

**Orwell Housing Association Limited**

Report and Financial Statements

Year Ended

31 December 2017

Co-operative and Community Benefit Societies Act 2014

Registration No 16460R

# **ORWELL HOUSING ASSOCIATION LIMITED**

## **Annual report and financial statements for the year ended 31 December 2017**

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## **ORWELL HOUSING ASSOCIATION LIMITED**

### **Officers and general information**

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#### **Board (elected unless otherwise stated)**

Ian Beaumont – Chair – *G R*  
Kim Newman BSc (Hons) FCIPS MCMI  
– Vice Chair – *A G R*  
Cynthia Alers MBA MA MIRSoc (appointed 22 March 2017) – *A*  
Jeanette Alfano  
Joy Bounds BA (Hons) CQSW DMS – *G R*  
Daniel Gaul BSc (Eng) MSc

Peter Jones  
Robyn Llewellyn – *A G R*  
Richard Mathias – *A G*  
Jacqueline Riley BSc (Hons) (resigned 22 March 2017)  
Alastair Thomas BSc (Hons) FRICS – *R*  
Barbara Thorndick OBE BA (Hons) FCIOH  
– *A G*

*Committee membership key*  
Audit Committee – *A*  
Governance Committee – *G*

Remuneration Committee – *R*

#### **Chief Executive**

Stephen Javes MBA Bsc (Hons) DMS FCIH MIEH

#### **Director of Development and Property Services**

Wendy Evans-Hendrick BA (Hons) Dip DM DMS

#### **Director of Resources**

Christopher Wyr FCCA

#### **Director of Housing and Care Services**

Paul Kingston MBA FCIH DMS MCMI

#### **Registered office**

Crane Hill Lodge, 325 London Road, Ipswich, Suffolk IP2 0BE (Telephone: 01473 218818)

#### **Bankers**

Barclays Bank plc, Mortlock House, Histon, Cambridge, CB4 9DE  
Dexia Public Finance Bank, 200 Aldersgate Street, London, EC1A 4HD  
Handelsbanken, Unit 1, Grafton House, Russell Road, Ipswich, IP1 2AG  
Ipswich Building Society, 44 Upper Brook Street, Ipswich, Suffolk, IP4 1DP  
Lloyds TSB Bank plc, 13 Cornhill, Ipswich, Suffolk, IP1 1DG  
Royal Bank of Scotland plc, 135 Bishopsgate, London, EC2M 3UR

#### **Solicitors**

Devonshires, 30 Finsbury Circus, London, EC2M 7DT  
Marshall Hatchick, The Ancient House, 22 Church Street, Woodbridge, Suffolk, IP12 1DH  
Mills and Reeve, 1 St James Court, Whitefriars, Norwich, Norfolk, NR3 1BR

#### **Independent Auditor**

RSM UK Audit LLP, Abbotsgate House, Hollow Road, Bury St Edmunds, Suffolk, IP32 7FA

#### **Social Housing Regulator (formerly the Homes and Communities Agency)**

Registration No L0028

#### **Co-operative and Community Benefit Societies Act 2016**

Registration No 16460R

## **ORWELL HOUSING ASSOCIATION LIMITED**

### **Report of the Board for the year ended 31 December 2017**

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The Board is pleased to present its report and audited consolidated financial statements for the year ended 31 December 2017.

#### **Operating and Financial Review**

##### **Overview**

Orwell Housing Association Limited is a Co-operative and Community Benefit Societies Act company and a Registered Provider of housing with a head office based in Ipswich, Suffolk. The Association has a diverse housing stock located throughout East Anglia which is reflective of the two main areas of focus which are:

- general needs housing, providing affordable homes for a wide range of people in housing need; and
- supported housing, where a home, care and/or support service are provided primarily to young people, older persons, people with learning difficulties and women fleeing domestic abuse.

The Association is also part of a consortium, known as e<sup>2</sup>, with Freebridge Community Housing Limited, Greenfields Community Housing Limited, Ipswich Borough Council, Saffron Housing Trust Limited and Waveney District Council. On behalf of the consortium, the Association has partnership status with Homes England (formerly the Homes and Communities Agency) and therefore the consortium continues to benefit from grant funding under a Framework Delivery Agreement. The Association undertakes its own development and also provides development services to other organisations, including e<sup>2</sup> members. In addition to development, the Association also derives other benefits from the consortium such as sharing of best practice. The Association is also a member of Eastern Procurement Limited, a company formed to enable organisations with similar buying needs as the Association, to benefit from joint procurement initiatives and lower costs.

The Association has a 100% subsidiary company, Orwell Homes Limited, and the results of the company are consolidated within these financial statements and shown under the heading of Group.

##### **Objectives**

The direction of the Association during the year is as set out in the Association's Business Plan covering the 2 years from 2018 to 2019. The key strategic objectives included in that document are as follows:

- to build more new affordable homes and where possible for these to be available for rent;
- to expand the development activity of Orwell Homes Limited;
- to provide an enhanced offer to existing and new clients requiring development services;
- to grow our supported housing and care services through organic growth, expansion into new services and acquisition, whilst providing the best quality services within the money available, to enable our customers to remain as independent as possible;
- to ensure that all other services are delivered to the highest possible quality;
- to deliver other services, such as property maintenance, for other organisations;
- to remain a financially sound and viable organisation;
- to improve the services we offer to our customers by developing an integrated information and communication technology system; and

put value for money and efficiencies at the heart of what we do and seek to ensure it is embedded throughout the organisation.

Performance against all Business Plan objectives is reviewed by the Board at every other meeting.

## ORWELL HOUSING ASSOCIATION LIMITED

### Report of the Board for the year ended 31 December 2017 (*Continued*)

#### *Objectives (continued)*

The key objectives of Orwell Homes Limited are as follows:

- to utilise the skills that already exist within Orwell Housing Association Limited to develop suitable sites providing residential housing for sale on the open market;
- to provide construction services to the parent company Orwell Housing Association Limited; and
- to gift aid profit to the parent company, Orwell Housing Association Limited.

Performance against objectives is reviewed quarterly as a minimum, by the Boards of Orwell Housing Association Limited and Orwell Homes Limited.

#### *Measures*

The key measures used by the Board for determining the success of these plans are as follows:

Group	2017	2016
Turnover (excluding all development activities) – increase on prior year	3.1%	5.6%
Operating Surplus – (reduction)/increase on prior year	(1.5%)	18.9%
Operating Surplus as a percentage of covenant Interest Payable	259%	250%
Borrowings less cash as a percentage of Net Worth (Reserves plus Social Housing Grant)	62.3%	62.9%
Arrears of rent and service charges as a proportion of turnover (excluding Development Activities and Subsidiary) for the year	2.8%	2.8%
Net increase in housing units brought into management	51	130
Customer satisfaction with repairs	94.3%	95.9%
Gas safety regulations compliance	99.9%	100%
Employee absence level – supported housing and care	4.5%	5.0%
Employee absence level – housing and all other	3.5%	3.0%
Employee turnover level – supported housing and care	19.4%	17.5%
Employee turnover level – housing and all other	15.1%	11.4%

Gas safety compliance at the end of the year is at 99.9% due to one non-compliant property where normal procedures to visit the property and service the gas boiler have been exhausted and the Association has therefore commenced legal proceedings for an injunction to gain access.

#### *Operating Review*

The Association is pleased to report another successful year in which the focus has continued to be upon delivering high quality services and meeting the needs of customers. The business remains strong and surpluses have continued to grow despite challenging operating conditions including the first of four successive years of 1% rent reduction and the inclusion of an unbudgeted cost of £512,000 within this financial year. This cost is a provision relating to recent legal decisions concerning staff working in Support and Care who are sleeping overnight and potentially require payment at National Minimum Wage rather than the allowance already paid. The provision covers possible back pay and represents the worst-case scenario. The Association continues to monitor legal developments in this area.

Against the background of the Government's decision to reduce rents by 1% per annum over a 4-year period, the Association continues to keep costs under control and look for further efficiencies. Some of the key areas of note are as shown in the Value For Money statement included in this report.

The most significant resource of the Association remains its employees and it is therefore essential that all employees across the entire business continue to be encouraged, involved, empowered and motivated to deliver their best. Reflecting this employee focus upon excellence, the Association is proud to be accredited under the

## ORWELL HOUSING ASSOCIATION LIMITED

### Report of the Board for the year ended 31 December 2017 (*Continued*)

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#### *Operating Review (continued)*

Investors in People standard, with Silver Status and also to have been included in the Sunday Times 100 Best Not-for-Profit Organisations for both 2016 and 2017. During the last year, we have laid the foundations to build on this and in 2018 will look to work evermore closely with our managers and staff to improve the working environment.

Continuing to reflect on the internal workings of the organisation, 2017 saw further work regarding the implementation of three major software packages. These are:

- Civica Cx – this will replace the existing Housing Management System and provide additional functionality to improve and enhance customer relationship management. The Association is pleased to announce that Civica Cx went live during February 2018.
- Open Accounts – the Association is pleased to announce that a new and improved Finance System, called Open Accounts, went live on 1 April 2017.
- People Planner – this is the first piece of operational software to be introduced into the Association's Older Person Extra Care division and has been implemented during 2017 on a pilot basis into two larger schemes. Improvements include matching of customer needs to employee skills and management of work delivery. Introduction of additional functionality, including time sheet management and invoicing, is planned for 2018, together with roll-out to further Extra Care schemes.

Support and Care continues to be an important part of the overall business of the Association and we continue to provide and develop services rated as good by the Care Quality Commission, at all our Extra Care schemes.

It was also pleasing that the tendering framework for Learning Difficulties, which was tendered by Suffolk County Council during 2017, saw the Association ranked the highest and being awarded a place on the framework and we now look to consolidate our position within this marketplace and identify new opportunities as they become available.

In relation to the building of new homes, the Association continues to work with the Homes and Communities Agency, now Homes England, to deliver the Shared Ownership Affordable Housing Programme, which not only involves a degree of Shared Ownership, but also affordable homes for rent. In respect of the Association, a total of 180 units are planned for the next three years ending in March 2021. In addition, and for the same period, 202 units are planned for the other members of the e<sup>2</sup> Consortium. Overall, the Association has been successful in obtaining grant of £7,429,000 on behalf of the e<sup>2</sup> consortium to part fund development of these units. Further units are also likely to be added as part of the Continuous Market Engagement (CME) Programme.

In addition to the work of the e<sup>2</sup> Consortium, the Association has continued to develop its consultancy services for other organisations and now provides project management services to Equinox Enterprises Limited, the private sector development company set up by Great Yarmouth Borough Council to build houses for both outright and sale and new council homes. The Association is also providing services for the Seckford Foundation and the Boxford Group.

During the year, the wholly owned subsidiary of the Association, Orwell Homes Limited, continued to provide construction services to the Association, resulting in a net saving to the Group of approximately £69,000 (2016: £97,000). Residential development recommenced during the year with a three unit open market scheme which will be ready for sale in the first quarter of 2018. A further eight unit scheme will commence by the end of September 2018 and there are plans for an ongoing pipeline of schemes, into the future.

## **ORWELL HOUSING ASSOCIATION LIMITED**

### **Report of the Board for the year ended 31 December 2017 (*Continued*)**

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#### ***Operating Review (continued)***

Whilst passing up profit under gift aid to the parent company Orwell Housing Association Limited remains a key objective, this will not take place for this year to retain funds within Orwell Homes Limited, in order to finance open market development. Once sufficient funds have been accumulated, passing up profit under gift aid to the parent company will resume at anticipated higher levels than would otherwise have been achieved.

#### ***Financial Review***

The Association is pleased to report another successful year in which the focus has continued to be upon delivering high quality services and meeting the needs of customers. The business continues to be strong and retained surpluses have continued to grow despite the first of four years of 1% rent reductions, effective 1 January 2017.

Group turnover for the year increased from £43,049,000 to £44,497,000 with income from principal activities increasing by £297,000. A total of 51 units have been brought into management during 2017 and increased the existing stock by 1.4% to 3,756.

Operating costs for the year have increased from £34,878,000 last year to £36,450,000. Excluding the effects of subsidiary and development activities, operating costs have increased by £476,000 including a provision of £512,000 in respect of back-pay for employees sleeping overnight.

The combined income and expenditure movements identified above have resulted in a Group operating surplus which has reduced from £8,171,000 to £8,047,000. Adjusting for the provision of £512,000 shows an increase of £388,000.

Expenditure on housing stock planned maintenance comprises both revenue and capital spend and for the year was £3,050,000 (2016: £3,087,000), which was £86,000 below budgeted spend due to contractor delivery issues in the latter part of the year.

Net interest costs for the year, excluding release of bond premium and defined benefit pension movement, have fallen from £3,259,000 to £3,138,000 despite an increase in the average loan balance from £85,598,000 to £88,380,000. Continuing low interest rates have seen the Association's average interest rate falling from 3.9% to 3.6%. As shown on the face of the Consolidated Statement of Cashflows, the additional funds have been invested in the income generating assets of the Association with £4,429,000 (cost less grant) expended on the acquisition and construction of housing properties.

The net result of the above financial performance is a Group retained surplus for the year of £5,186,000 (2016: £4,877,000) which has been transferred to General reserves and ultimately will support the ongoing development work of the Association and provision of new accommodation. Restricted reserves have been increased by a transfer of £130,000 from General reserve and the amount utilised during the year was £16,000.

The Government's programme of introducing welfare reforms has continued and debt recovery work and proactive arrears management remain high priorities for the Association. The Association is pleased to report that the level of arrears has been maintained at 2.8%, the same as last year.

#### ***Treasury Policies***

The Association's and Group's Treasury Policies are designed to ensure that:

- appropriate funding is in place to support the various activities undertaken by the Association and Group;
- uncharged assets will be available to secure future borrowings; and
- interest rates, loan covenants and security arrangements are such as to protect the long-term viability of the Association and Group.

## **ORWELL HOUSING ASSOCIATION LIMITED**

Report of the Board for the year ended 31 December 2017 (*Continued*)

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### ***Treasury Policies (continued)***

During the continuing period of low interest rates, the Board has sought to ensure that the loan portfolio is not over exposed to interest rate risk and complies with corridors of approximately 20% to 40% short term variable interest rates of less than one year and approximately 60 to 80% fixed interest rates. At 31 December 2017 the loan portfolio comprised 27% (2016 - 19%) short term variable interest rates and 73% (2016 – 81%) fixed interest rates. The increase in the proportion of short term variable rate funds is primarily because the Association drew £7,500,000 during the year at variable rate. This was the final tranche of a £20m facility expiring at the end of June 2017.

The Board seeks to match borrowings with development spend and therefore cash held by the Group is normally maintained at an appropriate minimum level to finance the day to day operations. As a result of the drawdown referred to above, cash balances at the end of the year continue to remain unusually high.

### ***Cash Flow and Liquidity***

Cash inflows and outflows for the year are set out in the Consolidated Statement of Cash Flows. The net inflow from operating activities for the year was £4,061,000 compared with £8,774,000 for 2016. Cash expended for the construction and purchase of housing properties during the year was £6,544,000. During the year, the Association drew £7,500,000 from existing facilities and as a result cash balances increased by £2,757,000 during the year (2016 – reduced by £4,599,000).

The maturity profile of the Association's and Group's loans is set out in note 24.

At 31 December 2017 the Association had secured undrawn facilities of £7,500,000 (2016: £14,767,000) and the Group had cash balances of £9,035,000 (2016: £6,278,000).

### ***Employee Involvement***

The Association strongly believes in involving and informing all employees through regular team meetings, social media platforms, newsletters and the Employee Forum. In respect of matters likely to affect employees' interests, consultation and discussion with employees takes place through the Employee Forum structure and at the meetings held quarterly. Discussions relating to both the Association's Business Plan and Financial Performance take place at these meetings and are standing items on the agenda.

### ***Disabled Persons***

The Association actively encourages people with disabilities to apply for suitable vacancies. All applicants are treated equally and fairly and reasonable adjustments will be made wherever possible. In common with all employees of the Association, regular support and supervision discussions and performance reviews take place with managers and ongoing training and career development opportunities are discussed. Where existing employees become disabled, wherever possible, the aim is that employment with the Association will continue. In the first instance, reasonable adjustments will be considered in order that existing roles can be continued. Where this cannot be achieved, suitable alternative employment will be offered.

### ***Value For Money Statement***

Delivering Value for Money (VFM) is at the heart of everything that the Association does with a focus on quality first and then a critical analysis of how costs can be kept as low as possible for that level of quality. Where monetary efficiency gains are made, these are always reinvested in the business and either targeted at improving service outcomes to customers, typically through increased investment in programmed maintenance, or through building more homes. The Association has worked hard to establish VFM as central to how business is carried out and the fundamental belief is that VFM is the responsibility of every employee and not just a select few. Right from the start, employees of the Association are encouraged to question, review and propose change, with VFM an integral part of induction for new employees. On a continuing basis, VFM messages are spread throughout the Association through a number of channels including team



## **ORWELL HOUSING ASSOCIATION LIMITED**

### **Report of the Board for the year ended 31 December 2017 (*Continued*)**

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#### ***Value For Money Statement (continued)***

meetings, the Employee Forum and the biennial staff conference. The Association operates an employee suggestion scheme where VFM suggestions are put forward and implemented wherever possible.

Whilst the expectation is on every employee to play their part in delivering VFM, a strategic approach is taken by the Board with the creation of an annual VFM improvement plan to deliver in the coming year. Progress is then monitored at Board during the year with a final report, detailing confirmed achievements, presented at the first Board meeting following the year-end.

VFM work and achievements are detailed below.

#### **Progress report on plans from 2017**

In the VFM Statement last year it was reported that the Association had plans to improve a number of areas and progress to date is shown below:

- improve the services we offer to our customers by implementing new housing management, finance and support and care software – a new finance system went live in April 2017 and further improvements will be implemented in the coming year. Work continued throughout the year on the new housing management system, Civica CX and this went live in February 2018. Software implementation within support and care has focussed upon two pilot schemes and further roll-outs will continue in 2018.
- continue to take positive and proactive action to reduce the level of employee absence – whilst it is pleasing to note an improvement within the Supported Housing & Care parts of the business with a reduction from 5.0% to 4.5%, this has been offset by an increase in the other parts of the business which has increased from 3.0% to 3.5%. Initiatives and action started in 2017 will continue into 2018 with the aim of achieving an overall reduction.
- continue to extend development services offered by the Association and generate a surplus over the 4 years 2016 through 2019 – services continue to be provided to a local educational charity and a Local Authority private housing company and 4 further development projects have been taken on during the year. In addition, the Association has been appointed by a limited company to provide advice about their land and property portfolio.
- provide housing services to other organisations – whilst nothing has yet come to fruition, discussions with potential investors will continue into 2018.
- provide housing related services to other organisations – during the year, Orwell Repairs Service (ORS) has started to provide repairs on behalf of two organisations, to properties where the geographical location makes it more efficient.
- review and benchmark at least one service from the Association's portfolio of repairs, estate or other services with an ambition to continue to generate savings of over £250,000 over the 5 years 2014 through 2018 – the in-sourcing of repairs to empty homes was reviewed during the year and a net annual saving of £130,000 identified.
- deliver a plan of individual VFM savings amounting to £130,000 which will be monitored and reviewed by Board – the plan achieved confirmed savings of £72,000 with a further £21,000 deferred to 2018. The shortfall was primarily due to recruitment challenges which occurred during the year.

#### **Specific successes in 2017**

##### ***Buying Goods and Services***

The Association has achieved the following savings by buying more effectively without compromising quality

- programmed works items: kitchens, bathrooms, windows and doors procured through Eastern Procurement Limited (consortium buying group) - saved £243,000.
- change in location for Board meetings – saved £1,800
- leasing Estate Services equipment rather than buying – saved £5,168

## **ORWELL HOUSING ASSOCIATION LIMITED**

### **Report of the Board for the year ended 31 December 2017 (Continued)**

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#### ***Value For Money Statement (continued)***

##### **Specific successes in 2017 (continued)**

- changing staff survey frequency from annual to bi-annual – saved £5,500
- changing staff conference from annual to bi-annual – saved £9,000
- reduction of Board by 1 member – saved £3,740
- change in redecoration scheme – saved £7,000
- removal of estate ‘skip days’ – saved £6,000

##### ***Staffing sources***

It is recognised that the management of staffing costs within the Care & Support parts of the Association is key to the delivery of VFM and in particular the balance between the spend on permanent staff as compared to the spend on higher cost agency workers. Particular focus on this area commenced in 2007 when total staffing costs were at a level of 71.5% of income. By good management practice and a keen focus on VFM, this percentage has steadily decreased since 2007 and had fallen to 59.7% by the end of 2016. Whilst the 2017 budget reflected further improvement to a level of 57.8%, actual performance has been difficult with recruitment challenges and vacancies not being filled as quickly as usual. As a result, the level has slipped back to 62.0%. To improve the situation, various initiatives have been introduced and a budget figure of 59.7% set for 2018. During 2017, the Association has achieved the following savings related to other areas of staffing:

- restructure within learning disabilities services – saved £22,665
- reduction in administrator hours – saved £3,200
- restructure of housing management functions – saved £5,500
- improvement in skills levels across ORS operatives to increase right first time rate – saved £2,250

##### ***Development consortium***

The Association is part of a consortium, known as e<sup>2</sup>, with other organisations. As lead member, the Association undertakes its own development and also provides development services to the other e<sup>2</sup> members. The Association also provides services to other external organisations such as District and Borough Councils, a local school and commercial organisations and these services are provided under the name of Orwell Project Management (OPM). As such, the Association employs a much larger and more highly skilled development team than it could otherwise afford because of the incomes received as both e<sup>2</sup> and OPM. From a VFM perspective, the Association benefits from both:

- a cost perspective - reduced development costs due to economies of scale and reduced build costs due to increased expertise.
- a quality perspective – higher quality buildings from professional employees.

The specific successes in 2017 referred to above, contributed to the retained surplus of £5,186,000 which, as additional cash, allows reduced loan funding required for the ongoing development of new housing stock.

##### **Benchmarking results**

To assess VFM, the services of a business called HouseMark are used to “standardise” Association performance data and then to compare it with other similar organisations. The Association receives an annual report from HouseMark and this, together with further data analysis from the HouseMark website, allows identification of where the Association is performing well and where improvements can be made. Key analyses from the 2016 data submitted to HouseMark in 2017 are shown below with relevant narrative. Where there is a common theme across the analyses, commentary is shown after the final set of data.

# ORWELL HOUSING ASSOCIATION LIMITED

## Report of the Board for the year ended 31 December 2017 (Continued)

### Value For Money Statement (continued)

#### Efficiency summary

The HouseMark website includes the following efficiency summary for the Association and this shows a good overall picture.

Quartile key					
	Upper Quartile	Middle Upper	Median	Middle Lower	Lower Quartile
Valid dataset					

Explanation of abbreviations in the table below:

CPP = cost per property

GN = general needs housing

HfOP = housing for older people

Efficiency Summary for Orwell Housing Association					
Business activity	Cost KPI	Cost KPI Quartile Orwell Housing Association (2016/2017)	Quality KPI	Quality KPI Quartile Orwell Housing Association (2016/2017)	
Overheads	Overhead costs as % adjusted turnover		Overhead costs as % direct revenue costs		
Major works & cyclical maintenance	Total CPP of Major Works & Cyclical Maintenance		Percentage of tenants satisfied with the overall quality of their home (GN & HfOP)		
Responsive repairs & void works	Total CPP of Responsive Repairs & Void Works		Percentage of tenants satisfied with repairs and maintenance (GN & HfOP)		
			Average number of calendar days taken to complete repairs		
			Average re-let time in days (standard re-lets)		
Housing management	Total CPP of Housing Management		Percentage of tenants satisfied with the service provided (GN & HfOP)		
			Current tenant rent arrears as % of rent due		
Estate services	Total CPP of Estate Services		Percentage of tenants satisfied with their neighbourhood as a place to live (GN & HfOP)		

The Association's target is to be Middle/Upper quartile or better in all areas. This means a green star or yellow half star in the table above and the Association is pleased to report that this has been achieved in 85% of the categories. With a focus on continual improvement, categories where the target has not been met have been examined and the results are as follows:

## ORWELL HOUSING ASSOCIATION LIMITED

### Report of the Board for the year ended 31 December 2017 (Continued)

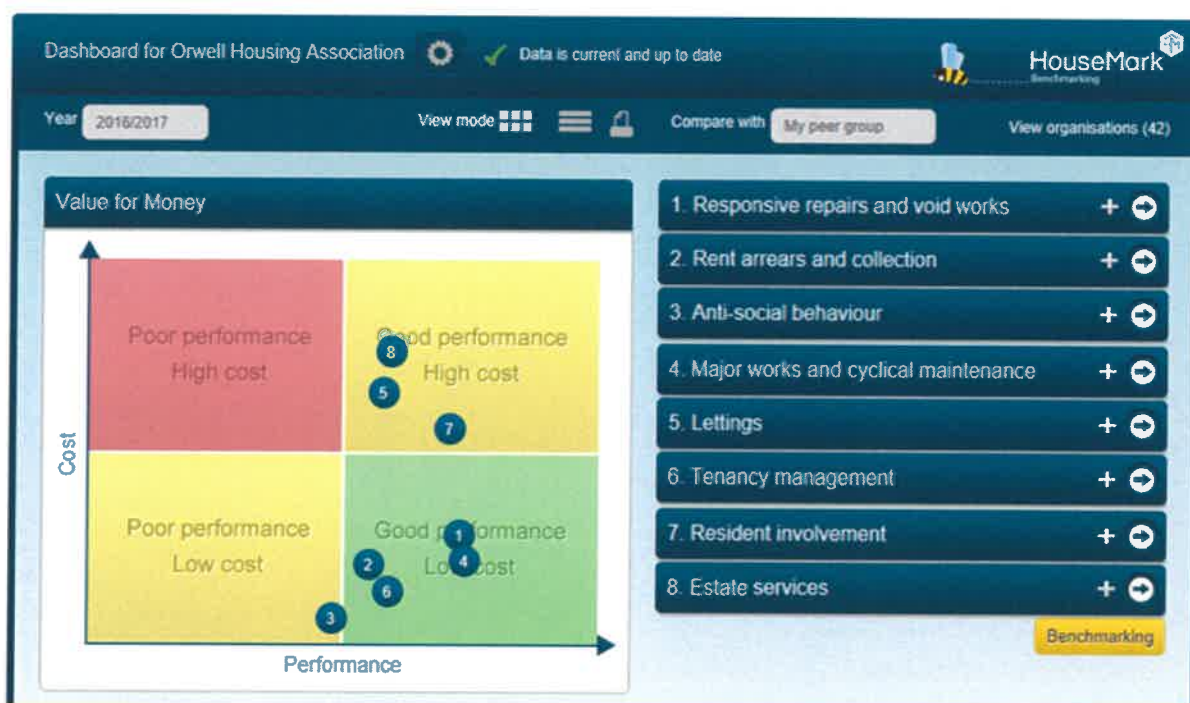
#### Value For Money Statement (continued)

##### Efficiency summary (continued)

- Overhead costs as a percentage of adjusted turnover – although managing the e<sup>2</sup> development partnership increases the overhead costs of the Association, the figure used in the Housemark benchmarking process to calculate the percentage of adjusted turnover does not include £15m of turnover relating to this activity. Therefore, it is considered that no improvement is required and this view is supported by the other measure of overhead costs shown above (overhead costs as % direct revenue costs) which is upper quartile.
- Total cost per property of estate services - see comments below under Cost per property data.

#### Dashboard

The HouseMark website includes a performance dashboard for the Association and this is shown below. Once again, this shows a good overall picture.



The ambition of the Association is to achieve as many indicators as possible within the green square, which indicates optimum delivery of VFM at “good performance and low cost”. The two yellow squares show good VFM delivery albeit with room for improvement. The red square is “poor performance and high cost” and the Association is pleased to report that none of the indicators above fall into this square as this indicates an absence of VFM.

The top right yellow square is “good performance and high cost” and whilst this is considered satisfactory from a VFM perspective, the challenge here is to reduce cost without reducing the quality of performance.

The bottom left yellow square is “poor performance and low cost” and whilst this is considered satisfactory from a VFM perspective, the challenge here is to increase quality of performance without increasing cost.

# ORWELL HOUSING ASSOCIATION LIMITED

## Report of the Board for the year ended 31 December 2017 (Continued)

### Value For Money Statement (continued)

#### Cost per property data

Using information from the HouseMark website, the cost per property of business critical activities is shown below using the same quartile key as above:

Cost per property abbreviated to cpp	2016 cost	2016 cost KPI quartile	2016 upper quartile	2016 median	2016 lower quartile	2015 cost	2014 cost
Tenancy management cpp	£ 76.99	★	£ 124.68	£ 165.44	£ 208.57	£ 107.97	£ 98.08
Lettings cpp	£ 76.05	★	£ 51.91	£ 66.43	£ 87.04	£ 59.11	£ 62.95
Anti-social behaviour cpp	£ 24.61	★	£ 57.77	£ 66.58	£ 81.32	£ 31.30	£ 37.99
Resident involvement cpp	£ 59.20	★	£ 40.24	£ 51.67	£ 73.36	£ 76.54	£ 92.63
Rent arrears cpp	£ 117.43	★	£ 137.23	£ 152.93	£ 191.74	£ 107.17	£ 93.39
<b>Housing management cpp</b>	<b>£ 354.28</b>	<b>★</b>	<b>£ 411.83</b>	<b>£ 503.05</b>	<b>£ 642.03</b>	<b>£ 382.09</b>	<b>£ 385.04</b>
Major and planned works cpp	£ 1,078.25	★	£ 1,216.55	£ 1,435.42	£ 1,762.78	£ 1,022.13	£ 932.83
Responsive repairs cpp	£ 303.48	★	£ 449.47	£ 493.07	£ 582.29	£ 361.65	£ 416.12
Average cost of a responsive repair	£ 78.55	★	£ 120.91	£ 151.57	£ 191.01	£ 86.10	£ 92.05
Average cost of a void repair	£ 1,808.07	★	£ 1,560.03	£ 1,962.83	£ 2,809.42	£ 1,710.55	£ 1,113.78
Estate services cpp	£ 351.35	★	£ 192.08	£ 277.25	£ 356.05	£ 298.77	£ 299.59
Overhead costs as % of direct revenue costs	24.29%	★	24.37%	25.63%	36.29%	24.42%	22.78%

The table confirms that the Association is providing good VFM in the majority of the areas. The three areas requiring further explanation are:

- Lettings – whilst high cost is matched by high quality as shown in the dashboard, a review of this activity will be carried out in 2018 to establish opportunities for improvement.
- Resident involvement – the high cost is matched by high quality as shown in the dashboard and whilst not yet at target, the year on year trend shown above is a reducing cost per property.
- Estate services – the high cost of estate services is matched by high quality and whilst the cost per property at middle lower quartile does not meet benchmark target, the corresponding quality measure of “percentage of tenants satisfied with their neighbourhood as a place to live” is middle upper quartile and the service is therefore “good performance/high cost” as shown in the dashboard above. The Association wishes to ensure that quality remains high and is conducting targeted estate services satisfaction surveys during 2018.

#### Sector Scorecard

HouseMark now publish a small group of key performance indicators designed to allow comparison with similar organisations. For each indicator, the analysis shows:

- A yellow column and number for the Association
- A blue column and number for the similar organisations
- An orange line and number for the entire sector

The Association is satisfied with the performance reflected below although both “operating margin (%)” and “headline social housing cost per unit (£)” include a significant proportion of higher cost, lower margin Supported Housing & Care activities within the Association’s business. For these two measures, comparison is not on a “like for like” basis and this is clearly illustrated below by the “operating margin SHL (%)” measure which removes the effect of Supported Housing & Care activities and shows the Association significantly above both comparison groups.



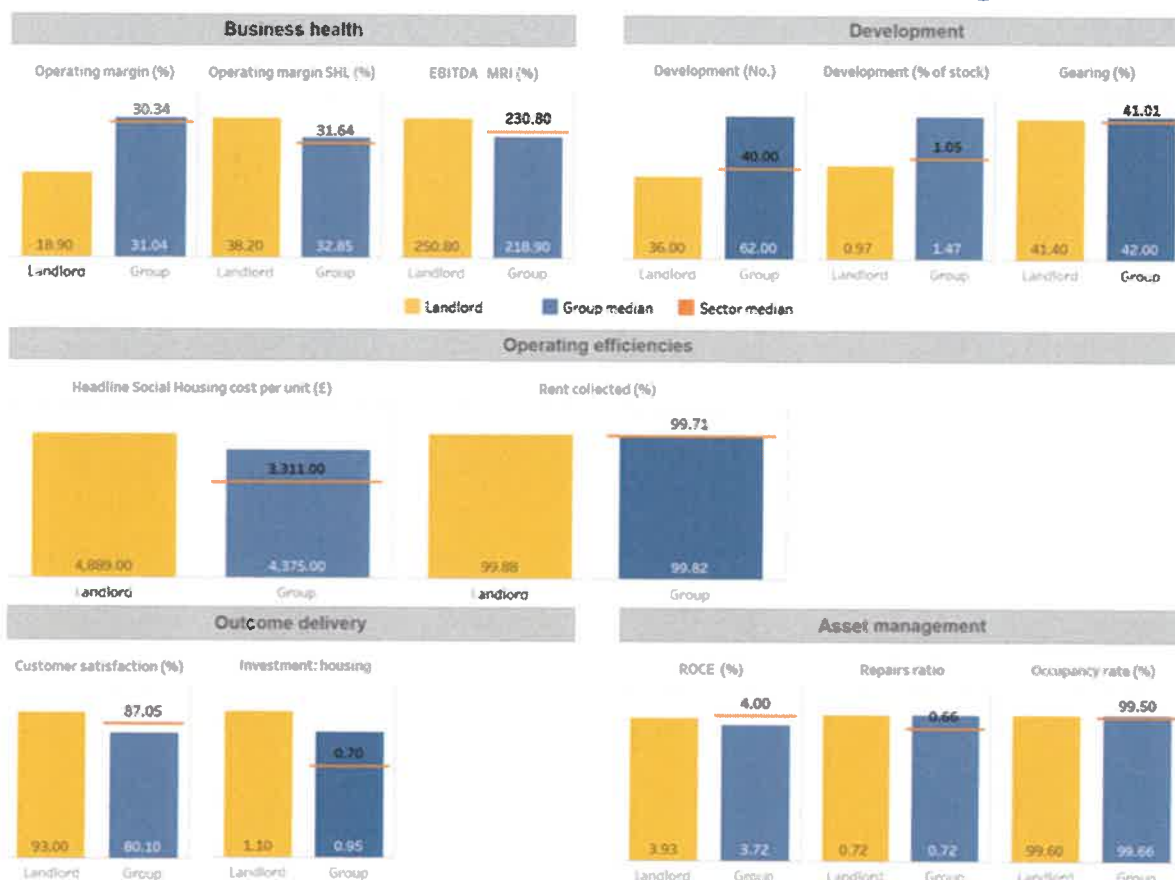
# ORWELL HOUSING ASSOCIATION LIMITED

## Report of the Board for the year ended 31 December 2017 (Continued)

### Value For Money Statement (continued)

### Sector Scorecard (continued)

#### Sector scorecard: Orwell Housing Association



### Return on Assets

The biggest financial asset of the Association is the housing stock, which at the end of 2017 stood at a cost of £226m. To understand the contribution to the overall return, on a biennial basis the Association undertakes a full review of every property and calculates the financial return and return on asset. From this list, properties not meeting the desired performance are then marked for disposal when next becoming empty and the money received is used to build new homes. During 2017 7 properties have been disposed of and cash of £582,000 re-invested in the development programme.

The financial return on the assets of the Association is shown above on the Sector Scorecard and was 3.93% based on 2016 data.

It should also be recognised that a significant amount of the return on assets does not end up as value on our bottom line. Instead, it makes people's lives better and therefore society as a whole. Whilst putting a monetary value on this social impact is a challenge, achievements during the year are shown below together with other positive outcomes more easily expressed as a narrative.

## **ORWELL HOUSING ASSOCIATION LIMITED**

### **Report of the Board for the year ended 31 December 2017 (*Continued*)**

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#### **Social Impact**

The Association delivers numerous outcomes which are of benefit to society as a whole, across a very diverse range. The major areas are:

Housing – the Association provides over 3,500 units of accommodation for which:

- 85% of people are satisfied with their neighbourhood.
- 170 tenants have taken out contents insurance policies.
- 34 tenants are active in tenant groups.

The above examples, which generate a social value of at least £2.2m, are a small part of the social value generated by the provision of housing.

Supported Housing & Care - the Association provides extensive support and care services to older persons, people with dementia, women fleeing domestic violence, young people with chaotic lifestyles and people with learning disabilities. During the year, the Association has:

- delivered in excess of 256,000 hours of support and care to meet people's personal care needs and to help avoid unnecessary hospital admissions.
- supported over 900 older people to remain living independently in sheltered accommodation.
- supported 13 people with a learning disability to access employment or voluntary work.
- supported 35 people with a learning disability to access primary health care for an annual health check.
- supported 26 people with a learning disability to live independently in their own home.
- supported 77 women and their children through our refuge accommodation to flee from domestic abuse and to start to begin to rebuild their lives free from abuse.
- supported 241 homeless people in our hostel accommodation to enable better future opportunities.
- supported 139 men and women who are leaving or continue to live in an abusive relationship through our South Norfolk domestic abuse outreach service.
- supported 220 people and their families through our specialist early help domestic abuse worker based in South Norfolk Hub.

Employment and purchasing – simply being in business means that the Association:

- seeks to buy from local suppliers, and will spend in the region of £5m per annum throughout its operational area.
- supports the local economy by employing almost 700 people, representing a total salary bill of £10.2m.
- directly employs 6 apprentices across the business.
- indirectly supports approximately 350 employees of other organisations providing support and care in properties owned by the Association.
- spent £6.5m building new houses during 2017. It is estimated that this creates work at a rate of twenty people per £1m spent, so around 130 jobs have therefore been supported.

## **ORWELL HOUSING ASSOCIATION LIMITED**

### **Report of the Board for the year ended 31 December 2017 (*Continued*)**

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#### ***Value For Money Statement (continued)***

##### **Future improvements**

The Association is always looking at ways to improve the VFM that is delivered and during 2018 we will:

- further develop the new finance software, implemented during 2017, and look for ways to improve services and efficiencies.
- continue to implement new housing management and support and care software which will;
  - improve the services we offer to our customers
  - improve management information, efficiency and effectiveness.
  - improve communication both internally and externally with customers and possibly extend to a '24/7' experience.
  - assist with the delivery of customer excellence.
  - support the growth of the Association.
  - provide a flexible approach and structure for the Association to respond to an ever-changing working environment.
- continue to take positive and proactive action to reduce the level of employee absence.
- continue to extend development services offered by the e<sup>2</sup> development consortium and generate a surplus over the 4 years 2016 through 2019.
- continue to explore ways in which we can provide housing and other related services to other organisations.
- review and benchmark at least one service from the Association's portfolio of repairs, estate or other services with an ambition to continue to generate savings of over £250,000 over the 5 years 2014 through 2018.
- deliver a plan of individual VFM savings amounting to £125,000 which will be monitored and reviewed by Board.

#### **Corporate Governance**

The Board has adopted in full the National Housing Federation's Code of Governance (2015).

The Board usually consists of up to 12 non-executive members and there are currently 11 non-executive members. The Board normally meets with the executive officers 8 times a year. The work of the Board is supported by the Audit Committee, the Governance Committee and the Remuneration Committee, the latter usually meeting annually to review the salaries of the Chief Executive and directors together with employee benefits.

The responsibility for the day to day operations is delegated to the Chief Executive and the 3 directors, who report through the Chief Executive to the Board.

The Board continue to strive for excellence in governance and this is achieved through:

- annual appraisals of the Board by the Chair and every other year an enhanced process seeking views from the senior management team and a 360 degree review of the Chair;
- continuing work by the Governance Committee to make improvements and or adjustments to governance where gaps or opportunities are identified;
- learning and thinking time at Board meetings together with training for Board members; and
- gap analysis of the skills provided by the Board set against the current and future operating needs of the Association, in order to inform recruitment of new members and address any skill gaps.



## **ORWELL HOUSING ASSOCIATION LIMITED**

### **Report of the Board for the year ended 31 December 2017 (*Continued*)**

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#### ***Corporate Governance (continued)***

The Association's officers and Board work closely with all resident involvement groups to improve services through scrutiny, challenge and tenant participation in general across the Association.

The Audit Committee is a standing committee of the Board and usually comprises 5 members. It has full authority to investigate the affairs of the Association and Group and is given a budget to purchase independent advice as it considers appropriate. It reports directly to the Board and, other than considering internal controls, assurance and risk matters, it also has responsibility for selecting and recommending to the Board the appointment of external and internal auditors. The Committee produces an annual report for the Board regarding its work.

#### **The Board**

Ian Beaumont – Chair  
Kim Newman BSc (Hons) FCIPS MCMI – Vice Chair  
Cynthia Alers MBA MA MIRSoc (appointed 22 March 2017)  
Jeanette Alfano  
Joy Bounds BA (Hons) CQSW DMS  
Daniel Gaul BSc (Eng) MSc

Peter Jones  
Robyn Llewellyn  
Richard Mathias  
Jacqueline Riley BSc (Hons) (resigned 22 March 2017)  
Alastair Thomas BSc (Hons) FRICS  
Barbara Thorndick OBE BA (Hons) FCIOH

Each member held one share in the Association throughout their period of office.

#### **Chief Executive and Senior Management Team**

The executive officers of the Association who served during 2017 were as follows:

Stephen Javes MBA Bsc (Hons) DMS FCIH MIEH  
Wendy Evans-Hendrick BA (Hons) Dip DM DMS  
Paul Kingston MBA FCIH DMS MCMI  
Christopher Wyer FCCA

Chief Executive  
Director of Development & Property Services  
Director of Housing & Care Services  
Director of Resources

The executive officers hold no interest in the Association's share capital and act within the delegated authority given to them by the Board. The detailed scrutiny of performance, policies/procedures and the Business Plan is carried out by the senior management team on an ongoing annual basis.

#### **Third party indemnity provision for Directors and Officers**

Qualifying third party indemnity provision is in place for the benefit of all directors and officers of the company.

## **ORWELL HOUSING ASSOCIATION LIMITED**

### **Report of the Board for the year ended 31 December 2017 (*Continued*)**

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#### **Statement of the Board's responsibilities**

The Co-operative and Community Benefit Societies Act 2014 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 Association's and Group's state of affairs and of the Association's and Group's 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 judgments and estimates that are reasonable and prudent;
- 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 and/or Group 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 Group and to enable the Board to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014, The Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing. The Board also has general responsibility for taking reasonable steps to safeguard the assets of the Association and Group and to prevent and detect fraud and other irregularities.

The Association has in place an Assurance Map to monitor assurance activities across the business. The Assurance Map is reviewed on an annual basis and is also used to effectively plan internal audits.

The Board has undertaken an assessment and can certify compliance with the Governance and Financial Viability Standard, issued by the Homes & Communities Agency.

#### **Risk and internal controls**

The Board recognises that it is ultimately responsible for both the management of risk and the system of internal control. The approach to risk is one where it is expected that management of day to day risk happens automatically as daily business is carried out by each and every employee, supported by the business planning process, where risk management is built into the strategic long term plans of the business. Whilst recognising the need to understand and monitor risk, the Association is not risk-averse and recognises the need for realistic risk control and management to provide a sound basis on which to carry out business and not constrain. The Association will normally look to manage, mitigate or monitor risk, as appropriate, but will avoid risk in excess of its clearly understood risk appetite.

## ORWELL HOUSING ASSOCIATION LIMITED

### Report of the Board for the year ended 31 December 2017 (*Continued*)

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#### *Risk and internal Controls (continued)*

The Association maintains a register of all the risks that may affect the achievement of its objectives with each item evaluated for impact and likelihood of occurrence. The risk register also includes the controls that have been put in place to reduce the risk to a level that is acceptable, given the Association's risk appetite. Each risk, and associated controls, within the register is managed by a nominated individual who is responsible for regular review, on a quarterly basis as a minimum. To support the review, risk is an agenda item at team meetings and all employees are encouraged to contribute. The full risk register is reviewed annually by the Audit Committee in three sections and the risk universe annually at Board and Audit Committee. Major risks included within the register are reviewed quarterly by the Executive Directors and Operational Management Team and at every other Board meeting. The effectiveness of this system is kept under review and the ability to bring weaknesses and improvements required to the attention of the Board is principally delegated to the Audit Committee.

The Board believes that this comprehensive and robust approach to risk management, which is embedded throughout the whole organisation, provides a sound platform from which to deliver the Association's objectives whilst managing risk in the following major areas.

*Inability to deliver the business plan* – programme of investment in information technology and talented employees to deliver the strategic objectives; supported by availability of adequate funding.

*Income reduction or loss* – monitoring systems, proactive action and a focus upon managing the impacts of welfare reform changes, help safeguard income streams across the Association. Where the Association is exposed to complete loss of income, typically through the tendering process, prompt action is taken to reduce costs or transfer costs out.

*Support and Care service delivery, financial or health and safety issues* – monthly financial monitoring by location, professionally qualified employees and adherence to standards set by the Care Quality Commission (CQC) encourage financially viable, high quality services, essential to ensuring the health, wellbeing and safety of customers.

*Maintenance of housing assets* – a proactive approach to asset management is taken and a rolling programme of stock condition surveys is carried out every year. This information is used to inform the 10 year maintenance plan, thereby ensuring that all properties are maintained to a good standard and always meet the decent homes criteria.

*Development performance, financial or health and safety issues, including contingent liabilities from e<sup>2</sup> partners* – qualified and experienced employees, comprehensive contractual documentation together with robust monitoring and review systems, enable the safe building of houses for the Association and e<sup>2</sup> partners and achievement of build targets.

*Financial difficulty or failure* – monthly management accounts, covenant review, projected cashflow review, treasury review and 30 year plan support the continuing viability of the Association and availability of cash to deliver objectives.

*Governance issue* – specific Governance Committee and compliance with the National Housing Federation's Code of Governance 2015 create a culture of strong leadership, organisation and control.

*Health and safety incidents and accident and property based health and safety risks* – systems of safe working, including a particular focus upon asbestos, gas safety, fire risk, legionella and electrical, are in place to protect employees and customers. An in-house Health and Safety specialist is employed to improve the management of health and safety and external consultants are used for independent advice where required, including an audit every 3 years.

## ORWELL HOUSING ASSOCIATION LIMITED

### Report of the Board for the year ended 31 December 2017 (*Continued*)

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#### *Risk and internal Controls (continued)*

*Information technology and communications disruptions* – security software, backup protocols, hardware protection measures and cyber-attack simulation exercises are in place to protect systems and data essential to deliver quality services.

*Damage to reputation* – codes of conduct, policies, education and communication of expectations are in place to prevent any damage together with monitoring of social media and removal of inappropriate material.

*Subsidiary becoming a financial drain on the Association* – monthly management accounts, together with all open market development requiring the prior approval of the Boards of Orwell Housing Association Limited and Orwell Homes Limited, protect the financial strength.

Regular review of the risk register has confirmed that appropriate controls are in place and operational for all of the major risk areas shown above.

The Board recognises that it has overall responsibility for establishing and maintaining the whole system of internal control and for reviewing its effectiveness. The Board also recognises that no system of internal control can provide absolute assurance. The system of internal control is designed to be an important part of the control and management of risk and to provide reasonable assurance that the key business objectives and expected outcomes will be achieved. It also exists to provide reasonable assurance about the preparation and reliability of financial and operational information and the safeguarding of assets and interests.

Furthermore, in the event of a problem occurring that affects the overall reputation of the organisation the Board will expect both officers and members, where appropriate, to be open and honest while providing all of the details required to allow the problem to be properly managed and lessons to be learned from the experience.

Key elements of the internal control framework are:

- a work environment which includes a commitment to quality and competent leadership and control by example, communication of ethical values, an appropriate organisational structure, independence, integrity and openness at Board level, appropriate delegation of authority with accountability and a professional approach to financial reporting;
- a risk management system embedded throughout the Association;
- Audit Committee review of reports from management and external experts providing reasonable assurance that control procedures are in place and are being followed or, where appropriate, detailing improvement actions implemented;
- procedures to reduce exposure in connection with treasury management, through a comprehensive policy which essentially spreads borrowing and lending risks across mainstream financial institutions, limiting the liabilities of the Association and Group and controlling cashflow;
- a 30 year financial plan presented at Board and reviewed to ensure that the Association can meet all its financial commitments. Stress testing of the plan is undertaken through scenario planning, including projecting the cumulative impact of multiple scenarios;
- detailed financial management information systems which are used to report to the Board and which cover a number of recognised activity centres within the Association and Group. In the interim, monthly statements of performance against budget in a consolidated form are sent out to all Board members;
- the viability of care and support is a key element of the business plan and performance is monitored monthly using the management accounts;
- detailed information presented to the Board on a regular basis covering compliance with funding covenants, 3 year cashflow projections, treasury management performance and strategy, annual budget, insurance review and unencumbered asset review;

## ORWELL HOUSING ASSOCIATION LIMITED

### Report of the Board for the year ended 31 December 2017 (*Continued*)

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#### *Risk and internal Controls (continued)*

- trends relating to the impact of welfare reform are monitored by Officers;
- financial control procedures to ensure accurate accounting for financial transactions, including authorisation procedures, physical controls, segregation of duties and procedures to ensure compliance with laws and regulations that have significant implications;
- a Business Plan and policies in place to support the running of an effective business and which include anti-fraud and corruption, anti-money laundering, anti-bribery and whistle-blowing; and
- standing orders which include appropriate delegations of authority, signatories and mandates.

The Board monitors these activities either itself, or through the work of the Committees and regularly reviews effectiveness. The Board, through the Audit Committee, has also undertaken a review of the effectiveness of the system of internal controls and no significant weaknesses that could result in a material loss have been identified.

#### **Fraud**

The Board has in place a set of fraud and whistleblowing policies and procedures which are reviewed on a regular basis. These cover the prevention, detection and reporting of fraud, including the recovery of assets and reporting incidents of fraud to the Social Housing Regulator (formerly the Homes and Communities Agency) and Police. The Association maintains a register of actual and attempted fraud, which the Board has reviewed as part of its annual review of the effectiveness of the Association's system of internal control. During 2017, there were no known instances of actual or attempted fraud reported.

#### **Housing properties**

The Association's housing property was last valued by Messrs Jones Lang LaSalle Ltd, Chartered Surveyors, as at 31 December 2014 at £151,750,000 on the basis of existing use. Allowing for additions and disposals and extrapolating to 31 December 2017 gives a valuation of £166,230,000 on the basis of existing use. Comparing this valuation with the book value of housing stock less grant as at 31 December 2017 of £136,547,000 shows a surplus of £29,683,000. This surplus is not incorporated into the financial statements. In the opinion of the Board, there has been no indication of any significant impairment of the Association's and Group's properties during the year or since then.

#### **Auditor**

The Board members who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditor is unaware. Each of the Board members have confirmed that they have taken all steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

RSM UK Audit LLP has indicated its willingness to continue in office. A resolution will be proposed at the Annual General Meeting that, subject to the outcome of a tender exercise to be conducted in 2018, auditors be appointed at a special general meeting for the year ending 31 December 2018.

#### **For and on behalf of the Board**

Ian Beaumont  
Chair



21 March 2018

## **ORWELL HOUSING ASSOCIATION LIMITED**

### **Independent Auditor's report to the Members of Orwell Housing Association Limited registered under the Co-Operative and Community Benefit Societies Act 2014**

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#### **Opinion**

We have audited the financial statements of Orwell Housing Association Limited (the 'Association') and its subsidiaries (the 'Group') for the year ended 31 December 2017 which comprise the Statements of comprehensive income, Statements of changes in reserve, Statements of financial position and consolidated statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

#### **In our opinion the financial statements:**

- give a true and fair view of the state of the Group's and Association's affairs as at 31 December 2017 and of the income and expenditure of the Group and the income and expenditure of the Association for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014, Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and parent association in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Board's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Board has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Association's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### **Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Board is responsible for the other information. Our opinion on the financial statements does not cover the other information and, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## **ORWELL HOUSING ASSOCIATION LIMITED**

### **Independent Auditor's report to the Members of Orwell Housing Association Limited registered under the Co-Operative and Community Benefit Societies Act 2014 (Continued)**

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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 Co-operative and Community Benefit Societies Act 2014 requires 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 of the Association; or
- we have not received all the information and explanations we require for our audit.

#### **Responsibilities of the Board**

As explained more fully in the Board's responsibilities statement set out on page 16, the Board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board is responsible for assessing the group's and the Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board either intends to liquidate the group or the Association or to cease operations, or have no realistic alternative but to do so.

#### **Auditor's responsibilities for the audit of the financial statements**

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

This report is made solely to the Association's members as a body, in accordance with Part 7 of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the Association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association and the Association's members as a body, for our audit work, for this report, or for the opinions we have formed.

*RSM UK Audit LLP*

RSM UK Audit LLP  
Statutory Auditor  
Chartered Accountants  
Abbotsgate House  
Hollow Road  
Bury St Edmunds  
Suffolk  
IP32 7FA

*23 March 2018*

# ORWELL HOUSING ASSOCIATION LIMITED

## Statements of comprehensive income for the year ended 31 December 2017

	Note	2017 Group £000	2017 Association £000	2016 Group £000	2016 Association £000
<b>Turnover</b>	4	<b>44,497</b>	<b>44,497</b>	43,049	43,049
Operating expenditure	4	(36,450)	(36,618)	(34,878)	(34,892)
<b>Operating surplus</b>	4, 8	<b>8,047</b>	<b>7,879</b>	8,171	8,157
Profit on disposal of housing properties	9	294	294	65	65
Interest receivable	10	15	14	54	53
Interest and finance costs	11	(3,138)	(3,138)	(3,410)	(3,410)
Gift Aid from subsidiary		-	-	-	61
<b>Surplus for the year before tax</b>		<b>5,218</b>	<b>5,049</b>	4,880	4,926
Taxation	12	(32)	-	(3)	-
<b>Surplus and total comprehensive income for the year after tax</b>		<b>5,186</b>	<b>5,049</b>	4,877	4,926

The notes on pages 26 to 53 form part of these financial statements.



# ORWELL HOUSING ASSOCIATION LIMITED

## Statements of changes in reserves for the year ended 31 December 2017

Group	General reserve £000	Restricted reserve £000	Total £000
<b>Balance at 1 January 2016</b>	46,615	1,705	48,320
Surplus for the year	4,877	-	4,877
Transfer from general reserve to restricted reserve	(103)	103	-
Transfer from restricted reserve to general reserve	94	(94)	-
<b>Balance as at 31 December 2016</b>	<u>51,483</u>	<u>1,714</u>	<u>53,197</u>
Surplus for the year	5,186	-	5,186
Transfer from general reserve to restricted reserve	(130)	130	-
Transfer from restricted reserve to general reserve	16	(16)	-
<b>Balance as at 31 December 2017</b>	<u><u>56,555</u></u>	<u><u>1,828</u></u>	<u><u>58,383</u></u>
<b>Association</b>	<b>General reserve £000</b>	<b>Restricted reserve £000</b>	<b>Total £000</b>
<b>Balance at 1 January 2016</b>	46,554	1,705	48,259
Surplus for the year	4,926	-	4,926
Transfer from general reserve to restricted reserve	(103)	103	-
Transfer from restricted reserve to general reserve	94	(94)	-
<b>Balance as at 31 December 2016</b>	<u>51,471</u>	<u>1,714</u>	<u>53,185</u>
Surplus for the year	5,049	-	5,049
Transfer from general reserve to restricted reserve	(130)	130	-
Transfer from restricted reserve to general reserve	16	(16)	-
<b>Balance as at 31 December 2017</b>	<u><u>56,406</u></u>	<u><u>1,828</u></u>	<u><u>58,234</u></u>

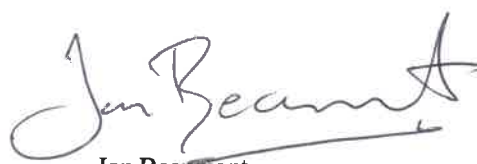
The notes on pages 26 to 53 form part of these financial statements.


# ORWELL HOUSING ASSOCIATION LIMITED

## Statements of financial position for the year ended 31 December 2017

	Note	2017		2016	
		Group £000	Association £000	Group £000	Association £000
<b>Fixed assets</b>					
Intangible fixed assets	13	273	273	194	194
Housing properties	14, 15	209,283	209,188	204,318	204,335
Other tangible fixed assets	16	2,847	2,847	2,898	2,898
Investments	17	382	382	382	382
		<u>212,785</u>	<u>212,690</u>	<u>207,792</u>	<u>207,809</u>
<b>Current assets</b>					
Stock and work in progress	18	1,540	1,211	-	-
Debtors	19	8,141	8,167	5,750	5,952
Cash and cash equivalents		9,035	8,826	6,278	5,873
		<u>18,716</u>	<u>18,204</u>	<u>12,028</u>	<u>11,825</u>
<b>Creditors: amounts falling due within one year</b>	20	(10,637)	(10,179)	(10,845)	(10,671)
<b>Net current assets</b>		<u>8,079</u>	<u>8,025</u>	<u>1,183</u>	<u>1,154</u>
<b>Total assets less current liabilities</b>		<u>220,864</u>	<u>220,715</u>	<u>208,975</u>	<u>208,963</u>
<b>Creditors: amounts falling due after more than one year</b>	21	(160,032)	(160,032)	(153,577)	(153,577)
<b>Provisions for liabilities</b>	26	(2,449)	(2,449)	(2,201)	(2,201)
<b>Total net assets</b>		<u>58,383</u>	<u>58,234</u>	<u>53,197</u>	<u>53,185</u>
<b>Capital and reserves</b>					
Called up share capital	29	-	-	-	-
Restricted reserves	29	1,828	1,828	1,714	1,714
General reserves	29	56,555	56,406	51,483	51,471
		<u>58,383</u>	<u>58,234</u>	<u>53,197</u>	<u>53,185</u>

The financial statements were authorised and approved for issue by the Board on 21 March 2018 and signed on its behalf by

  
**Ian Beaumont**  
**Chair**

  
**Kim Newman**  
**Vice Chair**

  
**Stephen Javes**  
**Chief Executive**

The notes on pages 26 to 53 form part of these financial statements.

# ORWELL HOUSING ASSOCIATION LIMITED

## Consolidated statement of cash flows for the year ended 31 December 2017

	Note	Group 2017 £000	Group 2016 £000
<b>Net cash inflow from operating activities</b>	34	<b>4,135</b>	8,774
<b>Cash flow from investing activities</b>			
Acquisition and construction of housing properties		(6,544)	(9,619)
Purchase of other tangible fixed assets		(267)	(317)
Sale of housing properties		543	492
Social Housing and Other Grants received		2,115	621
Interest received		15	54
Proceeds from sale of investments		-	9
<b>Net cash outflow from investing activities</b>		<b>(4,138)</b>	(8,760)
<b>Net cash (outflow)/inflow before financing activities</b>		<b>(3)</b>	14
<b>Cashflow from financing activities</b>			
Housing loans received		8,500	-
Housing loans repaid		(2,553)	(1,263)
Interest paid		(3,187)	(3,350)
<b>Net cash inflow/(outflow) from financing activities</b>		<b>2,760</b>	(4,613)
<b>Net change in cash and cash equivalents</b>		<b>2,757</b>	(4,599)
Cash and cash equivalents at beginning of the year		<b>6,278</b>	10,877
Cash and cash equivalents at end of the year		<b>9,035</b>	6,278
<b>Cash and cash equivalents comprise:</b>		<b>2017 £000</b>	<b>2016 £000</b>
Cash at bank		<b>9,035</b>	6,278
		<b>9,035</b>	6,278

The notes on pages 26 to 53 form part of these financial statements.

# ORWELL HOUSING ASSOCIATION LIMITED

## Notes forming part of the financial statements for the year ended 31 December 2017

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### 1 Legal status

Orwell Housing Association Limited is a co-operative and community benefit society and is an English registered social housing provider.

The address of the Association's registered office and principal place of business is Crane Hill Lodge, 325 London Road, Ipswich, Suffolk IP2 0BE.

The Association's and Group's principal activities are the provision of affordable rented and shared ownership accommodation for people in housing need and the provision of direct care and support.

The principal activities of the subsidiary company, Orwell Homes Limited, are the provision of construction services to the parent company Orwell Housing Association Limited, together with the development of residential housing.

### 2 Accounting policies

#### *Basis of accounting*

These financial statements have been prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP) including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102"), the Housing SORP 2014 "Statement of Recommended Practice for Registered Housing Providers" and comply with the Accounting Direction for Private Registered Providers of Social Housing 2015, and under the historical cost convention.

Monetary amounts in these financial statements are rounded to the nearest whole £1,000, except where otherwise indicated.

#### *Basis of consolidation*

The consolidated financial statements of the Association have been prepared as required by SORP 2014 and incorporate, under the acquisition method, the financial statements of the Association and enterprises controlled by the Association (its subsidiaries) made up to 31 December each year.

Subsidiaries are entities over which the Association has the power to govern the financial and operating policies to obtain economic benefit to the Association. Subsidiaries are fully consolidated from the effective date of acquisition, or up to the effective date of disposal, as appropriate.

#### *Reduced disclosures*

In accordance with FRS 102, the Association, as an entity, has taken advantage of the exemptions from the following disclosure requirements in its individual financial statements.

- Section 7 'Statement of Cash Flows' – Presentation of a Statement of Cash Flows and related notes and disclosures.
- Section 11 'Basic Financial Instruments' & Section 12 'Other Financial Instrument Issues' – Carrying amounts, interest income/expense and net gains/losses for each category of financial instrument; basis of determining fair values; details of collateral, loan defaults or breaches; and details of hedges and hedging fair value changes recognised in profit or loss and in other comprehensive income.

#### *Going concern*

In the opinion of the Board, the Association and Group have adequate resources to continue in operation for the foreseeable future. For this reason, the going concern basis has been adopted in preparing the financial statements.

## ORWELL HOUSING ASSOCIATION LIMITED

### Notes forming part of the financial statements for the year ended 31 December 2017 (*continued*)

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#### *Turnover*

Turnover represents rental and fee income receivable, fees and revenue grants from local authorities and Homes England (formerly the Homes and Communities Agency), development income as a result of the e<sup>2</sup> consortium, and subsidiary company activities. Rental income is recognised on the execution of tenancy agreements. Development income as a result of the e<sup>2</sup> consortium is recognised on an equivalent basis to the proportion of cost incurred at year end compared to total anticipated cost. Proceeds on sale are recognised on practical completion. Other income is recognised as receivable on the delivery of services provided.

#### *Government Grants*

Government grants include grants receivable from Homes England (formerly the Homes and Communities Agency (HCA)), local authorities and other government bodies.

Government grants are recognised at the fair value of the asset received or receivable when there is reasonable assurance that the grant conditions will be met and the grants will be received. Reasonable assurance is considered to be the point where the grant claim, in accordance with the previously approved project approval, has been submitted to Homes England (formerly the Homes and Communities Agency (HCA)).

Government grants received for housing properties are recognised in income over the useful economic life of the structure of the asset and, where applicable, the individual components of the structure (excluding land) under the accruals model.

Government grants relating to revenue are recognised as income over the periods when the related costs are incurred once reasonable assurance has been gained that the Association will comply with the conditions and the funds will be received.

#### *Other grants*

Grants received from non-government sources are recognised using the performance model. Grants are recognised as income when the associated performance conditions are met.

#### *Donated land or acquired below market value*

Land or other assets which have been donated by a government source is added to cost of assets at the fair value of the land at the time of the donation. The difference between the fair value of the asset donated and the consideration paid is treated as a non-monetary government grant and included within the Statement of Financial Position as a liability. The terms of the donation are considered to be performance related conditions. Where the donation is not from a public source, the value of the donations less the consideration is included in income.

#### *Intangible fixed assets*

Intangible fixed assets are stated at cost, less amortisation. Amortisation is provided at a rate calculated to write off the cost, less estimated residual values, on a straight-line basis over the expected economic useful lives of the assets as follows:

Software	- 3 years
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#### *Fixed assets - housing, land and buildings*

Housing properties are properties for the provision of social housing and are principally properties available for rent and shared ownership.

Completed housing and shared ownership properties are stated at cost less accumulated depreciation and impairment losses.

## ORWELL HOUSING ASSOCIATION LIMITED

### Notes forming part of the financial statements for the year ended 31 December 2017 *(continued)*

#### *Fixed assets - housing, land and buildings (continued)*

Cost includes the cost of acquiring land and buildings, and expenditure incurred during the development period.

Works to existing properties which replace a component that has been treated separately for depreciation purposes, along with those works that enhance the economic benefits of the assets, are capitalised as improvements. Such enhancements can occur if improvements result in either:

- An increase in rental income;
- A material reduction in future maintenance costs;
- A significant extension to the life of the property.

Shared ownership properties are split proportionally between fixed assets and current 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. Where the first tranche has been sold prior to the acquisition of the properties, these are included in fixed assets only.

#### *Depreciation of housing properties*

Freehold land or assets under construction are not depreciated.

The group separately identifies the major components of its housing properties and charges depreciation so as to write-down the cost of each component to its estimated residual value, on a straight line basis over the following years:

Housing leasehold buildings	Length of lease
Property structure	100 years
Roofs	60 years
Kitchens	20 years
Windows and doors	30 years
Bathrooms	30 years
Lifts	15 years
Boilers	15 years
Heating systems	30 years

In respect of the property structure, it is considered that the residual value remains at a level equal to or above the original cost and therefore any depreciation charge would be immaterial or nil.

#### *Impairment of fixed assets*

An assessment is made at each reporting date of whether there are indications that a fixed asset (including housing properties) may be impaired or that an impairment loss previously recognised has fully or partially reversed. If such indications exist, the recoverable amount of the asset is estimated.

Shortfalls between the carrying value of fixed assets and their recoverable amounts, being the higher of fair value less costs to sell and value-in-use of the asset based on its service potential, are recognised as impairment losses in the income and expenditure account.

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Reversals of impairment losses are recognised in income and expenditure. On reversal of an impairment loss, the depreciation or amortisation is adjusted to allocate the asset's revised carrying amount (less any residual value) over its remaining useful life.

## ORWELL HOUSING ASSOCIATION LIMITED

### Notes forming part of the financial statements for the year ended 31 December 2017 (*continued*)

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#### *Other tangible fixed assets*

Other fixed assets are stated at cost, less depreciation. Depreciation is provided at rates calculated to write off the cost, less estimated residual values, of all fixed assets, with the exception of freehold offices, on a straight-line basis over the expected economic useful lives of the assets as follows:

Motor vehicles	-	4 years
Office furniture and equipment	-	5 years
Gardening equipment	-	4 years
Computer equipment	-	3 years

In respect of freehold offices, it is considered that the residual value remains at a level equal to or above the original cost and therefore any depreciation charge would be immaterial or nil.

#### *Construction contracts*

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, turnover and costs are recognised over the period of the contract.

When it is probable that total contract costs will exceed total contract turnover, the expected loss is recognised as an expense immediately.

When the outcome of a construction contract cannot be estimated reliably, contract turnover is recognised only to the extent of contract costs that are recoverable and the contract costs are expensed as incurred.

The group uses the "percentage of completion method" to determine the appropriate amount to recognise in a given period. The stage of completion is measured by the proportion of contract costs incurred for work performed to date compared to the estimated total contract costs. Costs incurred in the year in connection with future activity on a contract are excluded for contract costs in determining the stage of completion. These costs are presented as stocks, prepayments or other assets, depending on their nature, and provided it is probable they will be recovered. Amounts held as work in progress at the year end represent costs incurred in respect of potential e<sup>2</sup> schemes where a development contract is not yet in place.

#### *Borrowing costs*

The costs incurred in raising long term finance are expensed.

#### *Value Added Tax (VAT)*

The group is registered for VAT but a large proportion of its income, including rents, is exempt for VAT purposes. The majority of the Association's expenditure is subject to VAT which cannot be reclaimed and expenditure is therefore shown inclusive of VAT. Any input VAT recovered is credited against operating costs.

#### *Taxation*

The Association has charitable status and is therefore exempt from paying Corporation Tax on charitable activities. The tax expense represents the sum of the current tax expense and deferred tax expense arising from its subsidiary company activities. Current tax assets are recognised when tax paid exceeds the tax payable.

Current tax is based on taxable profit for the year. Current tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates that have been enacted or substantively enacted by the reporting date.

## ORWELL HOUSING ASSOCIATION LIMITED

### Notes forming part of the financial statements for the year ended 31 December 2017 *(continued)*

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#### *Taxation (continued)*

Deferred tax liabilities are recognised in respect of all timing differences that exist at the reporting date. Timing differences are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in different periods from their recognition in the financial statements. Deferred tax assets are recognised only to the extent that it is probable that they will be recovered by the reversal of deferred tax liabilities or other future taxable profits.

Current and deferred tax is charged or credited in profit or loss, except when it relates to items charged or credited to other comprehensive income or equity, when the tax follows the transaction or event it relates to and is also charged or credited to other comprehensive income, or equity.

Current tax assets and current tax liabilities and deferred tax assets and deferred tax liabilities are offset, if and only if, there is a legally enforceable right to set off the amounts and the entity intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

#### *Temporary Supported Housing*

Where hostels are operated by other organisations under management agreements, the financial statements include only the amounts payable and receivable in respect of the hostels and any deficits arising are funded from other operations of the relevant organisations. Where hostels are managed by the Association, their income and expenditure is included in full in the income and expenditure account.

#### *Operating leases*

Annual rentals payable under operating leases are charged to the statement of comprehensive income on a straight-line basis over the term of the lease.

#### *Retirement benefits*

##### *Defined contribution plans*

For defined contribution schemes the amount charged to income and expenditure is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments.

##### *Defined benefit plans*

The group participates in a multi-employer defined benefit scheme, the Social Housing Pension Scheme (SHPS). Contributions are recognised in income and expenditure in the period to which they relate as there is insufficient information available to use defined benefit accounting. A liability is recognised for contributions arising from an agreement with SHPS that determines how the Association will fund a deficit. Contributions are discounted when they are not expected to be settled wholly within 12 months of the period end. The discount rate used is based on an AA corporate rate bond with terms and currencies consistent with those of the liabilities.



## **ORWELL HOUSING ASSOCIATION LIMITED**

### **Notes forming part of the financial statements for the year ended 31 December 2017 (*Continued*)**

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#### *Financial instruments*

The group has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102, in full, to all of its financial instruments.

Financial assets and financial liabilities are recognised when the group becomes a party to the contractual provisions of the instrument, and are offset only when the group currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

#### *Financial assets*

##### *Debtors*

Debtors which are receivable within one year and which do not constitute a financing transaction are initially measured at the transaction price. Debtors are subsequently measured at amortised cost, being the transaction price less any amounts settled and any impairment losses.

Where the arrangement with a debtor constitutes a financing transaction, the debtor is initially and subsequently measured at the present value of future payments discounted at a market rate of interest for a similar debt instrument.

A provision for impairment of debtors is established when there is objective evidence that the amounts due will not be collected according to the original terms of the contract. Impairment losses are recognised in profit or loss for the excess of the carrying value of the debtor over the present value of the future cash flows discounted using the original effective interest rate. Subsequent reversals of an impairment loss that objectively relate to an event occurring after the impairment loss was recognised, are recognised immediately in profit or loss.

#### *Financial liabilities*

##### *Trade creditors*

Trade creditors payable within one year that do not constitute a financing transaction are initially measured at the transaction price and subsequently measured at amortised cost, being the transaction price less any amounts settled.

Where the arrangement with a trade creditor constitutes a financing transaction, the creditor is initially and subsequently measured at the present value of future payments discounted at a market rate of interest for a similar instrument.

##### *Borrowings*

Borrowings are initially recognised at the transaction price, including transaction costs, and subsequently measured at amortised cost using the effective interest method. Interest expense is recognised on the basis of the effective interest method and is included in interest payable and other similar charges.

#### *Derecognition of financial assets and liabilities*

A financial asset is derecognised only where the contractual rights to cashflows expire or are settled, or substantially all the risks and rewards of ownership are transferred to another party, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party. A financial liability (or part thereof) is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

## ORWELL HOUSING ASSOCIATION LIMITED

### Notes forming part of the financial statements for the year ended 31 December 2017 (*Continued*)

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#### *Provisions*

Provisions are recognised when there is an obligation at the reporting date as a result of a past event which it is probable will result in the transfer of economic benefits and that obligation can be estimated reliably.

Provisions are measured at the best estimate of the amounts required to settle the obligation. Where the effect of the time value of money is material, the provision is based on the present value of those amounts, discounted at the pre-tax discount rate that reflects the risks specific to the liability. The unwinding of the discount is recognised within interest payable and similar charges.

### **3 Critical accounting estimates and areas of judgement**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### *Critical accounting estimates and assumptions*

The group makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

In respect of the property structure component of housing properties and freehold offices, it is considered that the residual value remains at a level equal to or above the original cost and therefore any depreciation charge would be immaterial or nil.

The rate used to discount the SHPS deficit contribution liability to a present value is based upon market yields for high quality corporate bonds with terms consistent with those of the liabilities. The commitment to SHPS of £2,040,000 for the next 9 years has been discounted at a rate of 1.41% (2016: 1.45%) amounting to a net present value of £1,937,000 at 31 December 2017 (2016: £2,201,000).

Construction contracts – the outcome of a construction contract is an estimate and during the period of construction, things may come to light which have a material adverse impact on the cost.

Provision is made for bad and doubtful debts where the debt is in excess of 30 days beyond normal payment terms.

Provision in respect of sleeping overnight back-pay – the provision has been calculated using historical records of shifts worked over the maximum back-pay period of 6 years. Given the national publicity around this subject, it is probable that the provision will be required in full, although a further case law decision is awaited.

#### *Critical areas of judgement*

In categorising leases as finance leases or operating leases, management makes judgements as to whether significant risks and rewards of ownership have transferred to the Association as lessee, or the lessee, where the Association is a lessor.

Impairment of housing assets is considered annually. In making the judgement, the Board consider the detailed criteria set out in the SORP.

# ORWELL HOUSING ASSOCIATION LIMITED

Notes forming part of the financial statements for the year ended 31 December 2017 (Continued)

## 4 Turnover, operating costs and operating surplus

2017	Turnover £000	Operating costs £000	Operating surplus £000
Social housing lettings (see note 5)	20,014	12,160	7,854
Other social housing activities:			
Current asset property sales	370	212	158
Charges for support services	3,020	3,532	(512)
Care	4,245	3,990	255
Development activities	16,604	16,525	79
Non-social housing activities:			
Lettings	139	101	38
Other	105	98	7
Association activities	44,497	36,618	7,879
Subsidiary company	-	(168)	168
Group activities	44,497	36,450	8,047
2016	Turnover £000	Operating costs £000	Operating surplus £000
Social housing lettings (see note 5)	19,799	12,240	7,559
Other social housing activities:			
Current asset property sales	898	790	108
Charges for support services	2,747	2,747	-
Care	3,592	3,341	251
Development activities	15,453	15,275	178
Non-social housing activities:			
Lettings	148	118	30
Other	412	381	31
Association activities	43,049	34,892	8,157
Subsidiary company	-	(14)	14
Group activities	43,049	34,878	8,171

Other social housing activities - charges for support services includes £1,497,000 of Supporting People income (2016: £2,198,000).

# ORWELL HOUSING ASSOCIATION LIMITED

Notes forming part of the financial statements for the year ended 31 December 2017 (Continued)

## 5 Particulars of the Group's and Association's income and expenditure from social housing lettings

	General needs housing £000	Supported housing £000	Shared ownership accommo- dation £000	2017 Total £000	2016 Total £000
Rent receivable net of identifiable service charges	12,997	2,756	223	15,976	15,683
Service income	567	1,516	103	2,186	2,277
Management services and other income	33	736	2	771	761
<b>Gross rental income</b>	<b>13,597</b>	<b>5,008</b>	<b>328</b>	<b>18,933</b>	18,721
Voids	(67)	(95)	-	(162)	(214)
<b>Net rental income</b>	<b>13,530</b>	<b>4,913</b>	<b>328</b>	<b>18,771</b>	18,507
Amortised government grants	736	207	-	943	962
Government grants taken to income	-	-	-	-	-
Revenue grant for major repairs	-	-	-	-	-
Land donated/acquired below market price	300	-	-	300	330
<b>Turnover from social housing lettings</b>	<b>14,566</b>	<b>5,120</b>	<b>328</b>	<b>20,014</b>	19,799
Management	2,811	1,459	114	4,384	4,509
Services	553	1,373	21	1,947	1,831
Routine maintenance	1,890	394	9	2,293	2,225
Planned maintenance	1,135	320	2	1,457	1,558
Bad debts	100	78	-	178	84
Depreciation of housing properties	1,374	212	1	1,587	1,717
Other costs	244	70	-	314	316
<b>Operating costs on social housing lettings</b>	<b>8,107</b>	<b>3,906</b>	<b>147</b>	<b>12,160</b>	12,240
<b>Operating surplus on social housing lettings</b>	<b>6,459</b>	<b>1,214</b>	<b>181</b>	<b>7,854</b>	7,559

**ORWELL HOUSING ASSOCIATION LIMITED****Notes forming part of the financial statements for the year ended 31 December 2017 (Continued)****6 Employees**

The average monthly number of employees of the Group and Association during the year was:

	<b>2017</b>		<b>2016</b>	
	<b>Full time</b>	<b>Part time</b>	Full time	Part time
Administration	<b>81</b>	<b>79</b>	93	85
Wardens/Care Workers	<b>43</b>	<b>400</b>	41	374
Gardeners/Caretakers/Repairs	<b>46</b>	<b>63</b>	31	61
	<b>170</b>	<b>542</b>	165	520

The above represents full time equivalents of 444 (2016: 436).

	<b>2017</b>	2016
	<b>£000</b>	£000
Staff costs consist of:		
Wages and salaries	<b>10,231</b>	9,353
Social security costs	<b>691</b>	631
Pension contributions	<b>437</b>	428
	<b>11,359</b>	10,412

Full time equivalent number of staff who received remuneration during the year above £60,000 was:

	<b>2017</b>	2016
£60,001 - £70,000	<b>5</b>	1

## ORWELL HOUSING ASSOCIATION LIMITED

Notes forming part of the financial statements for the year ended 31 December 2017 (*Continued*)

### 7 Directors

Directors are defined as the eleven members of the Board (2016: eleven) together with the four members of the senior management team (2016: four), which includes the Chief Executive. Board member remuneration during the year was as follows:

#### Group and Association

	2017 £000	2016 £000
Cynthia Alers (appointed 22 March 2017)	3	-
Jeanette Alfano	4	4
Ian Beaumont	9	9
Joy Bounds	6	4
Mark Butler (resigned 29 January 2017)	-	4
Daniel Gaul (appointed 24 March 2016)	4	3
Tom Griffin (resigned 24 March 2016)	-	3
Peter Jones	4	4
Robyn Llewellyn	6	4
Richard Mathias	4	4
Kim Newman	7	4
Jacqueline Riley (resigned 22 March 2017)	2	6
Barbara Thorndick (appointed 24 March 2016)	4	3
Alastair Thomas	6	6
Total emoluments – non-executive	<u>59</u>	<u>58</u>
Emoluments (including social security costs of £49,192 (2016: £46,878) – executive	479	477
Pension scheme contributions – executive	<u>64</u>	<u>64</u>
Total Key Management compensation – sixteen directors (2016: seventeen)	<u>602</u>	<u>599</u>
Emoluments of the highest paid director	<u>153</u>	<u>151</u>

The four executive directors (2016: four) were members of the Association's defined benefit pension scheme.

The Chief Executive was an ordinary member of the pension scheme until withdrawing on 30 June 2017, with no enhanced or special terms applied. Contributions towards the Chief Executive's pension by the company amounted to £3,000 (2016: £20,915). The Chief Executive's notice period is 6 months.

# ORWELL HOUSING ASSOCIATION LIMITED

Notes forming part of the financial statements for the year ended 31 December 2017 (*Continued*)

## 8 Operating surplus

	2017		2016	
	Group £000	Association £000	Group £000	Association £000
This has been arrived at after charging:				
Housing properties depreciation	1,587	1,587	1,717	1,717
Other depreciation and amortisation	226	226	153	153
Internal auditors' remuneration	23	23	17	17
Hire of assets – operating leases – land and buildings	314	314	316	316
Hire of assets – operating leases – motor vehicles	205	205	221	221
Sleep-in provision	512	512	-	-
Fees payable to RSM UK Audit LLP and its associates in respect of both audit and non audit services are as follows:				
Audit services – statutory audit of the company	21	19	24	21
Audit related advisory services	2	2	-	-
Taxation compliance services	1	-	1	-

## 9 Profit on disposal of housing properties

	2017		2016	
	Group £000	Association £000	Group £000	Association £000
External disposals				
Disposal proceeds	582	582	492	492
Cost, less Social Housing Grant not recycled	(288)	(288)	(427)	(427)
Profit	294	294	65	65

## 10 Interest receivable

	2017		2016	
	Group £000	Association £000	Group £000	Association £000
On bank and building society deposits	15	14	54	53

# ORWELL HOUSING ASSOCIATION LIMITED

Notes forming part of the financial statements for the year ended 31 December 2017 (*Continued*)

## 11 Interest and finance costs

	2017		2016	
	Group £000	Association £000	Group £000	Association £000
On bank loans and other loans repayable wholly or partly within 5 years	73	73	97	97
On bank loans and other loans repayable wholly or partly after more than 5 years	3,080	3,080	3,216	3,216
Bond premium released	(47)	(47)	(46)	(46)
Defined benefit pension charge	32	32	143	143
	<u>3,138</u>	<u>3,138</u>	<u>3,410</u>	<u>3,410</u>

## 12 Taxation

	2017		2016	
	Group £000	Association £000	Group £000	Association £000
Current tax:				
UK Corporation tax on profits of current year	32	-	3	-
	<u>32</u>	<u>-</u>	<u>3</u>	<u>-</u>

Factors affecting tax charge for the year:

The tax assessed for the period is equal to the main rate of corporation tax of 19.25% (2016 – 20%) as explained below:

	2017 £000	2016 £000
Subsidiary profit on ordinary activities before tax	<u>168</u>	<u>15</u>
Profit on ordinary activities multiplied by the main rate of corporation tax of 19.25% (2016 – 20%)	32	3
Gift aid paid post year end	-	-
	<u>32</u>	<u>3</u>



**ORWELL HOUSING ASSOCIATION LIMITED****Notes forming part of the financial statements for the year ended 31 December 2017 (Continued)****13 Intangible fixed assets**

<b>Group and Association</b>	<b>Software £000</b>	<b>2017 Total £000</b>
<i>Cost</i>		
At beginning of year	228	<b>228</b>
Additions during year	169	<b>169</b>
Disposals during year	(11)	<b>(11)</b>
<b>At end of year</b>	<b>386</b>	<b>386</b>
<i>Less: Amortisation</i>		
At beginning of year	(34)	<b>(34)</b>
Charge for year	(90)	<b>(90)</b>
Disposals during year	11	<b>11</b>
<b>At end of year</b>	<b>(113)</b>	<b>(113)</b>
<i>Net book value</i>		
At beginning of year	194	194
<b>At end of year</b>	<b>273</b>	<b>273</b>

# ORWELL HOUSING ASSOCIATION LIMITED

Notes forming part of the financial statements for the year ended 31 December 2017 (*Continued*)

## 14 Tangible fixed assets - Housing properties

Group	Shared Ownership under construction £000	Housing properties under construction £000	Shared Ownership properties completed £000	Housing properties for letting completed £000	2017 Total £000
<i>Cost</i>					
At beginning of year	167	3,456	4,869	212,217	220,709
Additions during year	580	4,977	86	1,123	6,766
Disposals during year	-	-	(71)	(918)	(989)
Transfer	(362)	(5,022)	362	5,022	-
<b>At end of year</b>	<b>385</b>	<b>3,411</b>	<b>5,246</b>	<b>217,444</b>	<b>226,486</b>
<i>Depreciation</i>					
At beginning of year	-	-	(1)	(16,390)	(16,391)
Charge for the year	-	-	(1)	(1,586)	(1,587)
On disposal	-	-	-	775	775
<b>At end of year</b>	<b>-</b>	<b>-</b>	<b>(2)</b>	<b>(17,201)</b>	<b>(17,203)</b>
<i>Net book value</i>					
At beginning of year	167	3,456	4,868	195,827	204,318
<b>At end of year</b>	<b>385</b>	<b>3,411</b>	<b>5,244</b>	<b>200,243</b>	<b>209,283</b>
					<b>2017 £000</b>
Freehold land and buildings					202,429
Long leasehold land and buildings					6,437
Short leasehold land and buildings					417
					<b>209,283</b>

Whilst the Group does not revalue housing property, the value as at 31 December 2014 was £151,750,000 on the basis of existing use.

During the year, £1,593,000 of works to existing properties were capitalised (2016: £1,529,000) and £3,750,000 (2016: £3,783,000) were charged to the Group's statement of comprehensive income.

# ORWELL HOUSING ASSOCIATION LIMITED

Notes forming part of the financial statements for the year ended 31 December 2017 *(Continued)*

## 15 Tangible fixed assets - Housing properties

Association	Shared Ownership under construction £000	Housing properties under construction £000	Shared Ownership properties completed £000	Housing properties for letting completed £000	2017 Total £000
<i>Cost</i>					
At beginning of year	167	3,473	4,869	212,414	220,923
Additions during year	580	4,865	86	1,123	6,654
Disposals during year	-	-	(71)	(918)	(989)
Transfer	(362)	(5,022)	362	5,022	-
<b>At end of year</b>	<b>385</b>	<b>3,316</b>	<b>5,246</b>	<b>217,641</b>	<b>226,588</b>
<i>Depreciation</i>					
At beginning of year	-	-	(1)	(16,587)	(16,588)
Charge for the year	-	-	(1)	(1,586)	(1,587)
On disposal	-	-	-	775	775
<b>At end of year</b>	<b>-</b>	<b>-</b>	<b>(2)</b>	<b>(17,398)</b>	<b>(17,400)</b>
<i>Net book value</i>					
At beginning of year	167	3,473	4,868	195,827	204,335
<b>At end of year</b>	<b>385</b>	<b>3,316</b>	<b>5,244</b>	<b>200,243</b>	<b>209,188</b>
					<b>2017 £000</b>
Freehold land and buildings					202,334
Long leasehold land and buildings					6,437
Short leasehold land and buildings					417
					<b>209,188</b>

Whilst the Association does not revalue housing property, the value as at 31 December 2014 was £151,750,000 on the basis of existing use.

During the year, £1,593,000 of works to existing properties were capitalised (2016: £1,529,000) and £3,750,000 (2016: £3,783,000) were charged to the Association's statement of comprehensive income.

# ORWELL HOUSING ASSOCIATION LIMITED

Notes forming part of the financial statements for the year ended 31 December 2017 (*Continued*)

## 16 Tangible fixed assets - Other

Group and Association	Freehold offices £000	Motor vehicles £000	Office furniture, plant & equipment £000	Gardening equipment £000	2017 Total £000
<i>Cost</i>					
At beginning of year	2,594	43	401	10	3,048
Additions during year	-	35	56	7	98
Disposals during year	-	(30)	(92)	(1)	(123)
<b>At end of year</b>	<b>2,594</b>	<b>48</b>	<b>365</b>	<b>16</b>	<b>3,023</b>
<i>Less: Depreciation</i>					
At beginning of year	-	(11)	(134)	(5)	(150)
Charge for year	-	(13)	(120)	(3)	(136)
Disposals during year	-	17	92	1	110
<b>At end of year</b>	<b>-</b>	<b>(7)</b>	<b>(162)</b>	<b>(7)</b>	<b>(176)</b>
<i>Net book value</i>					
At beginning of year	2,594	32	267	5	2,898
<b>At end of year</b>	<b>2,594</b>	<b>41</b>	<b>203</b>	<b>9</b>	<b>2,847</b>

## 17 Investments

	2017		2016	
	Group £000	Association £000	Group £000	Association £000
Liquidity reserve	<b>382</b>	<b>382</b>	382	382

The above funds are held in trust for the Association as security against one year's interest cost on the bond proceeds and cannot be accessed until 2042 when they will be utilised to part repay the bond amount of £10m.

### Association

At 1 January 2017 and 31 December 2017

£  
4

At the year end the Association held shares in the following:

Company	Country of incorporation	Ordinary shares held		Cost £	Nature of business
		Number	%		
Orwell Homes Limited	England and Wales	2	100	2	Property development
Suffolk Rural Housing Limited	England and Wales	2	100	2	Dormant

**ORWELL HOUSING ASSOCIATION LIMITED**Notes forming part of the financial statements for the year ended 31 December 2017 *(Continued)***18 Stocks and work in progress**

	2017		2016	
	Group £000	Association £000	Group £000	Association £000
Stock relating to anticipated first tranche disposals of Shared Ownership Properties	1,211	1,211	-	-
Stock relating to anticipated market sales	329	-	-	-
	<u>1,540</u>	<u>1,211</u>	<u>-</u>	<u>-</u>

**19 Debtors**

	2017		2016	
	Group £000	Association £000	Group £000	Association £000
Arrears of rent and service charges	771	771	735	735
Less: Provision for bad/doubtful debts	(199)	(199)	(168)	(168)
	<u>572</u>	<u>572</u>	<u>567</u>	<u>567</u>
Trade debtors	2,909	2,909	1,758	1,758
Less: Provision for bad/doubtful debts	(451)	(451)	(457)	(457)
	<u>2,458</u>	<u>2,458</u>	<u>1,301</u>	<u>1,301</u>
Amounts recoverable on contracts	3,815	3,815	2,979	2,979
Amounts due from group companies	-	63	-	213
Other debtors	1,296	1,259	903	892
	<u>8,141</u>	<u>8,167</u>	<u>5,750</u>	<u>5,952</u>

All debtors above are considered to be recoverable within one year.

**Group and Association**

	<b>Bad and doubtful debts £000</b>
At 1 January 2016	620
Charge to income and expenditure account for the year	84
Expenditure charge to the provision for the year	(79)
	<u>625</u>
At 31 December 2016	625
Charge to income and expenditure account for the year	178
Expenditure charge to the provision for the year	(153)
	<u>650</u>
<b>Balance at 31 December 2017</b>	<b>650</b>

The bad and doubtful debts provisions are in place to cover all debts where the Association considers that there are doubts that payment will be received.

**ORWELL HOUSING ASSOCIATION LIMITED**Notes forming part of the financial statements for the year ended 31 December 2017 *(Continued)***20 Creditors: amounts falling due within one year**

	<b>2017</b>		<b>2016</b>	
	<b>Group £000</b>	<b>Association £000</b>	<b>Group £000</b>	<b>Association £000</b>
Payments on account of long term work in progress	778	778	670	670
Current instalments of loans (see note 24)	2,732	2,732	1,995	1,995
Contractors for certificate work and unpaid retentions	956	751	734	574
Other taxation and social security	175	175	174	174
Corporation tax	32	-	3	-
Amounts due to group companies	-	629	-	457
Deferred income	551	551	662	662
Recycled capital grants (see note 22)	157	157	113	113
Deferred capital grants (see note 23)	943	943	1,021	1,021
Other creditors and accruals	4,313	3,463	5,473	5,005
	<u>10,637</u>	<u>10,179</u>	<u>10,845</u>	<u>10,671</u>

**21 Creditors: amounts falling due after more than one year**

Amounts due are payable as follows:

	<b>2017</b>		<b>2016</b>	
	<b>Group £000</b>	<b>Association £000</b>	<b>Group £000</b>	<b>Association £000</b>
Recycled capital grant fund due for repayment to Homes England (see note 22)	423	423	396	396
Deferred capital grants (see note 23)	71,698	71,698	70,480	70,480
Borrowings (see note 24)	87,911	87,911	82,701	82,701
	<u>160,032</u>	<u>160,032</u>	<u>153,577</u>	<u>153,577</u>

**Notes forming part of the financial statements for the year ended 31 December 2017 (Continued)**

	2017		2016	
	Group £000	Association £000	Group £000	Association £000
At the beginning of the year	509	509	390	390
Inputs to RCGF: grants recycled	78	78	143	143
interest accrued	4	4	4	4
Recycling of grant: new build	(11)	(11)	(28)	(28)
<b>At the end of the year</b>	<b>580</b>	<b>580</b>	<b>509</b>	<b>509</b>

## 23 Deferred capital grant

<b>Group and Association</b>	<b>2017 £000</b>	<b>2016 £000</b>
As at 1 January	<b>71,501</b>	71,985
Grant received in the year	<b>2,126</b>	621
Capital grant released	<b>(943)</b>	(962)
Reinstatement of grant re disposals	<b>35</b>	-
Disposals	<b>(78)</b>	(143)
<b>As at 31 December</b>	<b>72,641</b>	71,501

**ORWELL HOUSING ASSOCIATION LIMITED****Notes forming part of the financial statements for the year ended 31 December 2017 (Continued)****24 Borrowings**

<b>Group and Association</b>	<b>2017 £000</b>	<b>2016 £000</b>
Creditors: amounts falling due within one year (see note 20):		
Bank loans	<b>2,732</b>	1,995
	<b>2,732</b>	1,995
Creditors: amounts falling due after more than one year (see note 21):		
Bank loans repayable by instalments due after 1 year and up to 5 years	<b>11,809</b>	11,047
Bank loans repayable by instalments due after 5 years	<b>64,692</b>	60,190
Bank loans repayable other than by instalments due after 5 years	<b>11,410</b>	11,464
	<b>87,911</b>	82,701

Borrowings are denominated and repaid in pounds sterling, have contractual interest rates that are either fixed rates or variable rates linked to LIBOR that are not leveraged, and do not contain conditional returns or repayment provisions other than to protect the lender against credit deterioration or changes in relevant legislation or taxation.

All of the borrowings are secured against the Association's housing properties.

Bank borrowings are repayable by regular instalments of principal and interest, the last instalments of which fall to be repaid after two years on dates between 2018 and 2050; the loans bear interest at variable and fixed rates of between 0.77% and 15.0%.

The bank borrowings are subject to a variety of covenants including interest cover and gearing covenants. During the year, there have been no covenant breaches.

The Association also has borrowings in the form of bond finance upon which interest is charged at a nominal rate of 3.8% and a full bullet repayment of £10m is payable in 2042.



**ORWELL HOUSING ASSOCIATION LIMITED**Notes forming part of the financial statements for the year ended 31 December 2017 (*Continued*)**25 Financial instruments**

<b>Group</b>	<b>2017 £000</b>	<b>2016 £000</b>
Carrying amount of financial assets:		
Debt instruments measured at amortised cost	<b>7,473</b>	<b>5,072</b>
Carrying amount of financial liabilities:		
Measured at amortised cost	<b>97,302</b>	<b>92,045</b>

**26 Provisions for liabilities**

<b>Group and Association</b>	<b>SHPS Pension £000</b>	<b>Sleep-Ins £000</b>	<b>Total £000</b>
At 1 January 2016	2,328	-	<b>2,328</b>
Utilised in the year	(270)	-	<b>(270)</b>
Unwinding of discount	56	-	<b>56</b>
Reduction due to change in discount rate	87	-	<b>87</b>
31 December 2016	<b>2,201</b>	-	<b>2,201</b>
Provision created in the year	-	<b>512</b>	<b>512</b>
Utilised in the year	(296)	-	<b>(296)</b>
Unwinding of discount	29	-	<b>29</b>
Reduction due to change in discount rate	3	-	<b>3</b>
<b>31 December 2017</b>	<b>1,937</b>	<b>512</b>	<b>2,449</b>

*SHPS Pension*

This represents the net present value of the commitment to the multi-employer pension scheme in respect of past deficits.

*Sleep-Ins*

This represents the historic liability in respect of additional sleep-in shift payments to be made to employees and is payable by the end of March 2019.

**ORWELL HOUSING ASSOCIATION LIMITED**Notes forming part of the financial statements for the year ended 31 December 2017 (*Continued*)**27 Housing stock****Group and Association**

The number of units of housing under development and in management at 31 December 2017 was:

	2017	2016
<i>Housing units under development</i>	<b>68</b>	37
<i>Social housing accommodation under management</i>		
General needs housing – social rent	<b>1,882</b>	1,917
General needs housing – affordable rent	<b>816</b>	741
Supported housing and housing for older people	<b>821</b>	815
Low cost home ownership accommodation	<b>100</b>	95
Temporary social housing	<b>106</b>	106
Registered care home	<b>10</b>	10
Other	<b>9</b>	9
	<b>3,744</b>	3,693
<i>Non-social housing accommodation under management</i>		
Market rented	<b>12</b>	12
	<b>3,824</b>	3,742

**28 Accommodation managed by others**

<b>Group and Association</b>	<b>2017 Units</b>	<b>2016 Units</b>
Access Community Trust	<b>61</b>	61
Aspire	<b>17</b>	17
Break Disability	<b>4</b>	4
Heywoods Grange	<b>10</b>	10
IHAG	<b>-</b>	12
Papworth	<b>1</b>	1
Stonham	<b>6</b>	6
United Response	<b>1</b>	1
	<b>100</b>	112

## ORWELL HOUSING ASSOCIATION LIMITED

Notes forming part of the financial statements for the year ended 31 December 2017 (*Continued*)

### 29 Share capital and reserves

#### *Share capital*

	2017	2016
Group and Association	£	£
At beginning of year	31	31
Shares cancelled	(1)	(2)
Shares issued	1	2
At end of year	31	31

The share capital of the Association consists of shares with a nominal value of £1 each which carry no rights to dividends or other income. Shares in issue are not capable of being repaid or transferred. Where a shareholder ceases to be a member that person's share is cancelled and the amount paid up thereon becomes the property of the Association.

#### *Reserves*

Reserves comprise the following:

##### *Income and expenditure reserve*

Accumulated surpluses from the Statement of Comprehensive Income which are used to further the work of the Association and in particular support the ongoing development work and provision of new accommodation.

##### *Restricted reserve*

These are sinking funds in respect of specific items of major expenditure at specified supported housing schemes and which can only be spent in accordance with the principles laid down in the relevant lease or agreement.

### 30 Retirement benefits

The Association participates in the Social Housing Pension Scheme (the Scheme), a multi-employer scheme which provides benefits to some 500 non-associated employers. The scheme is a defined benefit scheme in the UK. It is not possible for the Association to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme. Therefore, it accounts for the scheme as a defined contribution scheme.

The scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator and Technical Actuarial Standards issued by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension schemes in the UK.

The scheme is classified as a 'last-man standing arrangement'. Therefore, the Association is potentially liable for other participating employers' obligations if those employers are unable to meet their share of the scheme deficit following withdrawal from the scheme. Participating employers are legally required to meet their share of the scheme deficit on an annuity purchase basis on withdrawal from the scheme.

A full actuarial valuation for the scheme was carried out with an effective date of 30 September 2014. This actuarial valuation was certified on 23 November 2015 and showed assets of £3,123m, liabilities of £4,446m and a deficit of £1,323m. To eliminate this funding shortfall, the trustees and the participating employers have agreed that additional contributions will be paid, in combination from all employers, to the scheme as follows:

**ORWELL HOUSING ASSOCIATION LIMITED**Notes forming part of the financial statements for the year ended 31 December 2017 (*Continued*)**30 Retirement benefits (*continued*)****Deficit contributions**

<b>Tier 1</b> From 1 April 2016 to 30 September 2020:	£40.6m per annum (payable monthly and increasing by 4.7% each year on 1 April)
<b>Tier 2</b> From 1 April 2016 to 30 September 2023:	£28.6m per annum (payable monthly and increasing by 4.7% each year on 1 April)
<b>Tier 3</b> From 1 April 2016 to 30 September 2026:	£32.7m per annum (payable monthly and increasing by 3.0% each year on 1 April)
<b>Tier 4</b> From 1 April 2016 to 30 September 2026:	£31.7m per annum (payable monthly and increasing by 3.0% each year on 1 April)

Note that the scheme's previous valuation was carried out with an effective date of 30 September 2011; this valuation was certified on 17 December 2012 and showed assets of £2,062m, liabilities of £3,097m and a deficit of £1,035m. To eliminate this funding shortfall, payments consisted of the Tier 1, 2 & 3 deficit contributions.

Where the scheme is in deficit and where the company has agreed to a deficit funding arrangement, the company recognises a liability for this obligation. The amount recognised is the net present value of the deficit reduction contributions payable under the agreement that relates to the deficit. The present value is calculated using the discount rate detailed in these disclosures. The unwinding of the discount rate is recognised as a finance cost.

<b>Group and Association</b>	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Present value of provision	<u>1,937</u>	<u>2,201</u>
Reconciliation of opening and closing provisions:		
Provision at start of year	2,201	2,328
Utilised in the year (deficit contribution paid)	(296)	(270)
Unwinding of the discount factor (interest expense)	29	56
Reduction due to change in the discount rate (interest expense)	3	87
	<u>1,937</u>	<u>2,201</u>

## Statement of Comprehensive Income impact:

Operating expenditure (contributions paid in respect of future service)	154	161
Interest expense (unwinding of the discount factor)	29	56
Interest expense (reduction due to change in the discount rate)	3	87
Costs recognised in Statement of Comprehensive Income	<u>186</u>	<u>304</u>

# ORWELL HOUSING ASSOCIATION LIMITED

Notes forming part of the financial statements for the year ended 31 December 2017 (*Continued*)

## 30 Retirement benefits (*continued*)

Assumptions	31 December 2017 % per annum	31 December 2016 % per annum
Rate of discount	1.41	1.45

The discount rates shown above are the equivalent single discount rates which, when used to discount the future recovery plan contributions due, would give the same results as using a full AA corporate bond yield curve to discount the same recovery plan contributions.

The following schedule details the deficit contributions agreed between the Association and the scheme at each year end period:

Group and Association	2017 £000	2016 £000
<b>Deficit Contributions Schedule</b>		
Year ending 31 December 2017	-	296
Year ending 31 December 2018	308	308
Year ending 31 December 2019	320	320
Year ending 31 December 2020	303	303
Year ending 31 December 2021	225	225
Year ending 31 December 2022	233	233
Year ending 31 December 2023	218	218
Year ending 31 December 2024	153	153
Year ending 31 December 2025	158	158
Year ending 31 December 2026	122	122

The Association must recognise a liability measured as the present value of the contributions payable that arise from the deficit recovery agreement and the resulting expense in the Statement of Comprehensive Income i.e. the unwinding of the discount rate as a finance cost in the period in which it arises. It is these contributions that have been used to derive the Association's balance sheet liability.

## 31 Capital commitments

Group	2017 £000	2016 £000
Expenditure contracted, less certified	<u>7,136</u>	<u>2,192</u>

The above expenditure will be financed using Social Housing Grant (SHG) of £255,000 (2016: £251,000) together with Local Authority Grant of £2,000,000 (2016: Nil) and a loan facility of £4,881,000 (2016: £1,941,000).

Association	2017 £000	2016 £000
Expenditure contracted, less certified	<u>6,441</u>	<u>2,010</u>

The above expenditure will be financed using Social Housing Grant (SHG) of £255,000 (2016: £251,000) together with Local Authority Grant of £2,000,000 (2016: Nil) and a loan facility of £4,186,000 (2016: £1,759,000).

## ORWELL HOUSING ASSOCIATION LIMITED

Notes forming part of the financial statements for the year ended 31 December 2017 (*Continued*)

### 32 Commitments under operating leases

#### Group and Association

As at 31 December 2017, the Association and Group had commitments under non-cancellable operating leases for the following:

Land and buildings:

	2017 £000	2016 £000
Amounts due:		
Within one year	417	432
In one to five years	1,120	1,273
In more than five years	5,848	6,350
	<u>7,385</u>	<u>8,055</u>

Motor vehicles:

	2017 £000	2016 £000
Amounts due:		
Within one year	192	207
In one to five years	157	251
	<u>349</u>	<u>458</u>

### 33 Related party transactions

#### Group and Association

The ultimate controlling party of the Group is the Board of the Association collectively.

During the year, the following transactions occurred with Orwell Homes Limited, a non-regulated wholly owned subsidiary of Orwell Housing Association Limited:

	2017 £000	2016 £000
Purchases from Orwell Homes Limited	5,037	6,037
Salary costs recharged to Orwell Homes Limited	105	86
Interest credited to Orwell Homes Limited	1	2
Gift Aid received from Orwell Homes Limited	-	60

At the year end, the net amount due to Orwell Homes Limited was £528,700 (2016: £244,296).

Details of key management personnel remuneration are included in note 7.

**ORWELL HOUSING ASSOCIATION LIMITED**Notes forming part of the financial statements for the year ended 31 December 2017 (*Continued*)**34 Reconciliation of consolidated surplus on ordinary activities to net cash inflow from operating activities**

<b>Group</b>	<b>2017 £000</b>	<b>2016 £000</b>
Surplus for the year	5,186	4,877
Depreciation, amortisation and impairment	1,813	2,274
Amortisation of grant	(943)	(962)
Defined benefit pension schemes	(264)	(270)
Provision movement	512	-
Gain on disposal of fixed assets	(294)	(65)
Loss on disposal of other fixed assets	13	-
Interest receivable	(15)	(54)
Interest payable	3,138	3,410
Taxation	32	-
<b>Operating cashflows before movements in working capital</b>	<b>9,178</b>	<b>9,210</b>
(Increase)/decrease in stocks	(1,540)	467
(Increase)/decrease in debtors	(2,391)	878
(Decrease) in creditors	(1,112)	(1,781)
<b>Cash generated from operating activities</b>	<b>4,135</b>	<b>8,774</b>

**35 Contingent liabilities****Group and Association**

Social Housing Grants (SHG) are repayable in the event of the disposal of the related property. When this occurs, the total original grant is repayable and this comprises the unamortised balance as per note 22, together with the amortised amount. At the end of the year, the total amount of SHG potentially repayable was £86,795,000 (2016: £84,881,000).

**36 Establishment as a Registered Social Landlord**

The Association is an exempt charity, registered under the Co-operative and Community Benefit Societies Act 2014 and with the Social Housing Regulator (formerly the Homes and Communities Agency) as a Registered Provider.