

**Orwell Housing Association Limited**

Report and Consolidated Financial Statements

Year Ended

31 December 2018

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 2018

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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 - A  
Jeanette Alfano  
Joy Bounds BA (Hons) CQSW DMS (retired  
21 March 2018

Daniel Gaul BSc (Eng) MSc  
Peter Jones  
Robyn Llewellyn – A G R  
Richard Mathias (retired 5 September 2018)  
Alastair Thomas BSc (Hons) FRICS – R  
Barbara Thorndick OBE BA (Hons) FCIOH  
– A G R

Committee membership key  
Audit Committee – A  
Governance Committee - G

Remuneration Committee - R

### Chief Executive

Stephen Javes MBA Bsc (Hons) DMS FCIH MIEH (retired 30 September 2018)  
Wendy Evans-Hendrick BA (Hons) Dip DM DMS (appointed 1 October 2018)

### Director of Development and Property Services

Wendy Evans-Hendrick BA (Hons) Dip DM DMS (resigned 30 September 2018)

### Director of Resources

Christopher Wyer 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 2017

Registration No 16460R

# ORWELL HOUSING ASSOCIATION LIMITED

## Report of the Board for the year ended 31 December 2018

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The Board is pleased to present its report and audited consolidated financial statements for the year ended 31 December 2018.

### 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, Saffron Housing Trust Limited and East Suffolk District Council. On behalf of the consortium, the Association has partnership status with Homes England 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, improved quality 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 2020 with a vision out to 2027. The key strategic objectives included in that document are as follows:

- to continue to grow and expand the range of homes and services provided and create efficiencies;
- to secure a new funding facility to support the ongoing development of affordable homes;
- to make Orwell Homes strong and financially independent to provide profits to the Association, enabling more homes to be built;
- to continue and expand the delivery of other services, such as development services and property maintenance, for other organisations;
- to create a Care Academy to attract apprentices and develop our own employees;
- to achieve Care Quality Commission (CQC) "good" rating across all regulated services;
- to continue to monitor and manage closely the impact of Universal Credit and other welfare reforms;
- to continue to deliver quality improvements and efficiencies through implementation of technological solutions, including interaction with customers through automated services, and understand and plan for the resources required;
- to continue to improve engagement with tenants and customers and better understand the quality of the services required;
- to review value for money delivered by housing assets and services and make improvements where cost effective; and
- to remain financially viable whilst improving quality and creating efficiencies.

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 2018

### *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	2018	2017
Turnover (excluding all development activities) – increase on prior year	3.8%	3.1%
Operating Surplus (excluding pension remeasurement) – increase/(reduction) on prior year	2.0%	(1.5%)
Operating Surplus (excluding pension remeasurement) as a percentage of covenant Interest Payable	258%	259%
Borrowings less cash as a percentage of Net Worth (Reserves plus Social Housing Grant)	62.7%	62.3%
Arrears of rent and service charges as a proportion of turnover (excluding Development Activities and Subsidiary) for the year	2.7%	2.8%
Net increase in housing units brought into management	79	51
Gas safety regulations compliance	99.8%	99.9%
Employee absence level – supported housing and care	5.8%	6.6%
Employee absence level – housing and all other	3.9%	3.5%

Gas safety compliance at the end of the year is at 99.8% due to two non-compliant properties where normal procedures to visit the property and service the gas boiler have been exhausted and the Association has therefore taken legal action to gain access.

### *Operating Review*

The Association is pleased to report a good 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 continues to grow despite challenging operating conditions including the second of four successive years of 1% rent reduction. The Association continues to keep costs under control and look for further efficiencies and some of the key areas of note are as shown in the Value For Money statement included in this report.

During the year, the governance rating with the Regulator of Social Housing (RSH) was moved from G1 to a compliant G2 rating following an “In Depth Assessment”. Identified improvement actions are currently being implemented and it is hoped that these will swiftly return the Association to G1. The Association’s financial viability rating with the RSH remains at the highest rating V1.

The most significant and valued resource of the Association continues to be its employees and the Association is proud to be accredited under the Investors in People standard, with Silver Status and to have been included in the Sunday Times 100 Best Not-for-Profit Organisations for 2016, 2017 and 2018. These awards are testament

## ORWELL HOUSING ASSOCIATION LIMITED

### Report of the Board for the year ended 31 December 2018 (Continued)

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#### *Operating Review (continued)*

to the strong culture and values within the Association and the belief that it is essential that all employees across the entire business continue to be encouraged, involved, empowered and motivated to deliver their best.

The Association continues to be focused upon creating and developing talent and in October 2018 launched a training initiative known as the Care Academy which comprises 14 employees including new apprentices and aspiring team leaders and service managers.

Engagement with tenants has been improved through the formation of a Resident Steering Group, which oversees the work of specific tenant working groups in scrutinising the activities of the Association. The first such project was completed during the year with 10 agreed improvement recommendations arising, all of which will be implemented by the end of March 2019.

The Association considers its Support and Care activities to be an important part of the overall business and continues to seek growth opportunities wherever possible. It is pleasing to report that during the year the Association was awarded the tender from Suffolk County Council for the provision of support and care at 6 Learning Disabilities schemes within Ipswich and the surrounds. The actual transfer took place with effect from 1 July 2018, with approximately 50 employees transferring into the Association and turnover increasing by £1.5m per annum. Quality of care and support remains paramount and the Association is proud that all our care services are rated as good overall by the Care Quality Commission.

Investment in new technology to enhance services and improve efficiency has continued throughout the year and further significant plans included in the newly created Digital Strategy covering the period up to and including 2021. Within the year itself, the Civica Cx Housing Management System went live during February 2018, replacing the existing Housing Management System. Whilst the overall project has been a success, a number of challenges to restore functionality to that of the previous system are currently being faced and it is anticipated that these will be resolved during 2019. The People Planner Support and Care System roll-out across the Extra Care division at schemes owned by the Association is now complete with the system providing control of operations and performance data. Implementation within other parts of Support and Care will be evaluated in 2019.

During 2018 the Association completed 71 new homes with a further 59 on site. The Association continues to work with Homes England, to deliver the Affordable Housing Programme, which not only involves a degree of Shared Ownership, but also affordable rent and, in some areas, social rented homes. In respect of the Association, a total of 282 units are planned for the next three years ending March 2021. In addition, and for the same period, 222 units are planned for the other members of the e<sup>2</sup> Consortium. Further units are also likely to be added as part of the Continuous Market Engagement (CME) Programme. To support the ongoing development programme, in addition to existing available funding of £7.5m the Association has established an additional funding facility of £10m which will increase to £20m from the end of 2019.

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.

The Association has continued to look at ways it can work with other registered providers and local authorities to improve efficiencies by sharing services. During 2018 we continued to provide a repairs service to Saffron Housing Trust for their homes in Suffolk which are near to our own properties and also a full repairing service to a smaller housing charity Solo Housing. We have also been able to provide emergency relief repairs for Ipswich Borough Council.

## ORWELL HOUSING ASSOCIATION LIMITED

### Report of the Board for the year ended 31 December 2018 (Continued)

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#### *Operating Review (continued)*

During the year, Orwell Homes completed 3 units of residential development at Laxfield and sold 2 units, with sale of the remaining unit anticipated for early 2019. A further 4 unit scheme is planned to start in 2019 with completion in 2020. 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 £101,000 (2017: £69,000).

Whilst passing up profit under gift aid to the parent company Orwell Housing Association Limited remains a key objective, since year-ended December 2016 this has not taken place and will not take place again this year. This is to retain funds within Orwell Homes Limited and 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 Group 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 surplus, before actuarial pension movements, has continued to grow despite the second of four years of 1% rent reductions, effective 1 January 2018.

Group turnover for the year fell from £44,497,000 to £38,513,000 due to a fall in development income of £8,762,000 with lower development levels in e<sup>2</sup>. Income from principal activities increased by £2,778,000, including turnover from new Support & Care activities of £800,000. A total of 79 units have been brought into management during 2018 and increased the existing stock by 2.1% to 3,823.

Operating costs for the year, excluding the remeasurement of pension deficit contribution, have reduced from £36,450,000 last year to £30,576,000. As with turnover, £8,455,000 of the reduction was due to the fall in development activity. Excluding the effects of subsidiary and development activities, operating costs have increased by £2,003,000. Costs in the year in respect of new Support & Care activities were £818,000 and therefore existing business costs increased by £1,185,000. £358,000 of this increase related to increased expenditure on maintenance of housing stock.

The combined income and expenditure movements identified above have resulted in a Group operating surplus which has fallen from £8,047,000 to £6,914,000. The reduction of £1,133,000 includes the remeasurement of pension deficit contribution of £1,023,000 and further details of this item are provided in note 31.

Expenditure on housing stock maintenance comprises both revenue and capital spend and for the year was £5,376,000 (2017: £5,343,000).

Net interest costs for the year have risen from £3,138,000 to £3,215,000 reflecting the increase in the average loan balance from £88,380,000 to £89,060,000 and the base rate increase during 2018. Continuing low interest rates have seen the Association's average interest rate maintained at 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 £11,590,000 (cost less grant) expended on the acquisition and construction of housing properties.

## ORWELL HOUSING ASSOCIATION LIMITED

### Report of the Board for the year ended 31 December 2018 (Continued)

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#### *Financial Review (continued)*

The net result of the above financial performance is a Group retained surplus for the year of £3,885,000 (2017: £5,186,000) 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 £120,000 from General reserve and the amount utilised during the year was £32,000.

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 reduced from 2.8% to 2.7%.

#### *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.

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 2018 the loan portfolio comprised 29% (2017 - 27%) short term variable interest rates and 71% (2017 - 73%) fixed interest rates.

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 but are now nearing a more normal level.

#### *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 £10,949,000 compared with £4,135,000 for 2017. Cash expended for the construction and purchase of housing properties during the year was £12,734,000. There were no loan drawings during the year and as a result cash balances decreased £5,999,000 during the year (2017 - increased by £2,757,000).

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

At 31 December 2018 the Association had secured undrawn facilities of £17,500,000 (2017: £7,500,000) and the Group had cash balances of £3,036,000 (2017: £9,035,000).

#### *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.



## ORWELL HOUSING ASSOCIATION LIMITED

### Report of the Board for the year ended 31 December 2018 (Continued)

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#### ***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**

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. The fundamental belief is that VFM is the responsibility of every employee and not just a select few. The Board recognises the importance of value for money and has ensured that is explicitly articulated in the Business Plan 2018-20. The Association's vision details the primary objective which is to improve the quality of our services, whilst growing the organisation both in terms of homes owned and managed, and through the delivery of support and care services to others. To underpin the delivery of this vision, the Association has developed 5 strategic areas including remaining financially viable whilst improving quality and creating efficiencies.

The Association's plan specifically aims to increase operating surplus before interest to £10m by 2027. 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 2018-20 Business Plan assumes an increased level of development from 2019 onwards, to 100 units per annum.

The Board has adopted a VFM policy that drives the delivery of VFM across the Association and the metrics from the Regulator of Social Housing's new Value for Money Standard are incorporated in this statement.

VFM work and achievements are detailed further below.

#### **Progress against Business Plan 2018**

The Association's Business Plan 2018-2020 includes targets for year-ended December 2018 of a turnover of £33m and a surplus before interest of £7.8m. Actual figures achieved are turnover of £39m and a surplus before interest of £8.2m. The plan also includes a new homes target of 82 units and 71 homes were completed in the year. The shortfall was due to on site delays rather than lack of investment and currently 59 units are on site and due to be completed during 2019. Ongoing review of housing assets continues as detailed in the Business Plan and properties no longer meeting housing need or the required level of financial return have been identified for disposal. These are being sold and proceeds will be re-invested in housing assets.

#### **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:

- further develop the new finance software, implemented during 2017, and look for ways to improve services and efficiencies – the new finance software, Open Accounts is now established, working well and beginning to enable improvements to be made. One such improvement, is a new format for the monthly management accounts providing greater clarity around income and cost of support and care.

## ORWELL HOUSING ASSOCIATION LIMITED

### Report of the Board for the year ended 31 December 2018 (Continued)

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#### Progress report on plans from 2017 (continued)

- 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.

The new housing management software, Civica Cx went live on 14 February 2018 and since that time efforts have been focussed on training and establishing the new software throughout the Association. The system will be upgraded to a new release early in 2019 which is expected to add extra functionality and enhance efficiency. People Planner has now been implemented in all the Extra Care schemes owned by the Association and is delivering improvements in rostering and documenting that support or care has been delivered as required.

- continue to take positive and proactive action to reduce the level of employee absence – managers throughout the Association have been monitoring absence using the Bradford Factor and discussing with their teams. The result of this focus has been that overall, employee absence has reduced from a level of 5.4% at the end of Dec-17 to 5.1% at the end of 2018.
- 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 – growth in selling high quality development services continues and during 2019, additional work has been received from both the local authority trading company and local charity that we are already working with.
- continue to explore ways in which the Association can provide housing and other related services to other organisations – during 2019, the Association has expanded services delivered by providing gardening services to a local Authority and repairs to another housing charity.
- 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 – a planned review of painting services due to take place in 2018 has now been moved to 2019 to allow involvement of residents in the process. Previous reviews have seen very positive outcomes and accumulated savings over the 5 years ending 2018 amount to £627K. This is analysed as follows:
  - £431K Orwell Repairs Service
  - £130K voids
  - £66K estate services
- deliver a plan of individual VFM savings amounting to £125,000 which will be monitored and reviewed by Board – the plan delivered confirmed savings of £121,000.

## ORWELL HOUSING ASSOCIATION LIMITED

### Report of the Board for the year ended 31 December 2018 (Continued)

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#### **Specific successes in 2018**

##### ***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 £256,000.
- renegotiation of mobile phone contracts – saved £25,412
- reduction in absence levels by 0.3% – saved £16,000
- reduction in printing costs – saved £3,400
- in-sourcing health and safety training – saved £4,375
- time savings related to new finance system - £2,600
- employees moved to electronic payslips – saved £1,260
- improved stock control efficiency within repairs division – saved £6,000
- delivering repairs service on behalf of other organisations – saved £10,000
- in-sourcing employers agent function – saved £17,000
- fit out of Whiting Road – saved £14,000
- moving rent statements online – saved £11,000
- moving Orwell news to e-version – saved £6,000
- negotiated reduction in window cleaning contract – saved £829
- no longer purchasing bark for gardens – saved £1,250
- use of SMS for repairs surveys rather than paper – saved £2,125

##### ***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.

##### **Value for Money Metrics and benchmarking**

To assess VFM and provide peer comparison, the Association uses the services of a business called HouseMark to “standardise” the Association’s performance data and then to compare it with other similar organisations. The key metrics produced by HouseMark are called the Sector Scorecard and this is shown below, incorporating the metrics now required by the Regulator of Social Housing. In comparison with peer group performance, whilst some of the metrics appear to show underperformance, this is not the case and is due to the significant proportion of supported housing and care, and the provision of development services to other organisations. For both parts of the business, the Association is aware of the financial constraints and is committed to these activities, whilst continuing to monitor overall benefit.

**ORWELL HOUSING ASSOCIATION LIMITED**

**Report of the Board for the year ended 31 December 2018 (Continued)**

***Value for Money Metrics and benchmarking (continued)***

***Sector Scorecard***

<b>Business Area</b>	<b>Indicator</b>	<b>Peer Group Median</b>	<b>2017 Performance</b>	<b>2018 Performance</b>	<b>2019 Target</b>
<b>Business Health</b>	Operating margin (Overall) %	33.5%	18.1%	18.0%	14.4%
	Operating margin (Social Housing Lettings) %	35.7%	39.2%	37.4%	30.8%
	EBITDA MRI Interest Cover %	200.8%	233.9%	206.0%	191.5%
<b>Development</b>	New supply delivered (Social Housing) %	1.7%	1.3%	2.1%	2.6%
	Gearing %	45.4%	39.0%	38.6%	38.6%
<b>Outcome Delivery</b>	Satisfaction with service provided	83.0%	93.0%	No survey	93.0%
	Reinvestment %	5.8%	3.2%	5.8%	4.4%
<b>Effective Asset Management</b>	Return on capital employed %	4.0%	3.8%	3.2%	3.3%
	Repairs ratio	68.0%	75.2%	87.8%	72.0%
	Occupancy rate	99.3%	99.6%	99.7%	99.7%
<b>Operating Efficiencies</b>	Headline social housing cost per unit	£3,257	£9,580	£7,477	£10,775
	Rent collected	99.7%	99.9%	99.2%	99.7%

Whilst comparisons in the above table are favourable for most indicators, further explanation is as shown below:

- The Statement of Comprehensive Income for 2018 includes a cost of £1,023,000 in respect of the remeasurement of pension deficit contribution. This does not reflect the operations of the business and has an adverse impact upon operating margin (overall)%, EBITDA MRI interest cover and return on capital employed.
- Supported housing and care and development services – both are comparatively low margin and therefore impact adversely upon operating margin (overall)%, EBITDA MRI interest cover, return on capital employed and headline social housing cost per unit.
- In delivering the business plan, the Association is making a number of key investments in digital services and resources in 2019 in order to enable growth and improve efficiency in future years. This has resulted in operating margin (overall), operating margin (social housing lettings), EBITDA MRI interest cover and return on capital employed showing a decreased when compared to 2018.
- New supply delivered (social housing) % and reinvestment % – the Association’s latest business plan is to deliver 100 units per annum from 2019 onwards.
- Rent collected – the 2018 performance above reflects a higher number of voids at year end and increased re-let times. These are not expected to re-occur and the 2019 target is at the median.

# ORWELL HOUSING ASSOCIATION LIMITED

## Report of the Board for the year ended 31 December 2018 (Continued)

### Value for Money Metrics and benchmarking (continued)

#### *Cost per property data*

The housing activities of the Association are a key part of the business and cost per property data is shown below. The benchmarking information shown is the most up to date and is from the 2017 data submitted to HouseMark in 2018:

<i>Cost per property abbreviated to cpp</i>	<i>2017 cost</i>	<i>2017 cost KPI quartile</i>	<i>2017 upper quartile</i>	<i>2017 median</i>	<i>2017 lower quartile</i>	<i>2016 cost</i>	<i>2015 cost</i>
Tenancy management cpp	£ 77.25	★	£ 109.04	£ 135.52	£ 214.00	£ 76.99	£ 107.97
Lettings cpp	£ 66.35	★	£ 80.74	£ 88.83	£ 98.50	£ 76.05	£ 59.11
Anti-social behaviour cpp	£ 21.18	★	£ 47.16	£ 63.68	£ 87.51	£ 24.61	£ 31.30
Resident involvement cpp	£ 57.57	★	£ 42.45	£ 55.78	£ 73.45	£ 59.20	£ 76.54
Rent arrears cpp	£ 94.96	★	£ 142.30	£ 159.64	£ 236.69	£ 117.43	£ 107.17
<b>Housing management cpp</b>	<b>£ 317.31</b>	<b>★</b>	<b>£ 401.69</b>	<b>£ 483.45</b>	<b>£ 710.15</b>	<b>£ 354.28</b>	<b>£ 382.09</b>
Major and planned works cpp	£ 1,083.97	★	£ 1,105.14	£ 1,337.21	£ 1,781.05	£ 1,078.25	£ 1,022.13
Responsive repairs cpp	£ 477.86	★	£ 452.94	£ 553.15	£ 621.56	£ 303.48	£ 361.65

Quantile key					
	Upper Quartile	Middle Upper	Median	Middle Lower	Lower Quartile
	★	★	○	○	●

The table confirms that the Association is providing good overall VFM.

#### *Additional own metrics*

Additional performance indicators are shown below:

Business Area	Indicator	2017 Performance	2018 Performance	2019 Target
Operating Efficiencies	Social housing lettings cost per unit	£3,248	£3,264	£3,326
Support and Care	Operating margin	11.7%	10.3%	8.6%
	Support and Care labour costs as % of turnover	62.9%	63.5%	64.5%

- The social housing lettings cost per unit excludes support and care costs and development service costs and is more reflective of the costs of the social housing activities.
- Within the support and care activities of the Association, reducing funding and increasing labour costs remains a significant challenge and the target for 2019 reflects uncertainties, particularly around the potential impact of Brexit and labour costs.

## **ORWELL HOUSING ASSOCIATION LIMITED**

### **Report of the Board for the year ended 31 December 2018 (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:

- 159 tenants have taken out contents insurance policies.
- 40 tenants are active in tenant groups.
- 

The above examples, which generate a social value of at least £800,000, 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 360,000 hours of support and care to meet people’s personal care needs and to help avoid unnecessary hospital admissions.
- Supported over 450 older people to remain living independently in extra care accommodation.
- Supported 13 people with a learning disability to access employment or voluntary work.
- Supported 53 people with a learning disability to access primary health care for an annual health check
- Supported 72 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 200 people and their families through our specialist early help domestic abuse worker based in South Norfolk Hub & community projects.

#### **Future improvements**

The Association is always looking at ways to improve the VFM that is delivered and during 2019 will:

- continue to invest in new software which will;
  - improve the services we offer
  - improve management information, efficiency and effectiveness.
  - support the growth of the Association.
- 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 Orwell’s portfolio of repairs, estate or other services.
- deliver a plan of individual VFM savings amounting to £122,000 which will be monitored and reviewed by Board.

## ORWELL HOUSING ASSOCIATION LIMITED

### Report of the Board for the year ended 31 December 2018 (Continued)

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#### Corporate Governance

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

The Board currently comprises 9 non-executive members and 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 2 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.

During the year, the Association has commissioned external reviews of governance arrangements and the effectiveness of both the Board and the Audit Committee. Improvement plans arising from these reviews have in the main been implemented by the end of 2018 and will be fully completed by the summer of 2019.

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	Daniel Gaul BSc (Eng) MSc
Kim Newman BSc (Hons) FCIPS MCMI – Vice Chair	Peter Jones
Cynthia Alers MBA MA MIRSoc	Robyn Llewellyn
Jeanette Alfano	Richard Mathias (retired 5 September 2018)
Joy Bounds BA (Hons) CQSW DMS (retired 21 March 2018)	Alastair Thomas BSc (Hons) FRICS
	Barbara Thorndick OBE BA (Hons) FCIOH

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

## ORWELL HOUSING ASSOCIATION LIMITED

### Report of the Board for the year ended 31 December 2018 (Continued)

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

The executive officers of the Association who served during 2018 were as follows:

Stephen Javes MBA Bsc (Hons) DMS FCIH MIEH	Chief Executive (retired 30 September 2018)
Wendy Evans-Hendrick BA (Hons) Dip DM DMS	Chief Executive (appointed 1 October 2018)
Wendy Evans-Hendrick BA (Hons) Dip DM DMS	Director of Development & Property (resigned 30 September 2018)
Paul Kingston MBA FCIH DMS MCMi	Director of Housing & Care Services
Christopher Wyer FCCA	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.

30 September 2018 saw the retirement of the Chief Executive, Stephen Javes. After a rigorous recruitment process with a high calibre of candidates, both internal and external, the Director of Development & Property Services, Wendy Evans-Hendrick was appointed as the new Chief Executive effective 1 October 2018.

#### *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.

#### *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 Board has undertaken an assessment and can certify compliance in full with the National Housing Federation's Code of Governance (2015) and the Governance and Financial Viability Standard, issued by the Regulator of Social Housing.



***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 every employee, supported by the business planning process and management of strategic risks. Whilst recognising the need to understand and monitor risk, the Association is not risk-averse and acknowledges 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.

Following on from an external review of the risk management framework, further improvements have been identified, with most actions complete by the end of the year and those remaining, to be completed by the end of June 2019.

The Association monitors and controls all the risks that may affect the achievement of its objectives and these are either recorded in a Strategic Risk register or an Operational Risk Register. Each item within the registers is assigned a risk appetite and evaluated for impact and likelihood of occurrence. The risk registers also include the controls that have been put in place to reduce the risk to a level that is acceptable, within the given risk appetite. Each risk, and associated controls, within the registers 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 Strategic Risk Register and major operational risks are reviewed at every Board meeting. The major operational risks are reviewed quarterly by the Executive Directors and Operational Management and annually by the Audit Committee in three sections. 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 considers the strategic risks facing the business to be:

- Inability to deliver the growth included in the Business Plan
- Financial viability including interest rate, funding and welfare reform
- Political change impacting upon business direction including Brexit
- Information security including data protection and cyber-crime
- Regulatory including health and safety and value for money
- Partnerships including failure to identify, evaluate and maximise opportunities for partnership working
- Transformation programme around employees and technology not being achieved
- Orwell Homes growth and financial independence
- Culture and behaviour including governance and damage to reputation.

Regular review of the risk register has confirmed that appropriate controls are in place and operational for all of the strategic risks shown above. The Association has in place an Assurance Map to monitor assurance activities across the business.

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.

*Risk and internal Controls (continued)*

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 robust risk management system across 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 an area of focus 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;
- 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-tax evasion, 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.

To further strengthen assurance and controls, with effect from the beginning of 2019 internal audit has been out-sourced to a specialist service provider and a 3 year internal audit plan put in place.

**ORWELL HOUSING ASSOCIATION LIMITED**

**Report of the Board for the year ended 31 December 2018 (Continued)**

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**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 2018, there were no known instances of actual or attempted fraud reported.

**Housing properties**

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 2019, auditors be appointed at a special general meeting for the year ending 31 December 2019.

**For and on behalf of the Board**



Kim Newman  
**Chair**

27 March 2019

## **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 2018 which comprise the Statements of comprehensive income, Statements of changes in reserves, Statements of financial position, 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 2018 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 14, 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.

The engagement partner on the audit resulting in the independent auditor's report is Laragh Jeanroy.

#### **Use of our 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  
Statutory Auditor  
Chartered Accountants  
Abbotsgate House  
Hollow Road  
Bury St Edmunds  
Suffolk  
IP32 7FA

27 March 2019

**ORWELL HOUSING ASSOCIATION LIMITED**

**Statements of comprehensive income for the year ended 31 December 2018**

	Note	2018		2017	
		Group £000	Association £000	Group £000	Association £000
<b>Turnover</b>	4	38,513	37,986	44,497	44,497
Operating expenditure	4	(30,576)	(30,166)	(36,450)	(36,618)
Remeasurement of pension deficit contribution	4,31	(1,023)	(1,023)	-	-
<b>Operating surplus</b>	4, 8	6,914	6,797	8,047	7,879
Profit on disposal of housing properties	9	267	267	294	294
Interest receivable	10	39	38	15	14
Interest and finance costs	11	(3,215)	(3,215)	(3,138)	(3,138)
<b>Surplus for the year before tax</b>		4,005	3,887	5,218	5,049
Taxation	12	(49)	-	(32)	-
<b>Surplus for the year after tax</b>		3,956	3,887	5,186	5,049
Actuarial (loss)/gain in respect of pension scheme	26	(71)	(71)	-	-
<b>Total comprehensive income for the year</b>		3,885	3,816	5,186	5,049

The notes on pages 24 to 57 form part of these financial statements.

**ORWELL HOUSING ASSOCIATION LIMITED**

**Statements of changes in reserves for the year ended 31 December 2018**

<b>Group</b>	<b>General reserve £000</b>	<b>Restricted reserve £000</b>	<b>Total £000</b>
<b>Balance at 1 January 2017</b>	51,483	1,714	53,197
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>	<b>56,555</b>	<b>1,828</b>	<b>58,383</b>
Surplus for the year	3,885	-	3,885
Transfer from general reserve to restricted reserve	(120)	120	-
Transfer from restricted reserve to general reserve	32	(32)	-
<b>Balance as at 31 December 2018</b>	<b>60,352</b>	<b>1,916</b>	<b>62,268</b>
<b>Association</b>	<b>General reserve £000</b>	<b>Restricted reserve £000</b>	<b>Total £000</b>
<b>Balance at 1 January 2017</b>	51,471	1,714	53,185
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>	<b>56,406</b>	<b>1,828</b>	<b>58,234</b>
Surplus for the year	3,816	-	3,816
Transfer from general reserve to restricted reserve	(120)	120	-
Transfer from restricted reserve to general reserve	32	(32)	-
<b>Balance as at 31 December 2018</b>	<b>60,134</b>	<b>1,916</b>	<b>62,050</b>

The notes on pages 24 to 57 form part of these financial statements.

**ORWELL HOUSING ASSOCIATION LIMITED**

**Statements of financial position for the year ended 31 December 2018**

	Note	2018		2017	
		Group £000	Association £000	Group £000	Association £000
<b>Fixed assets</b>					
Intangible fixed assets	13	200	200	273	273
Housing properties	14, 15	219,815	219,529	209,283	209,188
Other tangible fixed assets	16	2,863	2,863	2,847	2,847
Investments	17	382	382	382	382
		<u>223,260</u>	<u>222,974</u>	<u>212,785</u>	<u>212,690</u>
<b>Current assets</b>					
Stock and work in progress	18	1,595	1,240	1,540	1,211
Debtors	19	4,853	4,848	8,141	8,167
Cash and cash equivalents		3,036	2,946	9,035	8,826
		<u>9,484</u>	<u>9,034</u>	<u>18,716</u>	<u>18,204</u>
<b>Creditors: amounts falling due within one year</b>	20	<u>(9,725)</u>	<u>(9,207)</u>	<u>(10,637)</u>	<u>(10,179)</u>
<b>Net current assets</b>		<u>(241)</u>	<u>(173)</u>	<u>8,079</u>	<u>8,025</u>
<b>Total assets less current liabilities</b>		<u>223,019</u>	<u>222,801</u>	<u>220,864</u>	<u>220,715</u>
<b>Creditors: amounts falling due after more than one year</b>	21	<u>(157,380)</u>	<u>(157,380)</u>	<u>(160,032)</u>	<u>(160,032)</u>
<b>Provisions for liabilities</b>					
Defined benefit pension scheme liability	26	(219)	(219)	-	-
Other provisions	27	(3,152)	(3,152)	(2,449)	(2,449)
<b>Total net assets</b>		<u>62,268</u>	<u>62,050</u>	<u>58,383</u>	<u>58,234</u>
<b>Capital and reserves</b>					
Called up share capital	30	-	-	-	-
Restricted reserves	30	1,916	1,916	1,828	1,828
General reserves	30	60,352	60,134	56,555	56,406
		<u>62,268</u>	<u>62,050</u>	<u>58,383</u>	<u>58,234</u>

The financial statements on pages 20 to 57 were authorised and approved for issue by the Board on 27 March 2019 and signed on its behalf by



Kim Newman  
Chair



Alastair Thomas  
Board Member



Wendy Evans-Hendrick  
Chief Executive

The notes on pages 24 to 57 form part of these financial statements.



**ORWELL HOUSING ASSOCIATION LIMITED**

**Consolidated statement of cash flows for the year ended 31 December 2018**

	Note	Group 2018 £000	Group 2017 £000
<b>Cash inflow from operating activities</b>	35	10,981	4,135
Tax paid		(32)	-
<b>Net cash inflow from operating activities</b>			4,135
<b>Cash flow from investing activities</b>			
Acquisition and construction of housing properties		(12,539)	(6,544)
Purchase of other tangible fixed assets		(235)	(267)
Sale of housing properties		550	543
Sale of other tangible fixed assets		15	-
Social Housing and Other Grants received		1,144	2,115
Interest received		39	15
<b>Net cash outflow from investing activities</b>			(4,138)
<b>Net cash (outflow)/inflow before financing activities</b>			(3)
<b>Cashflow from financing activities</b>			
Housing loans received		-	8,500
Housing loans repaid		(2,752)	(2,553)
Interest paid		(3,170)	(3,187)
<b>Net cash (outflow)/inflow from financing activities</b>			2,760
<b>Net change in cash and cash equivalents</b>			2,757
Cash and cash equivalents at beginning of the year		9,035	6,278
Cash and cash equivalents at end of the year		3,036	9,035
<b>Cash and cash equivalents comprise:</b>		<b>2018</b>	<b>2017</b>
		<b>£000</b>	<b>£000</b>
Cash at bank		3,036	9,035
		3,036	9,035

The notes on pages 24 to 57 form part of these financial statements.

# ORWELL HOUSING ASSOCIATION LIMITED

## Notes forming part of the financial statements for the year ended 31 December 2018

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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 2018 *(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. Turnover in respect of properties for sale on the open market is recognised at point of sale.

### *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.

*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 2018 *(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.

#### *Stock of properties for market sale*

Stock of market sale properties are held at the lower of cost or net realisable value.

#### *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.

*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 two funded multi-employer defined benefit schemes, the Suffolk County Council Local Government Pension Scheme (LGPS) and the Social Housing Pension Scheme (SHPS).

For the 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 the multi-employer plan 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.

For the LGPS, the cost of providing benefits is determined using the projected unit credit method.

*Asset/Liability*

The net defined benefit asset/liability represents the present value of the defined benefit obligations minus the fair value of plan assets out of which obligations are to be settled. Any asset resulting from the calculation is limited to the present value of available refunds or reductions in future contributions to the plan.

The rate used to discount the benefit obligations to their present value is based on market yields for high quality corporate bonds with terms and currencies consistent with those of the benefit obligations.

*Retirement benefits (continued)*

***Gains/Losses***

Gains or losses recognised in profit or loss:

- The change in the net defined benefit liability arising from employee service during the year is recognised as an employee cost.
- The cost of plan introductions, benefit changes, settlements and curtailments are recognised as incurred.
- Net interest on the net defined benefit asset/liability comprises the interest cost on the defined benefit obligation and interest income on the plan assets, calculated by multiplying the fair value of the plan assets at the beginning of the period by the rate used to discount the benefit obligations.

Gains or losses recognised in other comprehensive income:

- Actuarial gains and losses.
- The difference between the interest income on the plan assets and the actual return on the plan assets.

*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.

*Financial instruments (continued)*

*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.

*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.

*Property – residual value*

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.

*Defined benefit pension scheme liability*

The LGPS pension liability is based on the actuarial valuation as at 31 December 2018 and full details are disclosed in note 26.

*Social Housing Pension Scheme (SHPS) deficit contribution provision*

The provision for the SHPS pension liability is based upon the net present value of the deficit payments and is disclosed in note 31.

*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.



# ORWELL HOUSING ASSOCIATION LIMITED

Notes forming part of the financial statements for the year ended 31 December 2018 (Continued)

## 3 Critical accounting estimates and areas of judgement (continued)

### *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. Further details are included in note 27.

### *Critical areas of judgement*

#### *Finance and operating leases*

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*

Impairment of housing assets is considered annually. In making the judgement, the Board consider the detailed criteria set out in the SORP. There has been no impairment in 2018.

## 4 Turnover, operating costs and operating surplus

2018	Turnover £000	Operating costs £000	Operating surplus £000
Social housing lettings (see note 5)	19,924	12,480	7,444
Other social housing activities:			
Current asset property sales	1,571	992	579
Charges for support services	3,055	3,017	38
Care	5,454	5,535	(81)
Development activities	7,842	8,070	(228)
Non-social housing activities:			
Lettings	140	72	68
Other	-	1,023	(1,023)
Association activities	37,986	31,189	6,797
Subsidiary company	527	410	117
Group activities	38,513	31,599	6,914

**ORWELL HOUSING ASSOCIATION LIMITED**Notes forming part of the financial statements for the year ended 31 December 2018 *(Continued)***4 Turnover, operating costs and operating surplus (continued)**

<b>2017</b>	<b>Turnover £000</b>	<b>Operating costs £000</b>	<b>Operating surplus £000</b>
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

Other social housing activities - charges for support services includes £1,055,000 of Supporting People income (2017: £1,497,000).

Non-social housing activities – other is the costs arising from the triennial SHPS pension valuation in respect of amendments to the contribution schedule and changes in assumptions. These are as detailed in note 31. The cost in the year is £1,023,000 (2017: £nil).

ORWELL HOUSING ASSOCIATION LIMITED

Notes forming part of the financial statements for the year ended 31 December 2018 (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	2018 Total £000	2017 Total £000
Rent receivable net of identifiable service charges	12,999	2,874	212	16,085	15,976
Service income	502	1,592	103	2,197	2,186
Management services and other income	34	812	3	849	771
<b>Gross rental income</b>	<b>13,535</b>	<b>5,278</b>	<b>318</b>	<b>19,131</b>	<b>18,933</b>
Voids	(75)	(191)	(5)	(271)	(162)
<b>Net rental income</b>	<b>13,460</b>	<b>5,087</b>	<b>313</b>	<b>18,860</b>	<b>18,771</b>
Amortised government grants	725	248	-	973	943
Government grants taken to income	1	-	-	1	-
Revenue grant for major repairs	-	-	-	-	-
Land donated/acquired below market price	90	-	-	90	300
<b>Turnover from social housing lettings</b>	<b>14,276</b>	<b>5,335</b>	<b>313</b>	<b>19,924</b>	<b>20,014</b>
Management	2,826	1,571	56	4,453	4,384
Services	462	1,373	86	1,921	1,947
Routine maintenance	2,019	483	11	2,513	2,293
Planned maintenance	1,180	405	10	1,595	1,457
Bad debts	2	2	-	4	178
Depreciation of housing properties	1,412	238	-	1,650	1,587
Other costs	266	78	-	344	314
<b>Operating costs on social housing lettings</b>	<b>8,167</b>	<b>4,150</b>	<b>163</b>	<b>12,480</b>	<b>12,160</b>
<b>Operating surplus on social housing lettings</b>	<b>6,109</b>	<b>1,185</b>	<b>150</b>	<b>7,444</b>	<b>7,854</b>

**ORWELL HOUSING ASSOCIATION LIMITED**

Notes forming part of the financial statements for the year ended 31 December 2018 *(Continued)*

**6 Employees**

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

	2018		2017	
	Full time	Part time	Full time	Part time
Administration	80	73	81	79
Wardens/Care Workers	44	405	43	400
Gardeners/Caretakers/Repairs	50	60	46	63
	<u>174</u>	<u>538</u>	<u>170</u>	<u>542</u>

The above represents full time equivalents of 464 (2017: 444).

	2018 £000	2017 £000
Staff costs consist of:		
Wages and salaries	10,377	10,231
Social security costs	758	691
Defined contribution pension costs	118	76
Other pension costs and current service cost	403	361
	<u>11,656</u>	<u>11,359</u>

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

	2018	2017
£60,000 - £69,999	5	5
£70,000 - £79,999	1	-
£110,000 - £119,999	-	1
£120,000 - £129,999	1	1
£130,000 - £139,999	2	1
£170,000 - £179,999	1	1

**ORWELL HOUSING ASSOCIATION LIMITED**

**Notes forming part of the financial statements for the year ended 31 December 2018 (Continued)**

**7 Directors**

Directors are defined as the nine members of the Board (2017: eleven) together with the three members of the senior management team (2017: four), which includes the Chief Executive. The senior management team comprised four members up to 30 September 2018 at which point the Chief Executive retired and one of the existing team was promoted. Board member remuneration during the year was as follows:

**Group and Association**

	<b>2018</b>	2017
	<b>£000</b>	£000
Cynthia Alers	4	3
Jeanette Alfano	4	4
Ian Beaumont	11	9
Joy Bounds (retired 21 March 2018)	2	6
Daniel Gaul	4	4
Peter Jones	4	4
Robyn Llewellyn	6	6
Richard Mathias (retired 5 September 2018)	3	4
Kim Newman	7	7
Jacqueline Riley (retired 22 March 2017)	-	2
Barbara Thorndick	6	4
Alastair Thomas	6	6
	<hr/>	<hr/>
Total emoluments – non-executive	57	59
Emoluments (including social security costs of £51,120 (2017: £49,192) – executive	499	479
Pension scheme contributions – executive	63	64
	<hr/>	<hr/>
Total Key Management compensation –fourteen directors (2017: sixteen)	619	602
	<hr/>	<hr/>
Emoluments of the highest paid director	159	153
	<hr/>	<hr/>

The three executive directors (2017: four) were members of the Association’s defined benefit pension scheme.

The Chief Executive was an ordinary member of the pension scheme with no enhanced or special terms applied. Contributions towards the Chief Executive’s pension by the company amounted to £15,000 (2017: £3,000). 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 2018 (Continued)

**8 Operating surplus**

	2018		2017	
	Group £000	Association £000	Group £000	Association £000
This has been arrived at after charging:				
Housing properties depreciation	1,666	1,666	1,587	1,587
Other depreciation and amortisation	262	262	226	226
Internal auditors' remuneration	9	9	23	23
Hire of assets – operating leases – land and buildings	353	353	314	314
Hire of assets – operating leases – motor vehicles	211	211	205	205
SHPS – remeasurement of pension deficit contribution	1,023	1,023	-	-
LGPS – pension liability on transfer of additional services	145	145	-	-
Sleep-in provision	(37)	(37)	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	26	22	21	19
Audit related advisory services	2	2	2	2
Taxation compliance services	4	4	1	-

**9 Profit on disposal of housing properties**

	2018		2017	
	Group £000	Association £000	Group £000	Association £000
<b>External disposals</b>				
Disposal proceeds	407	407	582	582
Cost, less Social Housing Grant not recycled	(140)	(140)	(288)	(288)
Profit	267	267	294	294

**10 Interest receivable**

	2018		2017	
	Group £000	Association £000	Group £000	Association £000
On bank and building society deposits	39	38	15	14

**ORWELL HOUSING ASSOCIATION LIMITED**

Notes forming part of the financial statements for the year ended 31 December 2018 *(Continued)*

**11 Interest and finance costs**

	2018		2017	
	Group £000	Association £000	Group £000	Association £000
On bank loans and other loans repayable wholly or partly within 5 years	79	79	73	73
On bank loans and other loans repayable wholly or partly after more than 5 years	3,156	3,156	3,080	3,080
Bond premium released	(48)	(48)	(47)	(47)
Defined benefit pension charge	28	28	32	32
	<u>3,215</u>	<u>3,215</u>	<u>3,138</u>	<u>3,138</u>

**12 Taxation**

	2018		2017	
	Group £000	Association £000	Group £000	Association £000
Current tax:				
UK Corporation tax on profits of current year	49	-	32	-
	<u>49</u>	<u>-</u>	<u>32</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% (2017 – 19.25%) as explained below:

	2018 £000	2017 £000
Subsidiary profit on ordinary activities before tax	260	168
Profit on ordinary activities multiplied by the main rate of corporation tax of 19% (2017 – 19.25%)	49	32
	<u>49</u>	<u>32</u>

**ORWELL HOUSING ASSOCIATION LIMITED**Notes forming part of the financial statements for the year ended 31 December 2018 *(Continued)***13 Intangible fixed assets**

<b>Group and Association</b>	<b>Software £000</b>	<b>2018 Total £000</b>
<i>Cost</i>		
At beginning of year	386	<b>386</b>
Additions during year	76	76
Disposals during year	-	-
<b>At end of year</b>	<b>462</b>	<b>462</b>
<i>Less: Amortisation</i>		
At beginning of year	<b>(113)</b>	<b>(113)</b>
Charge for year	(149)	(149)
Disposals during year	-	-
<b>At end of year</b>	<b>(262)</b>	<b>(262)</b>
<i>Net book value</i>		
At beginning of year	273	273
<b>At end of year</b>	<b>200</b>	<b>200</b>



**ORWELL HOUSING ASSOCIATION LIMITED**

Notes forming part of the financial statements for the year ended 31 December 2018 *(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	2018 Total £000
<i>Cost</i>					
At beginning of year	385	3,411	5,246	217,444	226,486
Additions during year	1,671	9,360	-	1,434	12,465
Disposals during year	-	-	(76)	(699)	(775)
Transfer	(991)	(7,966)	991	7,966	-
<b>At end of year</b>	<b>1,065</b>	<b>4,805</b>	<b>6,161</b>	<b>226,145</b>	<b>238,176</b>
<i>Depreciation</i>					
At beginning of year	-	-	(2)	(17,201)	(17,203)
Charge for the year	-	-	-	(1,666)	(1,666)
On disposal	-	-	1	507	508
<b>At end of year</b>	<b>-</b>	<b>-</b>	<b>(1)</b>	<b>(18,360)</b>	<b>(18,361)</b>
<i>Net book value</i>					
At beginning of year	385	3,411	5,244	200,243	209,283
<b>At end of year</b>	<b>1,065</b>	<b>4,805</b>	<b>6,160</b>	<b>207,785</b>	<b>219,815</b>
					<b>2018</b>
					<b>£000</b>
Freehold land and buildings					<b>211,898</b>
Long leasehold land and buildings					<b>7,661</b>
Short leasehold land and buildings					<b>256</b>
					<b>219,815</b>

During the year, £1,268,000 of works to existing properties were capitalised (2017: £1,593,000) and £4,108,000 (2017: £3,750,000) 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 2018 *(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	2018 Total £000
<i>Cost</i>					
At beginning of year	385	3,316	5,246	217,641	<b>226,588</b>
Additions during year	1,671	9,169	-	1,434	12,274
Disposals during year	-	-	(76)	(699)	(775)
Transfer	(991)	(7,966)	991	7,966	-
<b>At end of year</b>	<b>1,065</b>	<b>4,519</b>	<b>6,161</b>	<b>226,342</b>	<b>238,087</b>
<i>Depreciation</i>					
At beginning of year	-	-	(2)	(17,398)	<b>(17,400)</b>
Charge for the year	-	-	-	(1,666)	(1,666)
On disposal	-	-	1	507	508
<b>At end of year</b>	<b>-</b>	<b>-</b>	<b>(1)</b>	<b>(18,557)</b>	<b>(18,558)</b>
<i>Net book value</i>					
At beginning of year	385	3,316	5,244	200,243	<b>209,188</b>
<b>At end of year</b>	<b>1,065</b>	<b>4,519</b>	<b>6,160</b>	<b>207,785</b>	<b>219,529</b>
					<b>2018</b>
					<b>£000</b>
Freehold land and buildings					<b>211,612</b>
Long leasehold land and buildings					<b>7,661</b>
Short leasehold land and buildings					<b>256</b>
					<b>219,529</b>

During the year, £1,268,000 of works to existing properties were capitalised (2017: £1,593,000) and £4,108,000 (2017: £3,750,000) 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 2018 *(Continued)*

**16 Tangible fixed assets - Other**

<b>Group and Association</b>	<b>Freehold offices £000</b>	<b>Motor vehicles £000</b>	<b>Office furniture, plant &amp; equipment £000</b>	<b>Gardening equipment £000</b>	<b>2018 Total £000</b>
<i>Cost</i>					
At beginning of year	2,594	48	365	16	<b>3,023</b>
Additions during year	-	-	134	25	159
Disposals during year	-	(44)	(131)	(8)	(183)
<b>At end of year</b>	<b>2,594</b>	<b>4</b>	<b>368</b>	<b>33</b>	<b>2,999</b>
<i>Less: Depreciation</i>					
At beginning of year	-	(7)	(162)	(7)	<b>(176)</b>
Charge for year	-	(7)	(100)	(6)	(113)
Disposals during year	-	12	133	8	153
<b>At end of year</b>	<b>-</b>	<b>(2)</b>	<b>(129)</b>	<b>(5)</b>	<b>(136)</b>
<i>Net book value</i>					
At beginning of year	2,594	41	203	9	2,847
<b>At end of year</b>	<b>2,594</b>	<b>2</b>	<b>239</b>	<b>28</b>	<b>2,863</b>

**ORWELL HOUSING ASSOCIATION LIMITED**

Notes forming part of the financial statements for the year ended 31 December 2018 *(Continued)*

**17 Investments**

	2018		2017	
	Group £000	Association £000	Group £000	Association £000
Liquidity reserve	382	382	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.

<b>Association</b>	£
At 1 January 2018 and 31 December 2018	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

**18 Stocks and work in progress**

	2018		2017	
	Group £000	Association £000	Group £000	Association £000
First tranche disposals Shared Ownership Properties	1,197	1,197	1,211	1,211
Market sale properties	355	-	329	-
Work in progress	43	43	-	-
	<u>1,595</u>	<u>1,240</u>	<u>1,540</u>	<u>1,211</u>

**ORWELL HOUSING ASSOCIATION LIMITED**

Notes forming part of the financial statements for the year ended 31 December 2018 *(Continued)*

**19 Debtors**

	2018		2017	
	Group £000	Association £000	Group £000	Association £000
Arrears of rent and service charges	790	790	771	771
Less: Provision for bad/doubtful debts	(195)	(195)	(199)	(199)
	<u>595</u>	<u>595</u>	<u>572</u>	<u>572</u>
Trade debtors	1,487	1,487	2,909	2,909
Less: Provision for bad/doubtful debts	(359)	(359)	(451)	(451)
	<u>1,128</u>	<u>1,128</u>	<u>2,458</u>	<u>2,458</u>
Amounts recoverable on contracts	1,476	1,476	3,815	3,815
Amounts due from group companies	-	22	-	63
Other debtors	1,654	1,627	1,296	1,259
	<u>4,853</u>	<u>4,848</u>	<u>8,141</u>	<u>8,167</u>

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

**Group and Association**

**Bad and  
doubtful debts  
£000**

At 1 January 2017	625
Charge to income and expenditure account for the year	178
Expenditure charge to the provision for the year	(153)
	<u>650</u>
At 31 December 2017	650
Charge to income and expenditure account for the year	4
Expenditure charge to the provision for the year	(100)
	<u>554</u>
<b>Balance at 31 December 2018</b>	<b>554</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 2018 *(Continued)*

**20 Creditors: amounts falling due within one year**

	2018		2017	
	Group £000	Association £000	Group £000	Association £000
Payments on account of long term work in progress	498	498	778	778
Current instalments of loans (see note 24)	2,755	2,755	2,732	2,732
Contractors for certificate work and unpaid retentions	851	587	956	751
Other taxation and social security	185	185	175	175
Corporation tax	49	-	32	-
Amounts due to group companies	-	337	-	629
Deferred income	668	668	551	551
Recycled capital grants (see note 22)	112	112	157	157
Deferred capital grants (see note 23)	1,054	1,054	943	943
Other creditors and accruals	3,553	3,011	4,313	3,463
	<u>9,725</u>	<u>9,207</u>	<u>10,637</u>	<u>10,179</u>

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

Amounts due are payable as follows:

	2018		2017	
	Group £000	Association £000	Group £000	Association £000
Recycled capital grant fund (see note 22)	296	296	423	423
Deferred capital grants (see note 23)	71,948	71,948	71,698	71,698
Borrowings (see note 24)	85,136	85,136	87,911	87,911
	<u>157,380</u>	<u>157,380</u>	<u>160,032</u>	<u>160,032</u>

**ORWELL HOUSING ASSOCIATION LIMITED**

Notes forming part of the financial statements for the year ended 31 December 2018 *(Continued)*

**22 Recycled capital grants**

	2018		2017	
	Group £000	Association £000	Group £000	Association £000
At the beginning of the year	580	580	509	509
Inputs to RCGF: grants recycled	63	63	78	78
interest accrued	6	6	4	4
Recycling of grant: new build	(241)	(241)	(11)	(11)
<b>At the end of the year</b>	<b>408</b>	<b>408</b>	<b>580</b>	<b>580</b>

There are no amounts three years old or older where repayment may be required.

**23 Deferred capital grant**

<b>Group and Association</b>	<b>2018 £000</b>	<b>2017 £000</b>
As at 1 January	72,641	71,501
Grant received in the year	1,385	2,126
Capital grant released	(978)	(943)
Reinstatement of grant re disposals	16	35
Disposals	(62)	(78)
<b>As at 31 December</b>	<b>73,002</b>	<b>72,641</b>

# ORWELL HOUSING ASSOCIATION LIMITED

Notes forming part of the financial statements for the year ended 31 December 2018 *(Continued)*

## 24 Borrowings

	<b>2018</b>	2017
<b>Group and Association</b>	<b>£000</b>	£000
Creditors: amounts falling due within one year (see note 20):		
Bank loans	2,755	2,732
	<u>2,755</u>	<u>2,732</u>
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	12,499	11,809
Bank loans repayable by instalments due after 5 years	61,283	64,692
Bank loans repayable other than by instalments due after 5 years	11,354	11,410
	<u>85,136</u>	<u>87,911</u>

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 2019 and 2050; the loans bear interest at variable and fixed rates of between 1.08% 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 2018 (Continued)**

**25 Financial instruments**

<b>Group</b>	<b>2018</b>	2017
	<b>£000</b>	£000
Carrying amount of financial assets:		
Debt instruments measured at amortised cost	3,931	7,473
	-----	-----
Carrying amount of financial liabilities:		
Measured at amortised cost	93,250	97,302
	-----	-----

**26 Pension provision**

With effect from 2 July 2018, the Association became an admitted body of the Local Government Pension Scheme (LGPS) which is funded by the payment of contributions to a separately administered trust fund. The Association sought admitted body status following the transfer of employees under the TUPE process on 2 July 2018. As at that date, the scheme had assets of £850,000 and liabilities of £995,000, giving a net liability of £145,000. As at 2 July 2018 there were a total of 14 employees in the scheme. As at 31 December 2018, there were a total of 9 employees in the scheme.

The most recent formal actuarial valuation was carried out as at 31 December 2018 by a qualified independent actuary

**Assumptions**

The major assumptions used by the actuary in assessing scheme liabilities on the FRS102 basis were:

	<b>31 Dec 2018</b>	2 Jul 2018
	<b>% per annum</b>	% per annum
Discount rate	2.9	2.9
Rate of increase in salaries	2.7	2.6
Rate of increase in pensions in payment	2.4	2.3

**Mortality assumptions**

The valuation was carried out using life expectancy figures based on the Fund's VitaCurves year of birth tables, with improvements in line with the CMI 2013 model assuming current rates of improvement have peaked and will converge to a long term of 1.25% per annum. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	<b>31 December 2018</b>	
	<b>Males</b>	<b>Females</b>
Pensioners	<b>21.9 years</b>	24.4 years
Non Pensioners	<b>23.9 years</b>	26.4 years

**Contributions**

The Association's contributions to the LGPS Scheme for the period ended 31 December 2018 were £33,000 (2017: £nil) and the employers' contributions rate has been fixed as 35.4% of pensionable pay until 31 March 2019. The estimated employer's contributions for the year to 31 December 2019 will be approximately £69,000.

**ORWELL HOUSING ASSOCIATION LIMITED**

Notes forming part of the financial statements for the year ended 31 December 2018 *(Continued)*

**26 Pension provision *(Continued)***

*Amounts recognised in the Statement of Financial Position:*

	<b>2018</b> <b>£'000</b>
Fair value of employer's assets	855
Present value of funded liabilities	(1,074)
	<hr/>
Net liability	(219)
	<hr/>

*Amounts recognised in Statement of Comprehensive Income of the defined benefit schemes are as follows:*

	<b>2018</b> <b>£'000</b>
<i>Amounts charged to Operating Expenditure</i>	
Net liability assumed as at 2 July	(145)
Current service cost	(33)
Employer contributions, gain/(loss) on curtailment and gain/(loss) on settlement	33
	<hr/>
	(145)
Net interest on the net defined benefit pension liability – interest cost	(3)
Actuarial loss	(71)
	<hr/>
	(219)
	<hr/> <hr/>

*Changes in the present value of the defined benefit obligation:*

	<b>2018</b> <b>£'000</b>
Defined benefit obligations at 2 July	995
Service cost	33
Interest cost	15
Contribution by scheme participants	6
Actuarial (gains)/losses	25
	<hr/>
Defined benefit obligation at 31 December	1,074
	<hr/>

# ORWELL HOUSING ASSOCIATION LIMITED

Notes forming part of the financial statements for the year ended 31 December 2018 *(Continued)*

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## 26 Pension provision *(Continued)*

### *Changes in the fair value of plan assets:*

	<b>2018</b>
	<b>£'000</b>
Plan assets at 2 July 2018	850
Interest income	12
Actuarial (losses)/gains	(46)
Contribution by employer	33
Contribution by scheme participants	6
	<hr/>
Plan assets at 31 December	855
	<hr/>

### *Actual return on plan assets:*

	<b>2018</b>
	<b>£'000</b>
Actual return on plan assets	51
	<hr/>

### *Major categories of plan assets as a percentage of total plan assets:*

	<b>2018</b>
Equities	59%
Bonds	29%
Property	10%
Cash	2%

**ORWELL HOUSING ASSOCIATION LIMITED**

Notes forming part of the financial statements for the year ended 31 December 2018 *(Continued)*

**27 Other provisions**

<b>Group and Association</b>	<b>SHPS</b>		<b>Total £000</b>
	<b>Pension £000</b>	<b>Sleep-Ins £000</b>	
At 1 January 2017	2,201	-	<b>2,201</b>
Provision created in the year	-	512	<b>512</b>
Utilised in the year	(296)	-	<b>(296)</b>
Unwinding of discount	29	-	<b>29</b>
Increase 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>
Amendments to contribution schedule	1,067	-	1,067
Utilised in the year	(308)	(37)	(345)
Unwinding of discount	25	-	25
Reduction due to change in discount rate	(44)	-	(44)
<b>31 December 2018</b>	<b>2,677</b>	<b>475</b>	<b>3,152</b>

*SHPS Pension*

This represents the net present value of the commitment to the multi-employer pension scheme in respect of past deficits. Details of the provision is given in note 31.

*Sleep-Ins*

This represents the historic liability in respect of additional sleep-in shift payments to be made to employees.

**ORWELL HOUSING ASSOCIATION LIMITED**

Notes forming part of the financial statements for the year ended 31 December 2018 *(Continued)*

**28 Housing stock**

**Group and Association**

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

	<b>2018</b>	2017
<i>Housing units under development</i>	43	68
<i>Social housing accommodation under management</i>		
General needs housing – social rent	1,888	1,882
General needs housing – affordable rent	866	816
Supported housing and housing for older people	829	821
Low cost home ownership accommodation	113	100
Temporary social housing	108	106
Registered care home	10	10
Other	9	9
	<hr/>	<hr/>
	3,823	3,744
<i>Non-social housing accommodation under management</i>		
Market rented	12	12
	<hr/>	<hr/>
	3,878	3,824
	<hr/>	<hr/>

**29 Accommodation managed by others**

	<b>2018</b>	2017
<b>Group and Association</b>	<b>Units</b>	Units
Access Community Trust	62	61
Aspire	17	17
Break Disability	4	4
Heywoods Grange	10	10
Papworth	1	1
Stonham	6	6
United Response	1	1
	<hr/>	<hr/>
	101	100
	<hr/>	<hr/>

## ORWELL HOUSING ASSOCIATION LIMITED

Notes forming part of the financial statements for the year ended 31 December 2018 (*Continued*)

### 30 Share capital and reserves

#### *Share capital*

<b>Group and Association</b>	<b>2018</b>	<b>2017</b>
	<b>£</b>	<b>£</b>
At beginning of year	31	31
Shares cancelled	(2)	(1)
Shares issued	-	1
	<hr/>	<hr/>
At end of year	29	31
	<hr/>	<hr/>

The share capital of the Association consists of shares with a nominal value of £1 each which carry no rights to vote, 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:

##### *General 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.

### 31 The Pensions Trust – Social Housing Pension Scheme

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 2017. This actuarial valuation was certified on 28 November 2018 and showed assets of £4,553m, liabilities of £6,075m and a deficit of £1,522m. To eliminate this funding shortfall, the trustees and the participating employers have agreed a new Recovery Plan which replaces the tiered approach. 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 2018 *(Continued)*

## 31 The Pensions Trust – Social Housing Pension Scheme *(continued)*

### Deficit contributions

From 1 April 2019 to 30 September 2026:	£161.0m per annum (payable monthly and increasing by 2.0% each year on 1 April)
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Note that the scheme's previous valuation was carried out with an effective date of 30 September 2014; this 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, payments consisted of the Tier 1, 2, 3 & 4 deficit contributions as shown below:

### Deficit contributions

<b>Tier 1</b> From 1 April 2017 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 2017 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 2017 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 2017 to 30 September 2026:	£31.7m per annum (payable monthly and increasing by 3.0% each year on 1 April)

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>2018</b>	2017
	<b>£000</b>	£000
Present value of provision	2,677	1,937

### Reconciliation of opening and closing provisions:

Provision at start of year	1,937	2,201
Utilised in the year (deficit contribution paid)	(308)	(296)
Unwinding of the discount factor (interest expense)	25	32
Remeasurements impact of change in assumptions (operating expenditure)	(44)	-
Remeasurements amendments to the contribution schedule (operating expenditure)	1,067	-
	<u>2,677</u>	<u>1,937</u>

**ORWELL HOUSING ASSOCIATION LIMITED**

Notes forming part of the financial statements for the year ended 31 December 2018 *(Continued)*

**31 The Pensions Trust – Social Housing Pension Scheme***(continued)*

<b>Group and Association</b>	<b>2018</b>	2017
	<b>£000</b>	£000
Statement of Comprehensive Income impact:		
Operating expenditure – remeasurements amendments to the contribution schedule	1,067	-
Operating expenditure – remeasurements impact of change in assumptions	(44)	-
	<u>1,023</u>	<u>-</u>
Operating expenditure (contributions paid in respect of future service)	193	154
Interest expense (unwinding of the discount factor)	25	32
	<u>1,241</u>	<u>186</u>

**Assumptions**

	31 December 2018 % per annum	31 December 2017 % per annum
Rate of discount	1.84	1.41

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:

<b>Group and Association</b>	<b>2018</b>	2017
	<b>£000</b>	£000
<b>Deficit Contributions Schedule</b>		
Year ending 31 December 2018	-	308
Year ending 31 December 2019	340	320
Year ending 31 December 2020	354	303
Year ending 31 December 2021	362	225
Year ending 31 December 2022	369	233
Year ending 31 December 2023	376	218
Year ending 31 December 2024	384	153
Year ending 31 December 2025	391	158
Year ending 31 December 2026	299	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.



**ORWELL HOUSING ASSOCIATION LIMITED**

Notes forming part of the financial statements for the year ended 31 December 2018 *(Continued)*

**32 Capital commitments**

<b>Group</b>	<b>2018</b>	2017
	<b>£000</b>	£000
Expenditure contracted, less certified	900	7,136

The above expenditure will be financed using Social Housing Grant (SHG) of £10,000 (2017: £255,000) together with Local Authority Grant of £249,000 (2017: £2,000,000) and a loan facility of £641,000 (2017: £4,881,000).

<b>Association</b>	<b>2018</b>	2017
	<b>£000</b>	£000
Expenditure contracted, less certified	1,003	6,441

The above expenditure will be financed using Social Housing Grant (SHG) of £10,000 (2017: £255,000) together with Local Authority Grant of £249,000 (2017: £2,000,000) and a loan facility of £744,000 (2017: £4,186,000).

**33 Commitments under operating leases**

**Group and Association**

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

Land and buildings:

	<b>2018</b>	2017
	<b>£000</b>	£000
Amounts due:		
Within one year	398	417
In one to five years	1,124	1,120
In more than five years	5,676	5,848
	<u>7,198</u>	<u>7,385</u>

Motor vehicles:

	<b>2018</b>	2017
	<b>£000</b>	£000
Amounts due:		
Within one year	207	192
In one to five years	197	157
	<u>404</u>	<u>349</u>

## ORWELL HOUSING ASSOCIATION LIMITED

Notes forming part of the financial statements for the year ended 31 December 2018 (Continued)

### 34 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:

	2018 £000	2017 £000
Purchases from Orwell Homes Limited	8,980	5,037
Salary costs recharged to Orwell Homes Limited	189	105
Interest credited to Orwell Homes Limited	1	1

At the year end, the net amount due to Orwell Homes Limited was £323,577 (2017: £528,700).

During the year, the retiring Chief Executive purchased his company car at an open market value of £15,000. Details of key management personnel remuneration are included in note 7.

### 35 Reconciliation of consolidated surplus on ordinary activities to net cash inflow from operating activities

Group	2018 £000	2017 £000
Surplus for the year	3,956	5,186
Depreciation, amortisation and impairment	1,928	1,813
Amortisation of grant	(978)	(943)
Defined benefit pension schemes	860	(264)
Provision movement	(37)	512
Gain on disposal of fixed assets	(267)	(294)
Loss on disposal of other fixed assets	15	13
Interest receivable	(39)	(15)
Interest payable	3,215	3,138
Taxation	49	32
<b>Operating cashflows before movements in working capital</b>	<b>8,702</b>	<b>9,178</b>
(Increase)/decrease in stocks	(55)	(1,540)
Decrease/(increase) in debtors	3,288	(2,391)
(Decrease) in creditors	(954)	(1,112)
<b>Cash generated from operating activities</b>	<b>10,981</b>	<b>4,135</b>

## **ORWELL HOUSING ASSOCIATION LIMITED**

Notes forming part of the financial statements for the year ended 31 December 2018 *(Continued)*

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### **36 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 23, together with the amortised amount. At the end of the year, the total amount of SHG potentially repayable was £88,640,000 (2017: £86,795,000).

### **37 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.