Our focus will be on consistently getting the basic services right across all parts of Orbit in light of the changes to our operations – improving quality and consistency, achieving improved efficiency and value for money and delivering services through improved processes and systems.
- We are working to enable and empower our residents and in the coming year our focus will be on enabling customers to make choices around, and take control of, access to services through a Digital Inclusion strategy and online services options.
- A key issue for residents is fuel poverty and the increasing costs of heating the homes that we provide. We have committed to helping drive down costs and educating residents about energy to improve satisfaction and well-being.

#### COMMUNITY INVESTMENT

- We are working to create thriving and empowered communities and in the coming year we will be establishing our new operating structure and focussing on attracting and committing funds, completing a review of all of our core communities and learning lessons from the Erith Park regeneration programme in the London Borough of Bexley.
- We are clear about the expanded role we need to play in our communities beyond that of being a landlord. We will therefore be seeking to generate and secure training places, jobs and apprenticeships for residents and those in our communities.

#### HOUSING CHOICE

- We believe that housing supply is critical but also that there should be a broad range of affordable provision to meet the differing needs of customers. This includes initiatives and support to enable customers to be housed and then to meet their aspirations to own their own home.

# HEART OF ENGLAND HOUSING ASSOCIATION LIMITED (TRADING AS ORBIT HEART OF ENGLAND)

## OPERATING AND FINANCIAL REVIEW

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### OUR FOCUS FOR 2013/14 (continued)

#### ORGANISATION

- We recognise the need for efficiency and the most effective use of resources which will be reflected in work undertaken throughout the Group. In particular we will be focussed in the year on increasing income, driving down costs and establishing more effective ways of undertaking services.

Each of the business plans of the members of the Orbit Group are linked and work towards this common purpose, creating a golden thread that aligns our effort, resources and people. They also support our collective and individual aspiration to make a real and demonstrable difference to people's lives.

The various Boards approve all Business Plans and monitor progress and delivery against targets. In consultation with residents, and with the support of Orbit Services, our members will develop and monitor detailed delivery plans. All of our plans have clear milestones and measurable outcomes to guide and confirm progress.

#### RISKS AND UNCERTAINTIES

We continue in an era of unprecedented change, and opportunity. It is imperative that, whilst we are ready for the challenge, we understand and adapt to the external environment and transform our business to deliver greater effectiveness and efficiency.

Welfare Reform poses a threat to our income levels as a range of changes start to take effect during the year ahead, compounded by the on-going economic climate. Energy prices and fuel poverty mean that many of our customers are facing increasing hardship set against a context of cuts to public services. Housing need is continuing to rise, at a time when generally provision is falling. Wider changes to health and social care are also likely to have a significant impact on our customers and communities.

An uncertain housing market and difficulties in accessing mortgages for many present an on-going challenge, despite strong underlying demand for housing driven by an annual shortfall of around 150,000 new homes a year. Orbit has embarked on a major two-year organisational transformation and this poses significant challenges both in terms of resources and corporate focus as we seek to balance 'business as usual' with an on-going programme of evolution.

Each area of our business has a clear set of objectives which it will achieve between 1 April 2013 and 31 March 2014. These are summarised below:

1. Orbit Living – deliver excellent and improving services to customers
2. Orbit Homes – deliver a range of housing offers and generate growing profits
3. Orbit Services – provide cost-effective, professional support services across Orbit and generate growing profits
4. Resources, People & Futures – provide strategic support services to enable delivery and transformation

We will also deliver a range of cross-cutting improvements during 2013/14 including: continuing to drive value and efficiency and developing a more commercial approach; enhancing our research, market intelligence, and relationship management; implementing a new approach to community investment; evolving how we reward our people and continue our management development programme; and developing our risk management strategy to reflect Orbit's ambitions and the global risk environment in which we work.

We continually review performance both collectively and by individual organisation, and take appropriate action. We review overall how well we deliver our strategy and test, adapt and change as appropriate.

#### ORBIT LIVING

From 1 April 2013 the Association has come together with Orbit South Housing Association Limited to form 'Orbit Living'. Management and operations of the two entities have been brought together and a new Shared Strategic Board has been formed from members of the two original Boards.

Orbit Living has identified the following commitments for 2013/14 which support the strategic priorities within the Orbit Group Business Plan.

# HEART OF ENGLAND HOUSING ASSOCIATION LIMITED (TRADING AS ORBIT HEART OF ENGLAND)

## OPERATING AND FINANCIAL REVIEW

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### ***Customer First***

- We will continue to develop and improve our core customer services to achieve top quartile or other agreed targets
- We will expand service offer to older people and people with disabilities
- We will continue to develop our financial inclusion strategies and core income collection processes in light of welfare reform
- Improve compliance systems for gas, asbestos and fire risks across all of our stock
- We will continue to develop our customer engagement offer and approach, to ensure influence and involvement at all levels and all service areas of the business
- We will develop and implement a Digital Inclusion Strategy and programme to enable our customers to maximise the benefits of being online
- We will support the development of a retrofit strategy for our stock
- We will reduce the number of F&G energy rated homes
- We will support residents to improve their energy literacy and seek to maximise external funding opportunities to support energy reduction programmes in our stock

### ***Community Investment***

- We will seek to maximise external resources to complement our own investment
- We will deliver an agreed Community Investment programme against a revised strategy, monitoring outcomes against high level targets
- We will invest in apprenticeships and work placements and other employability initiatives

### ***Housing Choice***

- We will support Orbit Homes to deliver the agreed number of new affordable homes
- We will meet void sales targets as part of the HCA contract
- We will ensure that our re-let processes are efficient and meet upper quartile targets
- We will deliver the Erith Park regeneration project on target
- We will review our portfolio of stock using the asset and market intelligence system
- Implement solutions to address poor sheltered scheme stock

### ***Organisation***

- We will implement a whole organisation VFM strategy for 2013/14
- We will deliver key procurement and savings projects
- We will deliver agreed budgeted surplus and targeted efficiencies which will contribute to community investment funding
- We will implement the OHE Garage Strategy and maximise the long term return for the organisation
- We will establish a clear understanding of costs and how we compare with others
- Create and promote development opportunities for staff to get involved in a range of 2020 and other business projects
- Continue to work with Your Orbit as an effective two-way consultation mechanism
- Deliver 'Your Say' actions
- Establish a new Strategic Board, and regional Operating Committees

## OPERATING REVIEW

### **Performance in the Year**

Financial performance in the year has exceeded expectations, with a surplus for the year of £17.6 million compared with a budgeted surplus of £6.6 million. The variance was mainly as a result of proceeds from stock sales.

The development programme has progressed well during the year with 132 new homes being transferred into management in the year. There are a further 262 homes under development at year end and it is anticipated that all of these homes will be completed and come into management during 2013/14.

During the year the Board has reviewed the performance of the Association via a quarterly update of progress against a number of Key Performance Indicator (KPI) measures. A suite of Performance Indicators was agreed for 2012/13 designed to support the Customer, Place and Organisation framework of business objectives used throughout the Orbit partnership. Additionally there are a number of KPIs grouped under the financial heading which align to the Orbit Board reporting.

# HEART OF ENGLAND HOUSING ASSOCIATION LIMITED (TRADING AS ORBIT HEART OF ENGLAND)

## OPERATING AND FINANCIAL REVIEW

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### Performance in the Year (continued)

This is supported by more detailed challenge of KPI performance by the Senior Management Team which is supported by regular team and individual performance management reviews. A number of key change projects are also scheduled which will improve performance across a range of services.

In terms of delivery against targets for 2012/13, performance is mixed, with 11 of the 22 measures being achieved. Overall 13 measures were showing an improving trend by the end of the year, 7 of which were in respect of those where targets were not met. Gas servicing performance was only marginally below target. Improvement plans are in place to support achievement during 2013/14.

During the year the Association achieved a number of key objectives. What we delivered to achieve each objective is listed below:-

#### **Customer**

- 'Customer' KPI targets must be achieved
  - ✓ Review completed of Maintenance Service Business Model.
  - ✓ Improved controls in relation to the delivery of Estate Services.
  - ✓ Developed and implemented the use of GIS.
  - ✓ Major review completed of the Anti-Social Behaviour Service.
- Improve services to older people and people with disabilities
  - ✓ Implemented an improved way of delivering our aids and adaptations service.
  - ✓ Developed a strategy relating to dementia and the use of assistive technology.
- Improve the financial literacy and self-management capabilities of our residents
  - ✓ Completed a comprehensive educational campaign relating to welfare reform.
  - ✓ Self help tools (including web based) developed.
- Develop and implement tailored service approaches to customers and improve our customer engagement approach
  - ✓ Major review of resident involvement completed
  - ✓ Increased awareness internally and externally of the work of resident scrutiny
  - ✓ Clear framework developed and implemented in relation to the development, delivery, evaluation and publication of local offers.

#### **Place**

- 'Place' KPI targets must be achieved
  - ✓ Implemented improved IT system to assist with the management of planned maintenance.
  - ✓ Poor energy efficient rated homes identified and targeted with appropriate improvement works.
- Develop and implement our strategic approach to stock and portfolio investment
  - ✓ Stock in Cotswolds and Cheltenham disposed in line with strategy to enable reinvestment.
- Roll out a sustainable homes programme for retrofitting existing stock and building new homes to high energy efficiency and life times homes standards
  - ✓ Programme of retro-fit implemented.
  - ✓ Energy awareness training developed and implemented for staff.
  - ✓ Work completed which looked at the most effective technological interventions from both a property and customer based perspective.
- Develop our community investment role, focusing on worklessness, financial exclusion, youth engagement and empowerment amongst Orbit Independent Living (OIL) customers
  - ✓ Over £900k invested in local communities.

#### **Organisation**

- 'Organisation' KPI targets must be achieved
  - ✓ Extensive education campaign relating to the changes arising from welfare reform developed and implemented. Resident reward scheme expanded which includes access to major retail outlets.
- Deliver efficiencies and improve VFM, achieving or exceeding budgetary targets
  - ✓ Budgetary targets achieved.
- Invest in staff engagement and training
  - ✓ Staff engaged in the development of the longer term (2020) vision for the organisation.
  - ✓ Helped shape the development of the in house training provider (Orbit Academy)
- Raise the profile of Orbit Heart of England as a great organisation

# HEART OF ENGLAND HOUSING ASSOCIATION LIMITED (TRADING AS ORBIT HEART OF ENGLAND)

## OPERATING AND FINANCIAL REVIEW

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### Dynamics of the Social Landlord

Technological advances around mobile devices and social media provide a huge opportunity for improving efficiency and service standards which Orbit is actively engaging with. A new regulatory framework provides freedoms within a market where diversification appears to offer increasing potential to support our growth plans. New funding sources, from European grants to ECO funding, provide huge opportunities to attract significant resources to invest in our communities.

The growth in public demand for ethical organisations with an orientation around 'profit for a purpose' sees Orbit well-placed as a successful values-led business. The Localism agenda also appears to be gathering pace and aligns well with our community-orientated offer and local-regional-national operating model. Meanwhile the Government's on-going drive for housing supply solutions to the worsening housing crisis means Orbit's position as a major developer is more important than ever before.

We recognise the need to work more closely and in partnership with our residents, and have agreed Orbit-wide Customer Service Standards with our residents and also have local standards in place within the Operating Associations. Local Resident scrutiny panels are in place, and have made a total of 54 recommendations. Letters have been made more reader-friendly and informative and an acknowledgement card has been created so that all communication is noted and information given about when residents might expect a response.

Orbit Heart of England has a rent plan that covers properties where rent restructuring is applicable that is fully compliant with the rent restructuring guidelines and timetable issued by the Homes and Communities Agency (HCA)

All Orbit Members continue to work well within and meet all loan covenants.

### Value for Money – “*Making it Count*”

To deliver value for money is an integral part of Orbit's corporate ethos and values as our ambition is to run an efficient and effective organisation, providing value for money services to our customers. Our Customer First framework makes the commitment to “*fully satisfy agreed customer requirements, at the lowest internal cost*”. In the very simplest terms this means making the best use of the resources available for the provision of homes and services, whilst achieving quality standards agreed with customers. Providing value for money will improve our services and release resources to provide more houses, improve our existing homes and enable us to invest in our products and services and the communities where we work.

Orbit's approach to VFM is underpinned by our 'Making it Count! – The Orbit VFM Framework' document which outlines the following processes:

- Understanding the costs of services, driving out waste and benchmarking.
- Measuring impact through financial gains (i.e. VFM maps), key cost and productivity ratio analysis.
- Embedding VFM into training programmes, personal targets and project delivery.
- Communicating VFM to key stakeholders.

We have recently reviewed the framework in light of our 2020 vision, aligning key stages of effective business delivery to Orbit's 2020 vision, laying the platform for VFM to play an integral role to ensure the right activities, right assets, right delivery and right outcomes are identified.

### Purpose: Building Communities...

...by working together to improve the social, economic and environmental prospects of people and communities.

### Activities (Products / Services):

- ✓ General needs
- ✓ Market Sale
- ✓ Care / Support
- ✓ Shared ownership
- ✓ Professional services

# HEART OF ENGLAND HOUSING ASSOCIATION LIMITED (TRADING AS ORBIT HEART OF ENGLAND)

## OPERATING AND FINANCIAL REVIEW

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### Value for Money (continued)

#### Assets (operational and physical):

- ✓ Investing in our people, creating a dynamic culture of trust, enterprise and achievement
- ✓ Maximising efficiency & resources through a commercial approach
- ✓ Harnessing insight, innovation and technology to create solutions
- ✓ Maximising the value from our stock

#### Delivery (service outputs):

- ✓ Housing Management / Maintenance
- ✓ Development / Build / Regeneration
- ✓ Sales / Mortgage Rescue
- ✓ Risk and Compliance / IT / CSC / Business Improvement / Procurement
- ✓ Governance
- ✓ Finance
- ✓ HR / ODD
- ✓ Strategy / Communications

#### Outcomes:

- ✓ Providing a wide range of homes to meet needs and aspirations
- ✓ Creating thriving and empowered communities
- ✓ Enabling customers to make choices and take control

Outcome is measured through social value or triple bottom line (economic, environmental and social).

We have carried out a robust self-assessment of our VFM performance, categorising this using the regulator's six key areas of assurance. Each has been given one of the following three scores:

GREEN - full assurance

AMBER - partial assurance (i.e. we cannot demonstrate consistency and / or it is not fully embedded)

RED - cannot provide assurance

<b><i>An understanding of the cost of delivering specific services and how these relate to appropriate benchmarks</i></b>
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RATING - AMBER

We have progressed in a number of areas over the last 12 months providing detailed cost analysis of certain corporate functions, and completing and analysing our cost performance using Housemark. A costing framework is being considered to assist in future analyses.

<b><i>The efficiency gains which have been and will be made and how these will be realised</i></b>
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RATING - AMBER

We prepare VFM Plans for each area of the business each year and report on performance against these and our annual procurement savings annually. We need however to improve how we capture this information for the future.

<b><i>A robust approach to decision making on the use of resources, including an understanding of opportunity costs, and clear evidence of delivery (new supply, improved services, community investment)</i></b>
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RATING - GREEN

We operate clear parameters for development expenditure and investment and can demonstrate that the majority of projects are delivered within budgets.

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
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**OPERATING AND FINANCIAL REVIEW**

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**Value for Money (continued)**

***An understanding of the return on assets and a strategy for maximising future returns***

RATING – GREEN

We produced schedules highlighting costs and performance of individual schemes which are used to help with our asset management and sales strategies. These will be further improved during 2013 with the completion of work on a new portfolio management tool.

***Performance management and scrutiny functions are effective at driving and delivering improved performance , with outcomes and outputs clearly demonstrated***

RATING GREEN

Our staff have key performance targets set in their objectives each year, we report regularly on performance to our boards and senior management teams and have seen a number of improvements in results over the last year. Our residents are involved in scrutiny work, reporting back with recommendations which we have implemented. In 2013 this will be further enhanced by the roll-out of our new performance management system to all parts of the business.

***A rigorous approach to assessing options for VFM improvements including potential benefits from alternative delivery models***

RATING AMBER

We review areas of our business (for example supported housing schemes) on a regular basis. However we need to further develop the way in which we pursue alternative delivery models or outsourcing during 2013/14.

**Investment for the future**

Orbit continues to develop new homes, and has signed up to and adopted the principles of the 2012 Construction Commitments, and has an agreed development programme as part of the HCA's 2011/15 Affordable Homes Programme.

The Orbit Sustainability Strategy aims to embed sustainable living into the heart of our communities and our business. Since 2008 our Sustainability Strategy has: -

- ✓ Improved the energy efficiency of our stock, achieving a 28% carbon reduction as a result of our home improvement programmes, supporting achieving the 2050 80% carbon reduction target and our current average SAP has reached 70
- ✓ Reduced our carbon footprint as a business by swapping the use of personal vehicles for an electric staff pool car and introducing LED lighting in Orbit Heart of England's Stratford upon Avon office.
- ✓ Improved the financial circumstances of our customers by installing more than 200 green heat pumps and 60 solar photo-voltaic systems and upgrading 330 homes with insulation.
- ✓ Utilised our Energy Doctor initiative to provide general advice in reducing energy consumption to over 100 residents considered to be in fuel poverty or financial difficulty

Orbit continues to develop its eco-housing approach and work to develop knowledge to be rolled out across Orbit. Initiatives currently being used include ground and air source heat pumps, solar photo-voltaic panels and the installation of sensors to provide an insight into building performance. The installation of an innovative ground source heating system in Warwickshire has delivered a 70% reduction in heating costs and helped to provide heating to the local shop. Orbit Heart of England operates a Sustainable Investment Team to deliver low carbon solutions as part of the annual investment programmes to our homes.

Working in partnership, Orbit Homes and Orbit Heart of England have delivered the largest PassivHaus development in the UK, available under the affordable rent programme, enabling residents to heat their homes for as little as £5 a week. We are working with Coventry University on a Knowledge Transfer Partnership to explore how education can help residents better exploit low carbon technology in the home..

A 'Green Team' exists, so that staff can be involved in reducing the organisation's energy consumption and carbon footprint. Our Green Champions put forward suggestions for environmentally friendly policies and practices and encourage colleagues to think and act with the environment in mind.

## **HEART OF ENGLAND HOUSING ASSOCIATION LIMITED (TRADING AS ORBIT HEART OF ENGLAND)**

### **OPERATING AND FINANCIAL REVIEW**

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#### **Investment for the future (continued)**

In 2012, Orbit launched Building Brighter Futures Days to enable Orbit staff to volunteer their own time to improve the local community with up to £5k of funding from Orbit, often matched in cash or kind by local suppliers or contractors. Volunteers usually donate a day of their own time which is matched by Orbit. Projects have included transforming a local park to painting a youth centre.

All members of Orbit have now achieved Investors in People (IIP) accreditation, and Orbit Homes achieved IIP Gold accreditation during the year.

Phase 1 of our Customer First project to 'Change the way we work' was completed during 2011/12. Phase 2 is now underway and incorporates a Customer Experience Review, which aims to make our services better for customers contacting us through the Customer Service Centre (CSC). We will be streamlining our processes to be able to resolve customer queries first time around and at the first point of contact - the CSC advisor. By doing this, we will provide our customers with a better service, save time for CSC staff as well as local offices, and enable the CSC to take more calls and so serve more

Orbit Heart of England is committed to spending approximately £24 million each year to maintain and improve its accommodation and will consider opportunities to expand the operations by the acquisition of new homes and / or services.

Orbit Heart of England continues to learn from pilot sustainability projects undertaken to assist in the determination of the best solutions for the retrofitting of existing stock and its future new build agenda in order to meet the Government's Carbon Reduction target ahead of schedule.

Orbit Heart of England is fully committed to providing the highest levels of customer service and continues to invest in and support a range of initiatives such as the implementation of mobile technology for front-line service delivery staff and repairs operatives.

#### **FINANCIAL REVIEW**

##### **Accounting policies**

The Statement of Recommended Practice for Registered Social Landlords (2010) was mandatory for all accounting periods beginning on or after 1 April 2011 and was adopted with effect from 1 April 2011. The key changes related to our accounting policy for housing properties and the implementation of component accounting, and the requirement to write out negative goodwill that was previously held on the balance sheet.

##### **Capital structure and Treasury Policy**

At 31 March 2013, the balance sheet shows housing properties of £617.9 million, other fixed assets and investments of £3.8 million and net current liabilities of £16.4 million are financed by grants £258.7 million (43%), loans and long term creditors of £302.1 million (50%), pension liability of £5.7 million (1%) and accumulated reserves of £38.8 million (6%).

The Association has reviewed its housing stock to ensure there has been no impairment in the carrying value of individual schemes. No impairment provisions have been deemed necessary this year.

The Association has adopted FRS17 (accounting for pensions) in full (note 10). The pension liability on the balance sheet at 31 March 2013 was £5.7 million (2012: £4.7 million). During 2012/13 the Association made a decision to exit the Local Government Scheme operated by Warwickshire County Council, with effect from 31 March 2013. The final settlement will be paid in 2013/14 and the Association will therefore have no further liabilities in respect of this scheme.

## **HEART OF ENGLAND HOUSING ASSOCIATION LIMITED (TRADING AS ORBIT HEART OF ENGLAND)**

### **OPERATING AND FINANCIAL REVIEW**

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#### **Capital structure and Treasury Policy (continued)**

From 1 October 2007, the major loans of all Orbit Members at that date were re-routed through a group treasury company, Orbit Treasury Limited. The treasury vehicle has facilitated changes to the group structure and is supported by group cross-collateralisation. The benefits include improved efficiencies in terms of both streamlined and efficient treasury procedures and strategy, as well as reduced average interest rates and reduced compliance work.

During the year funding of £100 million has been negotiated with PRICOA and is our first Private Placement deal. The funds will be secured against a portfolio of Group properties. This facility will assist in continuing the development programme agreed with the Homes & Communities Agency beyond 2016.

Orbit Board recognises that the fluctuations in Orbit's debt requirement arising from sales and new developments in particular make it important to regularly review its treasury policy. The treasury function operates within a framework of clearly defined Board approved policies, procedures and delegated authorities. The fundamental principle underlying the Group's approach is to treat treasury activities as a means of controlling risk rather than for profit generation. The Association has Rules that allow the use of derivatives and the relevant accounting policies are included in note 1 to the Financial Statements.

The treasury policy adopted by the Board requires the Association to:

- only use institutions or investment instruments with higher credit ratings;
- limit exposure to individual institutions when investing;
- limit sensitivity to market fluctuations by adopting a mix of fixed and floating interest rates;
- limit the use of third party derivatives;
- limit refinancing risk by means of a good spread of debt repayment terms.

The treasury policy adopted by Orbit Group Limited is an Orbit-wide policy and is enacted through Orbit Treasury Limited.

#### **Cash flow and liquidity**

The cash inflow from operating activities during the year was £32.8 million (2012: £28.6 million).

The principal sources of both operating 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 the stock rationalisation and void sale programmes.

#### **Going concern**

After making enquiries the Board has a reasonable expectation that 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.

#### **On behalf of the Orbit Heart of England Board**

**Fran Beckett**  
**Chair**  
**5 September 2013**

# HEART OF ENGLAND HOUSING ASSOCIATION LIMITED (TRADING AS ORBIT HEART OF ENGLAND)

## HOUSING ASSOCIATION GOVERNANCE

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### Governance

Heart of England Housing Association Limited (Orbit Heart of England) is a member of the Orbit Group and has operated as a subsidiary of the Parent, Orbit Group Limited (OGL) since 1 April 2008. It is a not-for-profit organisation registered on 1 April 2008 as an Industrial and Provident Society and has exempt charitable status.

### NHF's 'Excellence in Governance' Code

The Board has adopted the National Housing Federation's 'Excellence in Governance' Code. We confirm that Orbit Heart of England complies with the Code of Governance in all material aspects. In those areas where we do not fully comply with the Code, we have provided a Statement to our Regulator.

The Board continues to work on its Resident Scrutiny and Engagement Structures in order to strengthen compliance with the Code.

### Board of Management

The Board Members of the Association during the year ended 31 March 2013 are listed on page 2.

The Board is responsible for governing the affairs of the Association and comprises a maximum of 12 and a minimum of 5 non-executive members, including co-optees, independent members and resident / leaseholder members. Thus the Board Members are drawn from a range of backgrounds bringing together professional, commercial and local experience. The Chair of Orbit Heart of England also sits on the Orbit Board, the Governing Board of OGL. All Members of the Orbit Board are paid in relation to their responsibilities on that Board. The Board meets at least 6 times a year.

Following year end the Board has been restructured into the Orbit Living Board, which will operate as a single shared board for Heart of England Housing Association Limited and Orbit South Housing Association Limited. It will be supported by an Operations Committee for each of the two associations. Orbit Living Board will operate from 1 April 2013 and members of this new Board are listed on page 2.

There is an additional governance structure for Property Matters, OHE's in house maintenance service. Property Matters Committee, which was set up to allow the Board to focus on strategic matters, was disbanded in January 2013. This has been replaced by the Property Matters Governance Oversight Group (PMGOG) which commenced meeting in October 2012 and will continue to review both the operational and financial performance throughout the financial year to March 2014.

A Resident Scrutiny Group was set up in 2011, and assumed responsibility for some performance challenge areas previously undertaken by the Service Board. The remaining responsibilities of the Service Board were reallocated to the Board.

The Association is represented on each of the following Orbit Committees of Orbit Group Limited: Orbit Audit Committee and Governance and Membership Committee.

The Board delegates the day to day management of the Association to the Executives and staff. Certain Executives and staff attend the Orbit Heart of England Board meetings. The Board and the Committees obtain external specialist advice from time to time as necessary.

### Resident Involvement

Orbit Heart of England is committed to involving residents in decisions affecting their homes. There is representation from residents on the Strategic Board, and an independent resident scrutiny function has been developed as part of the co-regulation agenda. This ensures that Orbit Heart of England meets regulatory requirements and good practice in terms of governance and resident involvement.

## **HEART OF ENGLAND HOUSING ASSOCIATION LIMITED (TRADING AS ORBIT HEART OF ENGLAND)**

### **HOUSING ASSOCIATION GOVERNANCE**

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#### **Resident Involvement (continued)**

While the Resident Scrutiny Group reviews areas of the business and reports directly to the Board, a wider resident involvement programme is also in place, providing residents with a range of opportunities to examine, challenge, feed back and get involved in shaping improvements within the organisation. Moment of Truth surveys have been extended, with feedback from residents being used to drive service improvements. In addition, the Orbit Complaints and Compliments procedure is used to capture customer feedback more effectively and apply the learning.

Orbit Heart of England has an agreed resident involvement strategy, with key objectives of: making involvement activities easier to take part in, encouraging a wider range of residents to take part, making sure involvement leads to better services and improving value for money. An annual review of the impact of resident involvement activities is conducted to evaluate the cost, quality and outcomes of resident involvement activities and ensure we are meeting the objectives of our strategy. The annual report to customers summarises performance against the key regulatory standards.

#### **Performance Monitoring**

During the year the Board, Property Matters Committee and Property Matters Governance Oversight Group have monitored and reviewed key areas of performance for Orbit Heart of England.

#### **Housing Ombudsman Service**

The Ombudsman service dealt with one case during the year. The Ombudsman did not uphold this complaint.

#### **Responsibility for the System of Internal Control**

The Orbit Heart of England Board has responsibility to review the internal control environment within their businesses and for establishing and maintaining the whole system of internal control and for reviewing its effectiveness.

#### **Scope of Assurance**

The Board recognises that no system of internal control can provide absolute assurance or eliminate all risk. The system of internal control is designed to manage risk and to provide reasonable assurance that the key business objectives and expected outcomes will be achieved. It also exists to give reasonable assurance about the preparation and reliability of financial and operational information and the safeguarding of the assets and interests of Orbit Heart of England.

#### **Orbit Assurance Framework**

The information pertaining to the effectiveness of the control environment comes from a number of sources from across Orbit.

At a high level, the assurance framework brings together information from all significant parts of Orbit's business, including the Subsidiary Associations. The framework comprises of different sources of assurance, the more significant ones being the Internal Audit Team, the Orbit Audit Committee, External Audit and the Executive Team (ET).

In addition, a major component of this assessment is the Internal Regulatory Framework (IRF). Orbit has an IRF process as a means to internally regulate itself. The IRF process is split into three stages; desktop review, visits to boards and reporting. The IRF broadly covers an assessment of financial viability, governance and performance. For 2012/13 the IRF process involved a follow up of actions previously agreed. The findings from this are reported to the Orbit Board.

The Sources of Assurance are briefly outlined below:

# HEART OF ENGLAND HOUSING ASSOCIATION LIMITED (TRADING AS ORBIT HEART OF ENGLAND)

## HOUSING ASSOCIATION GOVERNANCE

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### Orbit Assurance Framework (continued)

#### Orbit Audit Team

An Internal Audit Plan approved by the Executive Team and the Orbit Audit Committee is in place and monitored by the Executive Team and Orbit Audit Committee.

This includes the provision of 'specialist audits' using experts in areas such as Treasury and IT audit. The plan covers financial and non financial areas and the Orbit Audit Team provides independent assurances in all of the significant areas of Orbit's business.

Formal procedures have been established for instituting appropriate action to correct weaknesses identified from these reports. Additionally, as part of each audit review, the Orbit Audit Team follow up the previous year's recommendations and the extent to which these have been implemented and these form part of the Audit Report.

#### Orbit Audit Committee

The Orbit Audit Committee reviews reports from management, internal auditors and external auditors to provide reasonable assurance that control procedures are being followed.

#### Governance

The Orbit Board retains responsibility for a defined range of issues covering strategic, operational, financial and compliance issues including treasury strategy and new investment projects. The Orbit Board also regularly reviews Key Performance Indicators to assess the progress towards the achievement of key business objectives, targets and outcomes.

#### Internal Regulatory Framework (IRF)

In respect of Operating Associations, the Orbit Board also confirms that as part of the IRF the relevant Managing Director reported their Internal Controls Assurance within their IRF Report. The Managing Director, Orbit Services presented a similar report on behalf of the Group to the August 2012 Orbit Audit Committee within the IRF report.

In addition the Executive Team (ET) forms a key part in the governance process. It is also confirmed that all Boards and the ET met on a regular basis to discuss and conduct their own individual affairs during 2012/13 and the business has been formally documented in minutes of the meetings.

#### Risk Management

Orbit has a Risk Management Strategy & Framework, which is based on good practice. Given the current and future operating environments, this framework is currently under review and will be revised as appropriate by August 2013.

The control environment to manage risks is continually evaluated and monitored by Orbit Audit Committee on behalf of the Orbit Board. Orbit Audit Committee monitors the implementation of the Orbit Strategy and plan for Risk Management.

The overall responsibility for risk management across Orbit remains with the Orbit Board. The subsidiaries are required to implement the Orbit framework for risk management and provide reports to their respective Boards.

The adequacy of this implementation and reporting is monitored by the Orbit Audit Committee.

The Orbit Board confirms that Orbit's Strategic Risk map is reviewed by the ET and Orbit Board on a regular basis throughout the year.

The 2012/13 risk map has been formulated and takes account of the changed operating environment, Government policy and Orbit's ambitions.

# HEART OF ENGLAND HOUSING ASSOCIATION LIMITED (TRADING AS ORBIT HEART OF ENGLAND)

## HOUSING ASSOCIATION GOVERNANCE

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### Culture

Orbit recognises that the culture of an organisation is of significant importance to an effective control environment. Consequently over the last few years, Orbit has invested significantly into staff and the development of managers in their leadership and management skills. The development has been centred on the Orbit vision and more importantly the values, which include excellence, integrity and honesty. In addition, a number of measures are in place to instil and encourage a suitable culture of effective internal control.

These mechanisms include the following:

- Orbit has adopted the NHF Excellence in Governance Code 2010 and new policies around probity to replace Schedule 1 of the Housing Act.
- Orbit Standing Orders, which include appropriate delegations of authority, signatories and mandates.
- Annual appraisal procedures have been established and appropriate training and development opportunities are offered to all staff to maintain standards of performance.
- Forecasts and budgets are prepared which allow the Orbit Board, Operating Association Boards and management to monitor the key business risks and financial objectives.
- Management accounts are prepared to provide relevant and up-to-date financial and other information. Significant variances from budgets are investigated and reported.
- Relevant policies and procedures cover the range of activity within Orbit from Finance, IT and HR through to housing-related functions.

### Fraud

Orbit's approach on fraud is reflected in an approved Policy and Fraud Response Plan. Relevant cases are reported to the Regulator. The Orbit Standing Orders outline a policy on responding to suspected fraud and corruption. A fraud register is maintained and reviewed regularly by the Orbit Audit Committee and reported to the Orbit Board.

### Board's Conclusion

The Board has received the Annual Report on Internal Controls Assurance (incorporated as part of the IRF Report) and has conducted its annual review of the effectiveness of the system of internal control. In addition, the Board has monitored and considered the outcomes arising as a consequence of the Association's Risk Management process and the corresponding reports from officers on the associated control environment.

The Board confirms that the process for identifying, evaluating and managing significant risks is on going and has been in place throughout the year under review, up to the date of the annual report, and is regularly reviewed by the Board. There is sufficient evidence to confirm that adequate systems of internal control existed and operated throughout the year. Although no fundamental weaknesses were identified which required disclosure in the financial statements, the Board acknowledges improvements needed in the performance of its repairs maintenance business and is monitoring this closely during 2013/14.

**On behalf of the Orbit Heart of England Board**

**Fran Beckett**  
**Chair**  
**5 September 2013**

# HEART OF ENGLAND HOUSING ASSOCIATION LIMITED (TRADING AS ORBIT HEART OF ENGLAND)

## REPORT OF THE BOARD

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The Board present their report and audited financial statements for the year ended 31 March 2013.

### **The Association**

The Association is a not-for-profit organisation with exempt charitable status and is administered by the Orbit Heart of England Board. The Association operates in the Midlands.

The Association manages a number of housing schemes providing accommodation for rent. At 31 March 2013 it owned housing properties with a depreciated historic cost of £617.9 million (2012: £607.4 million). The Managing Director and Secretary are employed by Orbit Group Limited. During the year a range of services were provided by the parent body Orbit Group Limited, as set out in the Intra-Group Agreement and Customer Supplier Agreements. The Association also had service agreements with other members of Orbit in respect of delivery of housing management related services.

### **Principal Activities**

The principal activity of the Association is to provide quality affordable homes and effective support services, all designed to meet customers' needs and to help build sustainable communities. An operating and financial review of the year's activities appears on pages 4 to 13.

### **Board Members and Executive Officers**

The present Board Members together with the dates of any changes are set out on page 2. All of the Board Members served throughout the year except as otherwise shown. All Members of the Board are paid in relation to their responsibilities for the Board (note 6). Payment has been made since OHE was formed in April 2008.

The Executive Officers hold no interest in the Association's shares and have no legal status as directors although they act as executives within the authority delegated by the Board.

### **Members of Staff**

The Group's ambition is to be considered as employer of choice within and outside the sector, an organisation that is seen to be a great place to work, where employees are supported to go the extra mile whilst ensuring we achieve performance targets following behaviours aligned to our values.

Our approach is through the Orbit People Strategy, implemented by the People Directorate in conjunction with the rest of the organisation. The strategy reflects our commitment to opportunities for development, talent management, learning from others. We have a commitment to consider applications from people with disabilities and carry the two ticks award for supporting colleagues who have a disability.

We also provide support to colleagues that are LGBT (Lesbian, Gay, Bisexual or Transgender) and work to ensure that Equality and Diversity is genuinely embedded throughout all colleague and resident activities.

The Orbit Academy is the focal point for learning and development within Orbit and operates as a 'Centre of Excellence' for both staff and residents helping to achieve our aim of Building Communities. We will ensure that employees have the skills, knowledge and motivation to deliver great services for our customers in line with our 'customer first' approach and that we have confident, capable people managers who are able to work together to deliver results. Various recognition awards for staff are in place including the 'Extra Mile' awards and Orbit Group wide Customer First Awards. We continue to train and develop our people by providing opportunities for in-house training and conferences.

We have a strong focus on providing opportunities for employment and employability skills, a large number of apprenticeships and graduates are in place, providing opportunities and experience for people of all ages in our communities as we continue to tackle the worklessness in the areas that we operate.

We have enhanced our recruitment process by the launch of an on-line e-Recruitment system to improve and streamline the recruitment process for both applicants and recruiting managers. This increases visibility and reduces expenditure on recruitment. We are also introducing unique on-boarding webpages for each new starter holding their personal induction training schedules and key strategic messages.

## **HEART OF ENGLAND HOUSING ASSOCIATION LIMITED (TRADING AS ORBIT HEART OF ENGLAND)**

### **REPORT OF THE BOARD**

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#### **Members of Staff (Continued)**

We have in place leadership and management standards, a competency framework and a performance management framework, ensuring that every member of staff understands their role in achieving Orbit's ambitions. The Leadership and Management Development Programmes for the Executive Team, the Leadership Team and senior and first line managers continue to be both popular and successful, and form part of our approach to developing our potential and growing our leaders.

We now offer a tailored succession planning and talent management programme for non managers which has been very well received by both the commissioning senior managers and attendees. We continue to work closely with 'Your Orbit', our staff forum, to enhance their strategic input across the organisation.

We have also reviewed and enhanced our benefits offer to incorporate total reward statements and a range of flexible benefits offered via an online portal.

#### **Creditors Payment Policy**

Orbit's current policy concerning the payment of its trade creditors is to:

- Settle the terms of payment with those suppliers when agreeing the terms of each transaction;
- Ensure that the suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
- Pay in accordance with contractual and other legal obligations

#### **Health and Safety**

The Board are committed to the provision of high standards of health and safety and recognise their legal and moral duty to protect the health, safety and welfare of all employees, residents, service users and others who could be affected by Orbit's operations. Orbit's goal to build communities is linked to a commitment to ensure the safety and health of all those involved in our work or living or working in our properties or communities.

Orbit provide adequate resources in order to develop and maintain policies and procedures, facilitating a safe and healthy workplace and an effective Health and Safety culture that achieves adequate control over risk in order to minimise injury and loss. This includes providing members of staff with health and safety training and development opportunities.

#### **Donations**

During the year the Association made charitable donations to Orbit Group Limited of £4,728k (2012: £697k) to contribute to a reserve to be used for future development schemes and the employment costs of apprentices.

#### **Statement of the responsibilities of the Board**

The board is responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

The Friendly and Industrial and Provident Societies Act 1968 and registered social housing legislation require the board to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Association and of the surplus or deficit 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;

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
(TRADING AS ORBIT HEART OF ENGLAND)**

**REPORT OF THE BOARD**

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**Statement of the responsibilities of the Board (Continued)**

- state whether applicable accounting standards 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 accounting records which disclose with reasonable accuracy at any time the financial position of the Association and to enable it to ensure that the financial statements comply with the Friendly and Industrial and Provident Societies Act 1968, the Housing and Regeneration Act 2008 and the Accounting Direction for Social Housing in England from April 2012. It has general responsibility for taking reasonable steps to safeguard the assets of the Association and to prevent and detect fraud and other irregularities.

The Orbit Group Limited board is responsible for the maintenance and integrity of the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Disclosure of information to auditors**

The Directors who held office at the date of approval of the financial statements confirm that, so far as they are each aware, there is no relevant audit information of which the Association's auditors are unaware; and each Director has taken all the steps that he / she ought to have taken as a Director to make himself / herself aware of any relevant audit information and to establish that the Association's auditors are aware of that information.

**Annual General Meeting**

The annual general meeting will be held on 5 September 2013 at Lion Court Conference Centre, 25 Procter Street, Holborn, London WC1V 6NY.

**Independent Auditors**

A resolution to re-appoint PricewaterhouseCoopers LLP as the Association's auditors for external audit services will be proposed at the Annual General Meeting.

**The report of the Board was approved on 5 September 2013 and signed on its behalf by:**

**Vivien Knibbs  
Secretary**

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
(TRADING AS ORBIT HEART OF ENGLAND)**

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HEART OF ENGLAND HOUSING ASSOCIATION LIMITED (TRADING AS ORBIT HEART OF ENGLAND)**

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We have audited the financial statements (the "financial statements") of Heart of England Housing Association Limited for the year ended 31 March 2013 which comprise the Income and Expenditure Account, the Statement of Total Recognised Surpluses and Deficits, the Balance Sheet and the Cash flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

**Respective responsibilities of the Board and auditors**

As explained more fully in the Statement of the responsibilities of the Board, the 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 (ISAs) (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the association's members as a body in accordance with Section 9(1) of the Friendly and Industrial and Provident Societies Act 1968 and the Housing and Regeneration Act 2008 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the association's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the board; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Heart of England Housing Association Limited Annual Report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the association's affairs as at 31 March 2013 and of its income and expenditure and cash flows for the year then ended; and
- have been properly prepared in accordance with the Industrial and Provident Societies Acts, 1965 to 2002, the Housing and Regeneration Act 2008 and the Accounting Direction for Social Housing in England 2012 .

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
(TRADING AS ORBIT HEART OF ENGLAND)**

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HEART OF ENGLAND HOUSING  
ASSOCIATION LIMITED (TRADING AS ORBIT HEART OF ENGLAND)**

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

We have nothing to report in respect of the following matters where the Industrial and Provident Societies Acts, 1965 to 2002 require us to report to you if, in our opinion:

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

Richard Bacon (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Birmingham

Date:

- The financial statements of Heart of England Housing Association Limited are published on the Orbit Group Limited website [www.orbit.org.uk](http://www.orbit.org.uk). The maintenance and integrity of the Orbit Group Limited website is the responsibility of the Orbit Board; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
(TRADING AS ORBIT HEART OF ENGLAND)**

**INCOME AND EXPENDITURE ACCOUNT  
For the Year Ended 31 March 2013**

	NOTES	2013 £'000	2012 £'000
Turnover	2/3	73,701	69,239
Operating Costs	2/3	<u>(50,352)</u>	<u>(48,498)</u>
Operating Surplus	4	23,349	20,741
Profit on Sale of Fixed Assets	5	14,109	9,756
Surplus on Ordinary Activities before Interest		<u>37,458</u>	<u>30,497</u>
Interest Receivable and Other Income	8	8	11
Interest Payable and Similar Charges	9	(15,008)	(15,673)
Financing cost	10	<u>(151)</u>	<u>(71)</u>
Surplus on Ordinary Activities before Donations and Taxation		22,307	14,764
Donation Payable	4	(4,728)	(697)
<b>Surplus on Ordinary Activities before Taxation</b>		<u><b>17,579</b></u>	<u><b>14,067</b></u>
Tax on Surplus on Ordinary Activities	11	-	-
Surplus for the year		17,579	14,067
Revenue Reserves brought forward	24	19,287	7,652
Transfer to designated reserves	23/24	(140)	(1,031)
Actuarial losses taken to reserves	10	<u>(850)</u>	<u>(1,401)</u>
<b>Revenue Reserves at 31 March</b>	24	<u><b>35,876</b></u>	<u><b>19,287</b></u>

All amounts derive from continuing operations. There is no material difference between the surplus on ordinary activities before taxation and the surplus for the financial year stated above and their historical costs equivalents.

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
(TRADING AS ORBIT HEART OF ENGLAND)**

**STATEMENT OF TOTAL RECOGNISED SURPLUSES AND DEFICITS  
For the Year Ended 31 March 2013**

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	NOTES	2013 £'000	2012 £'000
<b>Surplus for the Financial Year</b>		<b>17,579</b>	<b>14,067</b>
Actual return less expected return on pension scheme assets	10	989	(843)
Losses arising on pension scheme liabilities	10	<u>(1,839)</u>	<u>(558)</u>
<b>Total Surplus Recognised</b>		<b><u>16,729</u></b>	<b><u>12,666</u></b>

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
(TRADING AS ORBIT HEART OF ENGLAND)**

**BALANCE SHEET  
As at 31 March 2013**

	NOTES	2013		2012	
		£'000	£'000	£'000	£'000
<b>Fixed Assets</b>					
Housing Properties at Cost	12	617,874		607,392	
Social Housing Grant	12	(243,950)		(242,208)	
Other Capital Grants	12	(14,702)		(14,702)	
			359,222		350,482
Fixed Asset Investments	14		800		800
Other Fixed Assets	13		2,992		3,259
			<u>363,014</u>		<u>354,541</u>
<b>Current Assets</b>					
Stocks	15	139		64	
Debtors	16	4,094		5,803	
Investments	17	104		-	
Cash at Bank and in Hand		903		803	
			<u>5,240</u>	<u>6,670</u>	
<b>Creditors: Amounts falling due within one year</b>	18	<u>(21,650)</u>		<u>(22,289)</u>	
<b>NET CURRENT LIABILITIES</b>			(16,410)		(15,619)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			<u><b>346,604</b></u>		<u><b>338,922</b></u>
<b>Creditors: Amounts falling due after more than one year</b>	20		302,073		312,159
<b>Pension Liability</b>	10		5,709		4,670
<b>Capital and Reserves</b>					
Designated Reserves	23	2,946		2,806	
Revenue Reserve	24	35,876		19,287	
			<u>38,822</u>	<u>22,093</u>	
			<u><b>346,604</b></u>	<u><b>338,922</b></u>	

The financial statements on pages 23 to 52 were approved by the Board on 5 September 2013 and signed on its behalf by:

.....  
**Fran Beckett**  
CHAIR

.....  
**BOARD MEMBER**

.....  
**Vivien Knibbs**  
SECRETAR

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
(TRADING AS ORBIT HEART OF ENGLAND)**

**CASH FLOW STATEMENT**

**For the Year Ended 31 March 2013**

	<b>2013</b>		<b>2012</b>	
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES (Note 27)</b>		32,832		28,645
<b>Returns on Investments and Servicing of Finance</b>				
Interest Received	8		12	
Interest Paid	(16,574)		(13,959)	
<b>NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>		(16,566)		(13,947)
<b>Donation</b>	(4,728)		(697)	
<b>NET CASH OUTFLOW FROM DONATION</b>		(4,728)		(697)
<b>Capital Expenditure and Financial Investment</b>				
Acquisition and construction of housing properties	(30,716)		(42,927)	
Sale of housing properties	21,321		12,907	
Grants received	9,991		13,205	
Purchase of other fixed assets	(323)		(522)	
Sale of other fixed assets	7		-	
<b>NET CASH INFLOW / (OUTFLOW) FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT ACTIVITIES</b>		280		(17,337)
<b>NET CASH INFLOW / (OUTFLOW) BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING</b>		11,818		(3,336)
<b>(i) Liquid Resources (Note 28)</b>				
(Increase) / decrease in bank deposits	(104)		1,753	
<b>ii) Financing (Note 28)</b>				
Loans Received	42,886		43,136	
Loan redemption repayments	(54,500)		(41,750)	
	(11,614)		1,386	
<b>NET CASH OUTFLOW / (INFLOW) FROM MANAGEMENT OF LIQUID RESOURCES AND FINANCING</b>		(11,718)		3,139
<b>INCREASE / (DECREASE) IN CASH AT BANK AND IN HAND (Note 28/29)</b>		<b>100</b>		<b>(197)</b>

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
(TRADING AS ORBIT HEART OF ENGLAND)**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 March 2013**

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**1 PRINCIPAL ACCOUNTING POLICIES**

**Legal Status**

Heart of England Housing Association Limited is incorporated under the Industrial and Provident Societies Act 1965 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 & Regeneration Act 2008. The Parent Body from the beginning of the year was Orbit Group Limited.

**Basis of Accounting**

The financial statements are prepared on the going concern basis, under the historical cost basis of accounting, in accordance with applicable Accounting Standards and Statements of Recommended Practice of the United Kingdom. The financial statements comply with the Industrial and Provident Societies Acts 1965 to 2002, the Accounting Direction for Private Registered Providers of Social Housing April 2012, and the Statement of Recommended Practice (SORP) published by the National Housing Federation in 2010 "Accounting for Registered Social Landlords". The principal accounting policies, which have been applied consistently throughout the year except for the changes that arise from the adoption of the new SORP, are set out below.

The Statement of Recommended Practice for Registered Social Landlords (2010) was mandatory for all accounting periods beginning on or after 1 April 2011. The key change related to our accounting policy for housing properties and the implementation of component accounting. The revised accounting policies and the impact of the 2010 SORP are described in notes 1 and 34 (respectively) to the financial statements.

**Group Services**

The Association has taken advantage of the exemptions available under FRS8 (Related Party Transactions) 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 Income and Expenditure Account in the year in which they are incurred.

**Turnover**

Turnover represents rental income receivable, grants from local authorities and the Homes and Communities Agency (HCA), income from shared ownership first tranche sales and other income, all of which arise in the UK.

**Revenue Recognition**

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

**Operating Costs**

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

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
(TRADING AS ORBIT HEART OF ENGLAND)**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 March 2013**

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**1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**

**Housing properties**

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

<b>Housing property components</b>	<b>Depreciation life</b>
Kitchens	20 years
Bathrooms	30 years
Windows & Doors	30 years
Boilers	15 years
PV panels	25 years
Roof	60 years
Structure (rehabilitated)	60 years
Structure (new stock)	100 years

Freehold land and associated grant is not depreciated.

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

Donated land is included in cost at its valuation on donation, with the donation treated as a capital grant.

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.

The change in accounting policy through the implementation of component accounting has resulted in a material prior year adjustment. The effect of the change is shown in note 35.

**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 Income and Expenditure Account are matched against those costs as part of turnover.

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

**Capitalisation of Interest and Administration Costs**

Interest on loans financing development has been capitalised. Administration costs relating to development activities are capitalised only to the extent that they are incremental to the development process and directly attributable to bringing the property into their intended use.

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
(TRADING AS ORBIT HEART OF ENGLAND)**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 March 2013**

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**1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**

**Other tangible fixed assets and depreciation**

Other tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is charged on a straight line basis over the expected economic useful lives of the assets at the following annual rates:

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

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 Income and Expenditure Account using the annuity method. Rentals paid under operating leases are charged to the Income and Expenditure Account as incurred.

**Pension Costs**

The Association recognises two multi-employer defined benefit schemes for staff, the assets of which are held in separately administered funds under the Social Housing Pension Scheme (SHPS) operated by the Pensions Trust and the Local Government Superannuation Scheme operated by Warwickshire County Council. The requirements of FRS17 Retirement Benefits are fully reflected in the financial statements and associated notes. Note 10 provides a summary of the pension valuation report for the Local Government Superannuation Scheme, 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 and are included as part of staff costs. Past service costs are recognised immediately in the Income and Expenditure 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 total recognised gains and losses.

The Parent Body also participates in the Social Housing Pension Scheme and offers a Stakeholder pension scheme; further details of both can be found in the Orbit Group Limited financial statements. The cost of providing retirement pensions and related benefits is charged to management expenses. The disclosures in the financial statements follow the requirements of FRS17.

**Impairment**

Reviews for impairment of housing properties are carried out on a twice-yearly basis and any impairment in an income-generating unit is recognised by a charge to the Income and Expenditure Account. A scheme is considered to be an income-generating unit. 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 is written back on disposal.

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
(TRADING AS ORBIT HEART OF ENGLAND)**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 March 2013**

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**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 Income and Expenditure Account and an adjustment is made to write back depreciation charged in prior years.

Under the terms of the original transfer agreement, between Stratford on Avon District Council and South Warwickshire Housing Association (now Orbit Heart of England) proceeds from right to buy sales within those originally transferred properties are shared with Stratford on Avon District Council. The share payable to the Council is treated as a cost of sale. Proceeds from other sales are retained by Orbit Heart of England.

**Designated Reserves**

The Association designates those reserves that have been set aside for uses that prevent them, in the judgement of the Board, from being regarded as part of the free reserves of the Association. The Association has two designated reserves as follows:-

***Renewal Reserve***

The Association designates reserves relating to the renewal of furniture and equipment used communally within rented schemes. Annual charges are made, based on a percentage of the original cost of the furniture and equipment. Actual expenditure is charged to the Income and Expenditure Account with the transfer to/from the reserve being the difference between expenditure and the charges due. Funds held on behalf of leaseholders are shown under leaseholder's maintenance provision in creditors due after more than one year.

***Community Energy Savings Programme***

This designated reserve has been set aside to support investment in around 300 homes in the Coventry area. The works to individual homes will be determined by a stock condition survey and include insulation, new heating systems and window and door upgrades. The project is now complete.

***Community Investment Fund***

This designated reserve has been set aside to support the commitment made to a number of community investment projects which will continue into the following financial year.

**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 Income and Expenditure Account in the year in which the work is undertaken. No depreciation charge is made during the year in which a property comes into management, nor in the year of sale.

**Disposal Proceeds Fund**

Voluntary Purchase Grant net of disposal proceeds is credited to this fund which appears as a creditor until spent.

**Recycling of Capital Grant**

Where Social Housing Grant (SHG) is recycled, the SHG is credited to a fund that appears as a creditor until spent.

**Value Added Tax**

The Association is party to a Group Registration for VAT. All amounts disclosed in the financial statements are inclusive of VAT.

**Taxation**

The Association has adopted Charitable Rules and it is therefore believed that there will be no liability to taxation.

**Loan Finance Issue Costs**

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

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
(TRADING AS ORBIT HEART OF ENGLAND)**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 March 2013**

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**1 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**

**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 Income and Expenditure Account.

**Property Managed by Agents**

Where the Association carries the majority of the financial risk on property managed by agents, all the income and expenditure arising from the property is included in the Income and Expenditure Account. Where the agency carries the majority of the financial risk, the Income and Expenditure Account 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 Income and Expenditure Account.

**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 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 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.

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
(TRADING AS ORBIT HEART OF ENGLAND)**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 March 2013**

**2 TURNOVER, COST OF SALES, OPERATING COSTS AND OPERATING SURPLUS**

	<b>2013</b>		
	<b>Turnover £'000</b>	<b>Operating Costs £'000</b>	<b>Operating Surplus/ (Deficit) £'000</b>
<b>SOCIAL HOUSING LETTINGS (Note 3a)</b>	68,211	(43,687)	24,524
<b>Other Social Housing Activities</b>			
Management Services	132	(88)	44
Other – Service to Group members	584	(1,207)	(623)
Home Ownership Services	956	(1,088)	(132)
Supporting People Contract Income (Block Gross)	1,366	(1,556)	(190)
Supporting People Contract Income (Block Subsidy)	561	(898)	(337)
Other	673	(331)	342
	<u>4,272</u>	<u>(5,168)</u>	<u>(896)</u>
<b>Non-Social Housing Activities (Note 3b)</b>			
Other	1,218	(1,497)	(279)
	<u><b>73,701</b></u>	<u><b>(50,352)</b></u>	<u><b>23,349</b></u>
	<b>2012</b>		
	<b>Turnover £'000</b>	<b>Operating Costs £'000</b>	<b>Operating Surplus/ (Deficit) £'000</b>
<b>SOCIAL HOUSING LETTINGS (Note 3a)</b>	63,799	(42,264)	21,535
<b>Other Social Housing Activities</b>			
Management Services	123	(55)	68
Other – Service to Group members	655	(790)	(135)
Home Ownership Services	530	(635)	(105)
Supporting People Contract Income (Block Gross)	1,125	(1,201)	(76)
Supporting People Contract Income (Block Subsidy)	777	(1,084)	(307)
LCHO First Tranche Sales	239	(427)	(188)
Other	688	(674)	14
	<u>4,137</u>	<u>(4,866)</u>	<u>(729)</u>
<b>Non-Social Housing Activities (Note 3b)</b>			
Other	1,303	(1,368)	(65)
	<u><b>69,239</b></u>	<u><b>(48,498)</b></u>	<u><b>20,741</b></u>

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
(TRADING AS ORBIT HEART OF ENGLAND)**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 March 2013**

**3a INCOME AND EXPENDITURE FROM SOCIAL HOUSING LETTINGS**

	<b>General Needs Housing £'000</b>	<b>Supported Housing £'000</b>	<b>2013 Total £'000</b>	<b>2012 Total £'000</b>
<b>INCOME</b>				
Rents receivable net of identifiable service charges	59,442	5,973	65,415	60,699
Service Charges	1,702	1,969	3,671	3,970
<b>Gross Rent Receivable</b>	<u>61,144</u>	<u>7,942</u>	<u>69,086</u>	<u>64,669</u>
Less: Rent losses from voids	(629)	(246)	(875)	(870)
Net rents receivable	<u>60,515</u>	<u>7,696</u>	<u>68,211</u>	<u>63,799</u>
Other Income	-	-	-	-
<b>TOTAL INCOME</b>	<u>60,515</u>	<u>7,696</u>	<u>68,211</u>	<u>63,799</u>
<b>EXPENDITURE</b>				
Services	(2,285)	(1,754)	(4,039)	(3,919)
Management	(7,504)	(1,347)	(8,851)	(8,757)
Routine Maintenance	(13,280)	(1,317)	(14,597)	(15,850)
Planned Maintenance	(6,952)	(814)	(7,766)	(6,362)
Rent Losses from Bad Debts	(427)	(41)	(468)	(396)
Depreciation of Housing Properties	(7,218)	(555)	(7,773)	(6,927)
Impairment of Housing Properties (Write back on provision)	-	-	-	73
Other costs	(193)	-	(193)	(126)
<b>TOTAL EXPENDITURE</b>	<u>(37,859)</u>	<u>(5,828)</u>	<u>(43,687)</u>	<u>(42,264)</u>
<b>OPERATING SURPLUS ON LETTINGS</b>	<u>22,656</u>	<u>1,868</u>	<u>24,524</u>	<u>21,535</u>

Depreciation on Housing Properties includes £733k written off due to components being replaced earlier than the expected life of those components (2012: £516k)

**3b TURNOVER FROM NON-SOCIAL ACTIVITIES**

	<b>2013 £'000</b>	<b>2012 £'000</b>
<b>Lettings:</b>		
Commercial Premises	231	212
Other	987	1,091
	<u>1,218</u>	<u>1,303</u>

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
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**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 March 2013**

**4 OPERATING SURPLUS**

	<b>2013 £'000</b>	<b>2012 £'000</b>
<b>Operating Surplus is Stated after Charging / (Crediting)</b>		
<b>On Fixed Assets Other than Housing Properties:</b>		
Depreciation (owned assets)	389	252
Depreciation (leased assets)	174	166
<b>On Housing Properties:</b>		
Depreciation	7,040	6,411
Impairment Provision / (credit)	-	(73)
<b>Auditors' Remuneration:</b>		
In their capacity as Auditors	25	25
In respect of other services	8	-
<b>Operating leases:</b>		
Plant and Machinery	53	54
Other	513	515

A donation of £4,728k (2012: £697k) was made to Orbit Group Limited in accordance with the Orbit wide agreement to support development funding. Auditors' Remuneration and Other Auditors' Remuneration are shown exclusive of VAT in accordance with the Accounting Direction for Private Registered Providers of Social Housing April 2012.

**5 PROFIT ON SALE OF FIXED ASSETS**

	<b>2013 £'000</b>	<b>2012 £'000</b>
<b>Sale of Housing properties</b>		
Proceeds from disposal	22,111	12,939
Cost of sales	<u>(7,999)</u>	<u>(3,180)</u>
Profit on sale of housing properties	14,112	9,759
<b>Sale of fixed assets</b>		
Deficit on disposal fixed assets	<u>(3)</u>	<u>(3)</u>
<b>Profit on sale of fixed assets</b>	<u>14,109</u>	<u>9,756</u>

Right to Buy clawback relates to arrangements between Stratford-on-Avon District Council and Orbit Heart of England, whereby the proceeds from sales of the original housing properties made under the Preserved Right to Buy legislation are shared. The method of sharing is set out in a pre-agreed formula. There were 7 sales under this agreement in 2012/13 (2012: nil).

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
(TRADING AS ORBIT HEART OF ENGLAND)**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 March 2013**

**6 DIRECTORS' AND EXECUTIVE OFFICERS' EMOLUMENTS**

The Directors of the Association are its Board Members. Certain Board Members are tenants/leaseholders of the Association or the Group. Their tenancies/leases are on normal commercial terms and the Members cannot use their position to their advantage. Payments made to Board Members are shown below. Expenses paid during the year to Board Members amounted to £4k (2012: £8k). Payments made to the Chair of Heart of England Housing Association Limited in his 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.

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

	<b>2013 £'000</b>	<b>2012 £'000</b>
Lindsay Dennish	4	4
Jacqui Dickinson	4	4
Denise Kelly	1	3
Michael Lawrence	4	4
Michael Robertson-Smith	4	4
Ian Tillotson	-	2
Gurmeet Viridi	-	3
Margaret Wellington	4	4
David Wilkinson	-	3
Valerie Williamson	4	4
Grant Richardson	1	-
	<u>26</u>	<u>35</u>

**7 STAFF COSTS**

Members of staff that work for Orbit Heart of England are contractually employed by either Orbit Heart of England or Orbit Group Limited. These financial statements show the emoluments of persons directly employed by the Association. Emoluments of other Senior Executives (including the Managing Director) and staff are disclosed in Orbit Group Limited financial statements.

The average monthly number of persons employed during the year was:

	<b>2013 Number</b>	<b>2012 Number</b>
Office Staff	23	73
Scheme Staff	10	48
Operatives	2	42
	<u>35</u>	<u>163</u>
Full-time	26	123
Part-time	9	40
	<u>35</u>	<u>163</u>

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
(TRADING AS ORBIT HEART OF ENGLAND)**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 March 2013**

**7 STAFF COSTS (CONTINUED)**

**Full time equivalents**

A full time equivalent would be 35 hours per week

	<b>2013 Number</b>	<b>2012 Number</b>
Office Staff	23	70
Scheme Staff	6	31
Operatives	2	45
	<u>31</u>	<u>146</u>
Full-time	26	127
Part-time	5	19
	<u>31</u>	<u>146</u>

**Staff costs for the Above**

	<b>2013 £'000</b>	<b>2012 £'000</b>
Wages and salaries	716	3,591
Social security costs	49	330
Other pension costs	152	218
	<u>917</u>	<u>4,139</u>

**Number employed at 31 March**

	<b>2013 Number</b>	<b>2012 Number</b>
Office Staff	23	24
Scheme Staff	9	11
Operatives	2	3
	<u>34</u>	<u>38</u>

The number of employees reduced during 2011/12 in line with Orbit Heart of England's aim that all employees, except LGPS members, will be employed by Orbit Group Limited.

**Senior staff emoluments**

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

	<b>2013 Number</b>	<b>2012 Number</b>
Over £70k	1	1
	<u>1</u>	<u>1</u>

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
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**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 March 2013**

**8 INTEREST RECEIVABLE AND OTHER INCOME**

	<b>2013 £'000</b>	<b>2012 £'000</b>
Interest Receivable from Unlisted Investments	<u>8</u>	<u>11</u>

**9 INTEREST PAYABLE AND SIMILAR CHARGES**

	<b>2013 £'000</b>	<b>2012 £'000</b>
<b>On Bank Loans, Overdrafts and Other Loans</b>		
Repayable within 5 years, not by instalments		
Repayable by instalments wholly or partly, in more than 5 years	12,625	13,760
Repayable, other than by instalments, in more than 5 years	1,550	1,550
Other Interest	<u>1,034</u>	<u>567</u>
	15,209	15,877
Capitalised Interest	(87)	(90)
Deferred Income Credit (See note 21b)	<u>(114)</u>	<u>(114)</u>
	<u><u>15,008</u></u>	<u><u>15,673</u></u>

**10 PENSIONS**

The Association recognises two multi-employer defined benefit schemes for staff, the assets of which are held in separately administered funds under the Local Government Superannuation Scheme operated by Warwickshire County Council and the Social Housing Pension Scheme (SHPS) operated by the Pensions Trust. The Association also offers a Stakeholder pension scheme.

During 2012/13 the Association made a decision to exit the Local Government Scheme operated by Warwickshire County Council, with effect from 31 March 2013. The final settlement will be paid in 2013/14 and the Association will therefore have no further liabilities in respect of this scheme

**A) Local Government (Warwickshire County Council) Scheme**

The latest actuarial valuation was at 31 March 2010 when the Scheme's assets were valued at £1,099 million. Employer contributions made by the Association to the scheme for the year were £153k (2012: £146k) in respect of ordinary contributions. The cost is assessed in accordance with advice from a qualified actuary. Employer contributions to the scheme of £nil (2012: £nil) were included in creditors and paid after the year end.

The following information in respect of the Warwickshire County Pension Fund is provided for Heart of England Housing Association Limited.

The Warwickshire County Council Scheme is a multi-employer defined benefit scheme. The full actuarial valuation carried out at 31 March 2010 was updated to 31 March 2013, using suitable approximate methods, by a qualified independent actuary.

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
(TRADING AS ORBIT HEART OF ENGLAND)**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 March 2013**

**10 PENSIONS (CONTINUED)**

The financial assumptions underlying the valuation were as follows

Per Annum	2013	2012
Pension Increase Rate	2.8%	2.5%
Salary Increase Rate	5.1%*	4.8%
Expected Return on Assets	5.2%	5.5%
Discount Rate	4.5%	4.8%
Retail Price Inflation (RPI)	3.2%	-
Consumer Prices Index (CPI)	2.4%	2.5%

\* Salary Increases are assumed to be 1% p.a. until 31 March 2015 reverting to the long term assumption shown thereafter

**Mortality**

Life expectancy is based on the SAPS year of birth tables with member category specific adjustments. Improvements are based on the CMI 2009 model methodology with a 1% p.a. long term trend. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	21.9 years	23.6 years
Future pensioners*	22.8 years	25.9 years

\* Figures assume members aged 45 as at the last formal valuation date.

**Historical Mortality**

Life expectancies for the prior year end are based on the SAPS tables. The allowance for future life expectancies is shown below:

Year end	Prospective pensioners	Pensioners
31 March 2012	Year of birth, CMI model methodology with a 1% pa long term trend	Year of birth, CMI model methodology with a 1% pa long term trend

Mortality loadings were applied to the SAPS tables based on membership class. The mortality assumptions are identical to those used in the previous accounting year.

**Commutation**

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 50% of the maximum tax-free limits for post-April 2008 service.

The Association's share of fair values of each class of assets held by the Fund as at 31 March and the expected rates of return for the ensuing year are set out the following table:

	Value at 31 March	
	2013	2012
	£000	£000
Equities	8,781	7,620
Bonds	2,165	2,039
Property	1,083	1,073
Cash/Liquidity	-	-
Total	<u>12,029</u>	<u>10,732</u>

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
(TRADING AS ORBIT HEART OF ENGLAND)**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 March 2013**

**10 PENSIONS (CONTINUED)**

**Expected Rates of Return at 31 March**

	<b>2013</b>	<b>2012</b>
Equities	5.8%	6.3%
Bonds	3.5%	3.9%
Property	3.9%	4.4%
Cash/Liquidity	3.0%	3.5%
Total	5.2%	5.7%

Under the Local Government Pension Scheme, it is not possible separately to identify each main class of assets with a particular member of the Scheme. The above assets as a whole are allocated to participating bodies on the consistent and reasonable basis. The actuary has amended the classification of assets and the fair values shown above have been amended to reflect this.

The Association's share of the net assets and liabilities of the Warwickshire County Council Fund is set out below:

	<b>2012 £000</b>	<b>2012 £000</b>
Share of assets in the Fund	12,029	10,732
Estimated liabilities in the Fund	<u>(17,738)</u>	<u>(15,402)</u>
Share of deficit in the Fund	<u>(5,709)</u>	<u>(4,670)</u>

Reconciliation of fair value of assets is shown below:

	<b>2013 £000</b>	<b>2012 £000</b>
Opening fair value of assets	10,732	11,184
Expected return on assets	583	711
Contributions from members	53	56
Contributions by employer	153	146
Actuarial gains / (losses)	989	(843)
Estimated benefits paid	<u>(481)</u>	<u>(522)</u>
Closing fair value of assets	<u>12,029</u>	<u>10,732</u>

Reconciliation of present value of scheme liabilities is shown below:

	<b>2013 £000</b>	<b>2012 £000</b>
Opening defined benefit obligation	15,402	14,366
Current service cost	191	162
Interest on obligation	734	782
Contributions by members	53	56
Actuarial losses	1,839	558
Estimated benefits paid	<u>(481)</u>	<u>(522)</u>
Closing defined benefit obligation	<u>17,738</u>	<u>15,402</u>

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
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**NOTES TO THE FINANCIAL STATEMENTS  
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**10 PENSIONS (CONTINUED)**

The movement in the net deficit of the Association for the year to 31 March is as follows:

	<b>2013 £000</b>	<b>2012 £000</b>
Net deficit at 1 April	(4,670)	(3,182)
<b>Movement in the year:</b>		
Operating charge - Current service cost	(191)	(162)
Contributions	153	146
<b>Finance Expense:</b>		
Expected return on Pension Fund assets	583	711
Interest on Pension scheme liabilities	(734)	(782)
<b>Total Finance Expense</b>	<u>(151)</u>	<u>(71)</u>
Actuarial loss	<u>(850)</u>	<u>(1,401)</u>
Net deficit at 31 March	<u><u>(5,709)</u></u>	<u><u>(4,670)</u></u>

**The actuarial loss is further analysed as follows:**

	<b>2013 £000</b>	<b>2012 £000</b>	<b>2011 £000</b>	<b>2010 £000</b>	<b>2009 £000</b>
Actuarial gain / (loss) on pension scheme assets	989	(843)	514	2,140	(2,481)
Experience losses arising on scheme liabilities	<u>(1,839)</u>	<u>(558)</u>	<u>913</u>	<u>(3,594)</u>	<u>2,844</u>
	<u><u>(850)</u></u>	<u><u>(1,401)</u></u>	<u><u>1,427</u></u>	<u><u>1,454</u></u>	<u><u>363</u></u>

**Reconciliation to the balance sheet at 31 March**

	<b>2013 £000</b>	<b>2012 £000</b>
<b>Net Assets</b>		
Net Assets excluding pension liability	44,531	26,763
Pension liability	<u>(5,709)</u>	<u>(4,670)</u>
Net Assets including pension liability	<u><u>38,822</u></u>	<u><u>22,093</u></u>
<b>Reserves</b>		
Income and expenditure reserve excluding pension liability	41,585	23,957
Pension liability	<u>(5,709)</u>	<u>(4,670)</u>
Income and expenditure reserve including pension liability	<u><u>35,876</u></u>	<u><u>19,287</u></u>

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
(TRADING AS ORBIT HEART OF ENGLAND)**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 March 2013**

**10 PENSIONS (CONTINUED)**

**History of experience gains and losses at end of year**

	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Difference between the expected and actual return on scheme assets:					
Amount £000	989	(843)	514	2,140	(2,481)
Percentage of scheme assets	8.2	(7.9)	4.6	21.0	(32.4)
Experience gains and losses arising on the scheme liabilities:					
Amount £000	(1,839)	(558)	913	(3,594)	2,844
Percentage of scheme liabilities	10.4	3.6	(6.4)	23.2	(25.3)
Total amount recognised gains and losses:					
Amount £000	(850)	(1,401)	1,427	(1,454)	363
Percentage of scheme liabilities	4.8	9.1	(9.9)	9.4	(3.2)

**B) Social Housing Pension Scheme – Defined Benefit Scheme**

Orbit participates in SHPS (the Scheme). The Scheme is funded and is contracted-out of the State Pension scheme.

It is not possible in the normal course of events to identify on a consistent and reasonable basis the share of underlying assets and liabilities belonging to individual participating employers. This is because the Scheme is a multi-employer scheme where the Scheme assets are co-mingled for investment purposes, and benefits are paid from total Scheme assets. Accordingly, due to the nature of the Scheme, the accounting charge for the period under FRS17 represents the employer contribution payable.

The Trustee commissions an actuarial valuation of the Scheme every three years. The main purpose of the valuation is to determine the financial position of the Scheme in order to address the level of future contributions required so that the Scheme can meet its pension obligations as they fall due.

The last formal valuation of the Scheme was performed as at 30 September 2008 by a professionally qualified Actuary using the Projected Unit Method. The market value of the Scheme's assets at the valuation date was £1,527 million. The valuation revealed a shortfall of assets compared with the value of liabilities of £663 million, equivalent to a past service funding level of 69.7%.

The Scheme Actuary has prepared an Actuarial Report that provides an approximate update on the funding position of the Scheme as at 30 September 2010. Such a report is required by legislation for years in which a full actuarial valuation is not carried out. The funding update revealed an increase in the assets of the Scheme to £1,985 million and indicated a reduction in the shortfall of assets compared to liabilities to approximately £497 million, equivalent to a past service funding level of 80%.

The Scheme's 30 September 2011 valuation is currently in progress and will be finalised by 31 December 2012. The results of the 2011 valuation will be included in next year's disclosure note.

Total employer contributions paid to the scheme for the year were £nil (2012: £8k). There were no outstanding or prepaid contributions at 31 March 2013.

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
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**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 March 2013**

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**10 PENSIONS (CONTINUED)**

**C) Social Housing Pension Scheme – Defined Contribution Scheme**

From 1 October 2010, Orbit has operated a defined contribution scheme with SHPS, which is open to existing and new members of staff. As at 31 March 2012, there were no active members of the Scheme employed by Orbit Heart of England. Employees who were members during the year either left Orbit or transferred to be employed by Orbit Group Limited before the year end.

Total employer contributions paid to the scheme for the year were £nil (2012: £8k). There were no outstanding or prepaid contributions at 31 March 2012. Employer contributions to the scheme of £nil (2012: £nil) were included in creditors and paid after the year end.

**D) Orbit Personal Pension Scheme**

Orbit operates a group wide personal pension scheme with Legal & General Assurance Society Limited, which is open to all existing and new members of staff. There were no Heart of England employee members at 31 March 2013. Employees who were members during the year either left Orbit or transferred to be employed by Orbit Group Limited before the year end.

Total employer contributions paid to the scheme for the year were £nil (2012: £17k). There were no outstanding or prepaid contributions at 31 March 2013.

**11 TAX ON SURPLUS ON ORDINARY ACTIVITIES**

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

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended 31 March 2013**

**12 HOUSING PROPERTIES**

	Housing Properties for Letting		Supported Housing		Shared Ownership	Non-Social Housing	Total £'000
	Complete £'000	In Development £'000	Complete £'000	In Development £'000	Complete £'000	£'000	
<b>COST</b>							
At 1 April 2012	603,278	17,773	33,279	-	2,421	1,318	658,069
Additions	8,673	21,467	123	-	102	-	30,365
Transfer on Completion	16,853	(16,853)	-	-	-	-	-
Disposals	(15,680)	(56)	(93)	-	-	-	(15,829)
<b>At 31 March 2013</b>	<b>613,124</b>	<b>22,331</b>	<b>33,309</b>	<b>-</b>	<b>2,523</b>	<b>1,318</b>	<b>672,605</b>
<b>LESS: GRANTS</b>							
At 1 April 2012	(234,250)	(7,710)	(13,513)	-	(1,437)	-	(256,910)
SHG Receivable and Other Capital Grants	(749)	(6,627)	-	-	-	-	(7,376)
Transfer on Completion	(5,945)	5,945	-	-	-	-	-
Disposals	5,545	-	89	-	-	-	5,634
<b>At 31 March 2013</b>	<b>(235,399)</b>	<b>(8,392)</b>	<b>(13,424)</b>	<b>-</b>	<b>(1,437)</b>	<b>-</b>	<b>(258,652)</b>
<b>LESS: ACCUMULATED DEPRECIATION</b>							
At 1 April 2012	(46,196)	-	(4,379)	-	-	(102)	(50,677)
Depreciation	(6,484)	-	(535)	-	(11)	(10)	(7,040)
Eliminated on Disposals	2,954	-	32	-	-	-	2,986
<b>At 31 March 2013</b>	<b>(49,726)</b>	<b>-</b>	<b>(4,882)</b>	<b>-</b>	<b>(11)</b>	<b>(112)</b>	<b>(54,731)</b>
<b>NET BOOK AMOUNT</b>							
At 31 March 2013	327,999	13,939	15,003	-	1,075	1,206	359,222
At 31 March 2012	322,832	10,063	15,387	-	984	1,216	350,482

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
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**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 March 2013**

**12 HOUSING PROPERTIES (CONTINUED)**

Additions to properties during the year include capitalised interest and finance costs of £87k (2012: £90k) and development administration costs of £963k (2012: £1,252k). Orbit Heart of England reviewed its properties for impairment and there was a £nil charge or credit to the Income and Expenditure Account for 2013 (2012: credit of £73k) in respect of housing properties.

Grants stated in the note overleaf comprise primarily Social Housing Grants but also grants received towards development costs from other public bodies. The total amount of Social Housing Grant received during the year was as follows:

	<b>2013 £'000</b>	<b>2012 £'000</b>
Within Housing Properties	<u>7,376</u>	<u>12,728</u>
<b>The Net Book Value of Housing and Other Properties (Note 13) Comprises:</b>		
Freehold Land and Buildings	358,866	350,116
Long Leasehold Land and Buildings	2,236	2,364
Short Leasehold Land and Buildings	<u>419</u>	<u>452</u>
	<u>361,521</u>	<u>352,932</u>

Housing Stocks are stated at the lower of cost and net realisable value. Cost includes land, build costs, applicable overheads and interest.

**13 OTHER FIXED ASSETS**

	<b>Freehold Offices £'000</b>	<b>Leasehold Offices £'000</b>	<b>Commercial Premises £'000</b>	<b>Motor Vehicles £'000</b>	<b>Furniture Fixtures &amp; Equipment £'000</b>	<b>Total £'000</b>
<b>COST</b>						
At 1 April 2012	17	3,290	449	204	2,696	6,656
Additions	-	39	-	-	241	280
Disposals	-	-	-	(171)	(32)	(203)
Transfers from other group members	-	-	-	-	43	43
<b>At 31 March 2013</b>	<u>17</u>	<u>3,329</u>	<u>449</u>	<u>33</u>	<u>2,948</u>	<u>6,776</u>
<b>LESS: ACCUMULATED DEPRECIATION</b>						
At 31 March 2012	(17)	(1,194)	(95)	(204)	(1,887)	(3,397)
Charge for Year	-	(174)	(16)	-	(373)	(563)
Eliminated on Disposal	-	-	-	171	22	193
Transfers from other group members	-	-	-	-	(17)	(17)
<b>At 31 March 2013</b>	<u>(17)</u>	<u>(1,368)</u>	<u>(111)</u>	<u>(33)</u>	<u>(2,255)</u>	<u>(3,784)</u>
<b>NET BOOK AMOUNT</b>						
At 31 March 2013	<u>-</u>	<u>1,961</u>	<u>338</u>	<u>-</u>	<u>693</u>	<u>2,992</u>
At 31 March 2012	<u>-</u>	<u>2,096</u>	<u>354</u>	<u>-</u>	<u>809</u>	<u>3,259</u>

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
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**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 March 2013**

**14 FIXED ASSET INVESTMENTS**

	<b>2013 £'000</b>	<b>2012 £'000</b>
Monies deposited with Funding for Homes Limited (FFH)	<u>800</u>	<u>800</u>

In October 1993, the Orbit Housing Association raised loans totalling £16 million through the financial intermediary, Funding for Homes Limited. It is a condition of the funding that all associations raising monies through this means must deposit 5% of the proceeds, which in the Association's case amounts to £800k as a common guarantee against default.

**15 STOCKS**

	<b>2013 £'000</b>	<b>2012 £'000</b>
Consumable stocks	<u>139</u>	<u>64</u>

**16 DEBTORS**

	<b>2013 £'000</b>	<b>2012 £'000</b>
Rental Debtors	3,310	3,732
Less provision for doubtful debts	<u>(1,163)</u>	<u>(1,380)</u>
	2,147	2,352
Amounts Due from other Group Members	-	1
Prepayments and Accrued Income	553	630
SHG Receivable	-	2,114
Other Debtors	1,541	863
Provision for Bad Debts	<u>(147)</u>	<u>(157)</u>
	<u>4,094</u>	<u>5,803</u>
Debtors after one year included in Other Debtors above	<u>188</u>	<u>204</u>

**17 INVESTMENTS**

	<b>2013 £'000</b>	<b>2012 £'000</b>
Cash Short Term Deposits Comprise		
Unlisted Investments: Bank Deposits		
- Maturing in excess of 7 days	<u>104</u>	<u>-</u>

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
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**NOTES TO THE FINANCIAL STATEMENTS  
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**18 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<b>2013 £'000</b>	<b>2012 £'000</b>
Housing Loans (Note 21)	4,463	4,616
Amounts Due to Other Group Members	10,075	9,650
Other Creditors	1,136	1,747
Grants Received in Advance	832	1,459
Accruals and Deferred Income	3,919	3,678
Rents received in advance	1,225	1,139
	<u>21,650</u>	<u>22,289</u>

Housing loans shown above are net of £nil loan arrangement fees carried forward.

**19 DISPOSAL PROCEEDS AND RECYCLED CAPITAL GRANT FUNDS**

	<b>RCGF £000</b>	<b>DPF £000</b>	<b>TOTAL £000</b>
At 1 April 2012	262	-	262
Grants Recycled	836	-	836
Interest Accrued	5	-	5
New Build	285	-	285
	<u>1,388</u>	<u>-</u>	<u>1,388</u>
At 31 March 2013	<u>1,388</u>	<u>-</u>	<u>1,388</u>
RCGF and DPF Creditors more than one year	<u>1,388</u>	<u>-</u>	<u>1,388</u>
At 31 March 2013	<u>1,388</u>	<u>-</u>	<u>1,388</u>

Amounts utilised in the year relate to new developments and one off purchases of housing assets.

**20 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	<b>2013 £'000</b>	<b>2012 £'000</b>
Housing Loans (Note 21)	16,000	16,000
Loans Inter Company (Note 21)	282,551	293,898
Deferred Income Credit (Note 21b part)	564	678
Leaseholder maintenance provision	796	773
Disposals Proceeds and Recycled Capital Grant Funds (Note 19)	1,388	262
Other	774	548
	<u>302,073</u>	<u>312,159</u>

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
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**NOTES TO THE FINANCIAL STATEMENTS  
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**21 HOUSING LOANS AND FINANCE LEASE OBLIGATIONS**

**Note (a)**

Housing loans are secured by specific charges on the Association's housing properties and are repayable at varying rates of interest in instalments due as follows:

	<b>2013 £'000</b>	<b>2012 £'000</b>
<b>Due Within One Year:</b>		
Orbit Treasury Limited	<u>4,463</u>	<u>4,616</u>
<b>Due After More Than One Year:</b>		
Orbit Treasury Limited	282,551	293,898
Debenture Stock – Funding for Homes Limited	<u>16,000</u>	<u>16,000</u>
	<u>298,551</u>	<u>309,898</u>
<b>Total Housing Loans</b>	<u>303,014</u>	<u>314,514</u>

On 28 September 2007 the majority of the loans of the Orbit Group were re-routed through a separate treasury vehicle, Orbit Treasury Limited (OTL). OTL is a trading company limited by shares and is a subsidiary of Orbit Group Limited. All members of the Orbit Group entered into a fully cross-collateralised structure at that time. OTL borrows monies on behalf of Orbit and on-lends to individual operating associations as required. The Loan is repayable half yearly in instalments.

On joining Orbit in April 2008, existing Heart of England Group loans were transferred into OTL and Orbit Heart of England entered into the cross-collateralised structure. The loan from OTL is secured by fixed charges on individual properties. The interest rates ranged between 3.4% and 5.15% for the year ended 31 March 2013.

The loan from Funding for Homes Limited was transferred to Orbit Heart of England on 1 April 2008. The loan is secured by fixed charges on individual properties and a small element of cash (2013: £104k, 2012: nil - note 17 refers). This is due to a property sale leaving a security shortfall which will be rectified following an imminent revaluation of stock. The loan is repayable in 2018 and the interest rate is 10.125%.

Housing loans are secured by specific charges on the Association's housing properties and are repayable at varying rates of interest in instalments due as follows:

	<b>2013 £'000</b>	<b>2012 £'000</b>
In One Year or Less, or on Demand	<u>4,463</u>	<u>4,616</u>
Repayable by Instalments:		
- In more than One Year but not more than Two Years	4,463	4,616
- In more than Two Years but not more than Five Years	13,389	13,848
- In more than Five Years	<u>264,699</u>	<u>275,434</u>
	<u>282,551</u>	<u>293,898</u>
Repayable Other than by Instalments:		
- In more than Five Years	<u>16,000</u>	<u>16,000</u>
	<u>303,014</u>	<u>314,514</u>

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
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**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 March 2013**

**21 HOUSING LOANS AND FINANCE LEASE OBLIGATIONS (CONTINUED)**

**Note (b)**

As a result of raising a loan totalling £16 million through Funding for Homes Limited, the Association received an additional sum of £2.8 million representing a net discount on the market price of the stock on issue. This is shown as deferred income credit and is being released to the Income and Expenditure Account to offset loan interest charges over the life of the loan (25 years from October 1993). The balance shown as deferred income credit is £564k in 2013 (2012: £678k.)

The interest rate profile of the Association at 31 March 2013 was:

	<b>Total £'000</b>	<b>Variable £'000</b>	<b>Fixed £'000</b>	<b>Weighted Average Rate %</b>	<b>Weighted Average Term of Fixed Loan in Years</b>
Instalment Loan	287,014	122,729	164,285	4.4%	25
Non Instalment Loan	<u>16,000</u>	<u>0</u>	<u>16,000</u>	<u>10.1%</u>	<u>5</u>
	<u>303,014</u>	<u>122,729</u>	<u>180,285</u>	<u>4.7%</u>	<u>23</u>

The interest rate profile of the Association at 31 March 2012 was:

	<b>Total £'000</b>	<b>Variable £'000</b>	<b>Fixed £'000</b>	<b>Weighted Average Rate %</b>	<b>Weighted Average Term of Fixed Loan in Years</b>
Instalment Loan	298,514	129,689	168,825	4.7	26
Non Instalment Loan	<u>16,000</u>	<u>-</u>	<u>16,000</u>	<u>10.1</u>	<u>6</u>
	<u>314,514</u>	<u>129,689</u>	<u>184,825</u>	<u>5.0</u>	<u>24</u>

**22 CALLED UP SHARE CAPITAL**

	<b>2013</b>		<b>2012</b>	
	<b>No.</b>	<b>£</b>	<b>No.</b>	<b>£</b>
<b>Shares of £1 Each, allotted, issued and fully paid</b>				
At 1 April 2012	8	8	11	11
Issued during the year	1	1	1	1
Cancelled during the year	<u>(4)</u>	<u>(4)</u>	<u>(4)</u>	<u>(4)</u>
<b>At 31 March 2013</b>	<u>5</u>	<u>5</u>	<u>8</u>	<u>8</u>

The issued and cancelled shares shown above reflect changes in membership of the Board.

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
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**NOTES TO THE FINANCIAL STATEMENTS  
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**22 CALLED UP SHARE CAPITAL (CONTINUED)**

The share capital of Heart of England Housing Association Limited is raised by the issue of shares with a nominal value of £1 each. Because of the Association's Industrial and Provident Society status, the maximum shareholding permitted per member is 1 share. There is no Authorised Share Capital and the Heart of England Housing Association Board may issue as many £1 shares as it wishes. However, the Board operate a restricted shareholding policy with all shares currently held by serving Board Members and the Parent Body. The Association's shares carry no right to interest, dividend or bonus. Shares are not capable of being withdrawn or transferred and cannot be held jointly. Shareholders have the right to attend (or to vote by proxy) at any general, special general or extraordinary meeting of Heart of England Housing Association.

**23 DESIGNATED RESERVES**

	<b>At 1 April 2012 £'000</b>	<b>Transfer (to) / from I&amp;E Account £'000</b>	<b>At 31 March 2013 £'000</b>
Renewal of Furniture and Equipment	2,082	268	2,350
Community Energy Savings Programme (CESP)	724	(724)	-
Community Investment	-	596	596
<b>Total</b>	<u>2,806</u>	<u>140</u>	<u>2,946</u>

**24 REVENUE RESERVES**

	<b>2013 £'000</b>	<b>2012 £'000</b>
<b>Opening Balance</b>	19,287	7,652
Surplus for the financial year	17,579	14,067
Actuarial (losses) / gains on pension scheme	(850)	(1,401)
Transfer to designated reserves	(140)	(1,031)
<b>Closing Balance</b>	<u>35,876</u>	<u>19,287</u>

Reserves are stated with the effect of implementation of FRS17 'Retirement Benefits'.

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
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**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 March 2013**

**25 CAPITAL COMMITMENTS**

	<b>2013 £'000</b>	<b>2012 £'000</b>
Capital Expenditure which has been contracted for but has not been provided for in the financial statements	32,266	12,321
Capital Expenditure which has been authorised under authority from the Board but has yet to be contracted for	<u>45,466</u>	<u>31,391</u>
	<u><u>77,732</u></u>	<u><u>43,712</u></u>

The Association expects these commitments to be financed with:

Social Housing Grant	9,026	11,911
Committed Loan Facilities (Orbit Treasury Limited)	<u>68,706</u>	<u>31,801</u>
	<u><u>77,732</u></u>	<u><u>43,712</u></u>

**26 CONTINGENT LIABILITIES**

There is a contingent liability at 31 March 2013 in relation to remedial costs on properties identified as having substandard acoustic construction and the associated legal costs.

**27 RECONCILIATION OF OPERATING SURPLUS TO NET CASH INFLOW FROM OPERATING ACTIVITIES**

	<b>2013 £'000</b>	<b>2012 £'000</b>
Operating Surplus	23,349	20,741
Depreciation - Other Fixed Assets	580	418
Depreciation - Housing Properties	7,040	6,411
Impairment (credit) - Housing Properties	-	(73)
Movement in Provisions	(227)	184
Increase in Stocks	(75)	(3)
Difference between pension charge and paid	38	16
(Increase) / decrease in Debtors	(180)	692
Increase in Creditors	<u>2,307</u>	<u>259</u>
Net Cash Inflow from Operating Activities	<u><u>32,832</u></u>	<u><u>28,645</u></u>

**28 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT**

	<b>2013 £'000</b>	<b>2012 £'000</b>
Increase / (decrease) in cash in the year	100	(197)
Increase / (decrease) in Bank Deposits (with a Maturity in Excess of 24 Hours)	104	(1,753)
Loans received	(43,000)	(43,250)
Loans redeemed	54,500	41,750
Loan Pool Premium Reserve FFH	<u>114</u>	<u>114</u>
Decrease / (Increase) in Net Debt	11,818	(3,336)
Net Debt at 1 April 2012	<u>(314,389)</u>	<u>(311,053)</u>
<b>Net Debt at 31 March 2013</b>	<u><u>(302,571)</u></u>	<u><u>(314,389)</u></u>

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
(TRADING AS ORBIT HEART OF ENGLAND)**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 March 2013**

**29 ANALYSIS OF CHANGES IN NET DEBT**

	At Beginning of the Year £'000	Cash Flows £'000	Other Changes £'000	At End of the Year £'000
Cash at Bank and in Hand	803	100	-	903
	<u>803</u>	<u>100</u>	<u>-</u>	<u>903</u>
Bank Deposits – More than 24 Hours	-	104	-	104
Housing Loans Due Within One Year	(4,616)	-	153	(4,463)
Housing Loans Due After One Year	(309,898)	11,500	(153)	(298,551)
Loan Pool Premium Reserve FFH	(678)	-	114	(564)
	<u>(314,389)</u>	<u>11,704</u>	<u>114</u>	<u>(302,571)</u>

**30 FINANCIAL COMMITMENTS**

**Operating Leases**

At 31 March 2013 the Association was committed to making the following payments during the year in respect of operating leases other than land and buildings.

	2013 £'000	2012 £'000
<b>Leases which Expire</b>		
Within 1 year	40	237
Within 2 - 5 years	526	332
	<u>566</u>	<u>569</u>

**31 ULTIMATE PARENT ENTITY**

The immediate parent undertaking and ultimate parent entity and controlling entity of Heart of England Housing Association Limited is Orbit Group Limited, an Industrial and Provident 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 2013.

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

The results of Heart of England Housing Association Limited are included in the Group financial statements. The consolidated financial statements of Orbit Group Limited are published on the Orbit website [www.orbit.org.uk](http://www.orbit.org.uk) and are also available from Garden Court, Harry Weston Road, Binley Business Park, Binley, Coventry, CV3 2SU.

**HEART OF ENGLAND HOUSING ASSOCIATION LIMITED  
(TRADING AS ORBIT HEART OF ENGLAND)**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 March 2013**

**32 PROPERTY PORTFOLIO - OWNED AND MANAGED STOCK**

	<b>2013 No.</b>	<b>2012 No.</b>
General Needs	12,441	12,605
Supported Housing	1,679	1,668
<b>Total Owned by Orbit Heart of England</b>	<u>14,120</u>	<u>14,273</u>
Leasehold	921	924
Managed on behalf of Others	302	324
<b>Leasehold and Other Managed</b>	<u>1,223</u>	<u>1,248</u>
<b>Total Social Housing Units</b>	<u>15,343</u>	<u>15,521</u>
Commercial Units	14	14
Market Rent	10	10
<b>Total Non-Social Housing Units</b>	<u>24</u>	<u>24</u>
<b>Total Units</b>	<u>15,367</u>	<u>15,545</u>
<b>Stock in Development as at 31 March 2013</b>		
General Needs	262	188
	<u>262</u>	<u>188</u>

**33 RELATED PARTY TRANSACTIONS**

Heart of England Housing Association Limited is a subsidiary of Orbit Group Limited (the Parent). Shares are held by serving Board Members and the Parent. Under the Association's 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 paragraph 3(c) FRS8 (Related Party Disclosures). There were no other related party transactions to disclose under FRS8.

**34 TRANSACTIONS WITH NON-REGULATED GROUP MEMBERS**

During the year the Association has transacted with two fellow group subsidiaries not regulated by the HCA, Orbit Homes (2020) Ltd and Orbit Treasury Ltd.

Orbit Homes (2020) Ltd provides design and build services to the group. During the year the association made payments totalling £16m to Orbit Homes (2020) Ltd for the purchase of Housing Property assets and has an outstanding creditor balance with Orbit Homes (2020) Ltd of £1.9m.

Orbit Treasury Ltd provides a funding on-lending service to the group. During the year the Association paid interest costs totalling £12.6m (2012: £13.7m) and fees of £1m (2012: £0.6m). The allocation of these costs is based upon the level of debt required and secured by the Housing Property held in the Association.

**35 PRIOR YEAR ADJUSTMENT**

The prior year adjustment reflects the change in accounting policies as a result of the implementation of the Statement of Recommended Practice (SORP) Accounting by Registered Social Housing Providers Update 2010 in 2011/12.

The effect of this was to increase both housing property net cost and reserves by £27 million.