

Orwell Housing Association Limited

Report and Consolidated Financial Statements

Year Ended

31 December 2019

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 2019

Contents

Page:

1	Officers and general information
2	Chair's Report
3	Strategic Report
29	Independent auditors' report
31	Consolidated statement of comprehensive income
31	Association's statement of comprehensive income
32	Consolidated statement of changes in reserves
32	Association's statement of changes in reserves
33	Consolidated statement of financial position
33	Association's statement of financial position
34	Consolidated statement of cash flows
35	Notes forming part of the financial statements

ORWELL HOUSING ASSOCIATION LIMITED

Officers and general information

Board (elected unless otherwise stated)

Kim Newman BSc (Hons) FCIPS MCMI

– Chair – *G R*

Alastair Thomas BSc (Hons) FRICS

– Vice Chair – *R*

Cynthia Alers MBA MA MIRSoc – *A*

Jeanette Alfano – *A G R*

Ian Beaumont – (retired 27 March 2019)

Helen Driver BA (Hons) CFA CFAB

DiPFA (appointed 27 March 2019) – *A*

Daniel Gaul BSc (Eng) MSc

Peter Jones

Robyn Llewellyn – *A G R*

Barbara Thorndick OBE BA (Hons) FCIOH

– *A G R*

Committee membership key

Audit Committee – *A*

Governance Committee – *G*

Remuneration and

Nominations Committee – *R*

Chief Executive

Wendy Evans-Hendrick BA (Hons) Dip DM DMS

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 IP2 0BE

Bankers

Affordable Housing Finance, 3rd Floor, 17 St Swithin's Lane, London EC4N 8AL

Handelsbanken, Unit 1, Grafton House, Russell Road, Ipswich IP1 2AG

Lloyds TSB Bank plc, 13 Cornhill, Ipswich IP1 1DG

Royal Bank of Scotland plc, 135 Bishopsgate, London EC2M 3UR

Solicitors

Anthony Collins, 134 Edmund Street, Birmingham B3 2ES

Devonshires, 30 Finsbury Circus, London EC2M 7DT

Marshall Hatchick, The Ancient House, 22 Church Street, Woodbridge IP12 1DH

Mills and Reeve, 1 St James Court, WhiteFriars, Norwich NR3 1BR

External Auditor

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

Internal Auditor

KPMG LLP (UK), Dragonfly House, 2 Gilders Way, Norwich NR3 1UB

Social Housing Regulator

Registration No L0028

Co-operative and Community Benefit Society

Registration No 16460R

ORWELL HOUSING ASSOCIATION LIMITED

Chair's Report for the year ended 31 December 2019

As I near the end of my first year as Chair I am delighted to report on another successful year for Orwell. This has only been achievable through the hard work and focus of everyone involved in our Business – from Board and Executive through to residents and our employees.

The housing, political and the economic worlds are all by their nature turbulent but the pace of change over recent years has been staggering. Elections, Brexit, new housing ministers, and even global political uncertainty affect the housing markets. Despite this, Orwell is well placed to take advantage of our operating environment and the opportunities that it will bring.

We are committed to being a financially robust organisation and 2019 has been another strong year for Orwell which has seen us continue to deliver against our key objectives, ensuring the long term success of the business. We achieved a turnover of £35.3m and a surplus before tax of £4.7m.

Having previously received a judgement of G2:V1 from the Regulator of Social Housing following an In Depth Assessment, we have worked collaboratively with the Regulator during the year to address the matters raised and successfully returned to G1:V1 in August 2019. We also continued to strengthen our talented Board with the appointment of Helen Driver, who has also joined the Audit Committee.

This year has also been one of significant change as we position Orwell for the future.

We're playing our part in helping to tackle the housing crisis by providing much needed new homes. Working with our subsidiary company Orwell Homes Limited, we have delivered 52 units this year and will be delivering a development programme of 100 homes each year from 2020. We are also exploring a variety of management and lease based models to take us toward our target to own or manage more than 5,000 homes by the end of 2028.

During 2019 we have worked closely with the Resident Steering Group to embed a new resident governance structure. Residents formally monitor our performance at the Resident Steering Group meetings and report on their activities at the Board. The Group have already completed a number of Resident Scrutiny reviews which have provided valuable feedback for continuous improvement.

As a Board and Executive we have considered how we can transform our business, making better use of resources and technology to enhance the customer experience and drive efficiency. This has resulted in the Board approving a Transformation Plan to move this forward over the next 2-3 years. The four key aims of our transformation will be to:

- Differentiate
- Innovate
- Modernise
- Deliver

The Board also approved a new strategic plan for Orwell setting out what we want to achieve from 2020-23 and the direction of the organisation. To deliver our ambitions we will be focusing on the following objectives:

- Put Customers at the heart of what we do to ensure our decisions are driven by customers' needs and aspirations;
- Support our customers to have control over their future. We aim to support them to be independent and have the greatest chance to be healthy, happy and safe;
- To better understand the needs of our community and develop services that make a positive impact on it;
- To be a great employer, valued for the work we do by our people;
- Provide new homes and invest in sustaining our existing homes; and
- To work in partnership with other organisations to improve value for money, services and drive innovation and change.

With 2019 now behind us, the impact of the Covid-19 virus is being felt across the country and we enter 2020 with apprehension, whilst maintaining confidence in the strong financial position of Orwell.



Kim Newman, Chair

ORWELL HOUSING ASSOCIATION LIMITED

Strategic report for the year ended 31 December 2019

Principal Activities

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 e², 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 e² 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.

COVID-19 Assessment

The Association has triggered its Business Continuity Plans following the outbreak of the COVID-19 Coronavirus and the advice from Government to cease all non-essential work that cannot be carried out working from home. A full telephone customer service is being provided alongside emergency and urgent repairs in tenants homes, with sufficient resources in place to continue throughout the foreseeable future. Full compliance with health and safety requirements remains in place and gas servicing contractors are continuing to operate and keep up to date with all the gas safety requirements relating to the Association's housing stock.

The Association recognises the importance of maintaining staffing levels in its Care & Support services and has implemented plans to ensure that a safe service is always delivered and tenants receive the level of care and support that they need. Employees across the Association currently unable to fulfil their primary roles, are being trained and equipped so that they are able to work alongside care and support employees should absence and sickness levels increase.

Income collection remains important with the Association actively monitoring arrears levels and supporting tenants through these difficult times. In addition, much of the Association's Care & Support income remains secure with funding agreements in place with County Councils, which will ensure that the income of Care & Support schemes will remain consistent.

Operating Review

Objectives

The direction of the Association during the year is as set out in the Association's Business Plan 2018-2020 and the key strategic objectives included in that document are as follows:

- To continue and expand the delivery of other services, such as development services and property maintenance, for other organisations;
- To achieve Care Quality Commission (CQC) "good" rating across all regulated services;

ORWELL HOUSING ASSOCIATION LIMITED

Strategic report for the year ended 31 December 2019 (Continued)

Objectives (continued)

- 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;
- To remain financially viable whilst improving quality and creating efficiencies; and
- To make Orwell Homes strong and financially independent to provide profits to the Association, enabling more homes to be built.

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

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.

Delivery against objectives

The Association continues to focus upon delivering high quality homes and services to our customers, whilst putting in place plans for transforming the business and being clear on what differentiates us from other Registered Social Providers.

The business remains strong and continues to grow despite the uncertainty that political change and Brexit brought to the market, together with, a third year of 1% rent reduction. Costs have been kept under control and an emphasis on continually improving the efficiency of the services we provide with a focus on value for money across the business, has enabled this continued growth.

During the year the Association's commitment to be a great place for people to work was recognised, as we were identified as one of the Sunday Times 100 Best Not for Profit Organisations to work for in 2019. As a large regional employer, valuing and recognising the contribution that the Association's employees make to our continued success, is important. The strong culture, ethos and values are thoroughly embedded throughout the organisation, with people choosing to work for Orwell and staying at the organisation because they share, believe and espouse those same values themselves.

The Association benefits from an empowered and motivated employee base and their continued commitment and dedication is recognised as vitally important to our future growth plans. The organisation's commitment to working towards achieving Investors in People Gold demonstrates the value and importance that is placed on being a great employer.

In 2019, the Association became an early adopter of the National Housing Federation's 'Together with Tenants' campaign, which puts working with tenants and customers at the core of the business. The work of the Resident Steering Group, which oversees the work of the various tenant groups and scrutinises the services provided by the Association, has been invaluable in assisting in the ongoing improvement of services and ensuring that the organisation remains focused on delivering the type and quality of services that tenants wish to receive. In 2020,

ORWELL HOUSING ASSOCIATION LIMITED

Strategic report for the year ended 31 December 2019 (Continued)

Delivery against Objectives (continued)

the involvement of customers in the Association will be further enhanced by the formation of a team dedicated to tenant involvement and sustainment. This will enable greater co-design of services with customers and provide specialist support for tenants who are in need of additional help to sustain their tenancy and thrive.

The provision of support and care services remains an important part of the overall business and one which the Association is keen to continue to grow although 2019 was a year of consolidation in this area, as the new Learning Disability Services taken on in 2018 were fully embedded within the organisation. All of the services overseen by the Care Quality Commission continue to achieve an overall rating of Good.

The Association's new Strategic Plan 2020-23 sets an ambitious target to grow the number of people receiving care and/or support from Orwell by at least 100 per year for the life of the plan.

The scale of the Association's investment in information technology and digital platforms during 2019 demonstrates the commitment to the delivery of the Digital Strategy and its importance to the organisation. A new software system for dynamically managing property repairs has been purchased, with the roll out of the new system planned for June 2020. This new system, along with a new website and tenant portal, will enable tenants to diagnose the repair they need, book their own appointment at a time convenient to them and track the progress of their repair

The challenges faced by the Association in 2018, with the installation of the new Housing Management System have largely been resolved during 2019, which has enabled the next stage of the project, the rolling out of the Customer Relationship Management (CRM) to start in 2020. This will enable the Association to deliver a fully integrated online service to its customers.

The provision of new homes for people in need remains a key priority for the Association. During the year, 52 new homes were built and handed over with a further 41 on site. It is the intention of the Association to deliver a further 400 additional homes for rent and shared ownership by the end of 2023.

The Association continues to be an investment partner with Homes England to deliver the Affordable Homes Programme and remains the lead partner for the e² development consortium. The consortium plans to complete 930 homes by March 2021 across East Anglia. At the end of 2019, Ipswich Borough Council applied to join the e² consortium to secure funding for its council house programme. It is hoped that they will commence their first site part funded with Homes England grant by August 2020.

The Association's Development Team continues to provide project management services to Equinox Enterprises Limited, the private sector development company set up by Great Yarmouth Borough Council, as well as, market sales and marketing services to assist with the selling of the properties.

Due to the additional work of the sales team and the increase in sales activity anticipated by its subsidiary Orwell Homes Limited, which will complete four homes for market sale at Great Bromley in 2020; the sales team has been expanded to ensure property sales can be progressed quickly. Interest in the Great Bromley site remains high with two of the four properties already reserved.

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 £88,000.

Whilst passing up profit under gift aid to the parent company Orwell Housing Association Limited remains a key objective of Orwell Homes Limited, 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 to contribute to the financing of 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.

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.

Operating Performance And Value For Money

Approach to Value for Money

The Association's Value for Money (VfM) Strategy balances financial health with the responsibilities to residents and social mission.

As a social purpose business, the aim of the Association is to maximise impact and demonstrate that skills and resources are being used effectively and efficiently. However, the pursuit of efficiency is not simply an exercise in cost cutting – financial health is not an end in itself, but complements and reinforces the Association's social purpose, which is embedded in the Rules, Strategic Plan and is absolutely fundamental to the Association.

A holistic and balanced approach to VfM is taken, that supports the fundamental social purpose and strategic intent of the Association. The interconnected nature of the approach recognises both social and financial value and also balances the needs of the Association's existing residents with the wider social value delivered, such as meeting future housing need or managing environmental impact.



None of these elements dominate but social value is visually prominent as it is the aspect of VfM that is least developed in the sector. Each element is important in its own right, but none of them should be considered in isolation.

ORWELL HOUSING ASSOCIATION LIMITED

Strategic report for the year ended 31 December 2019 (Continued)

VfM framework

The vision of the Association with regard to VfM is a holistic and customer-centric one, delivering quality housing and support and care services, working with stakeholders to put the ethos of “Together we make a difference” at the centre of everything that is done, in a way that is:

- Innovative
- Cost effective
- Maximises the return on investments.

VfM is focused around delivering the Association’s Strategic Plan and is reliant upon meeting the ten VfM objectives included in that plan. The VfM Framework provides the structures, roles and responsibilities, as well as a description of the processes that will allow the Association to adhere to its ten VfM objectives.

Value for Money performance

To demonstrate delivery of Value for Money, this report measures performance against the Regulator of Social Housing’s (RSH) mandatory VfM Metrics, Sector Scorecard metrics and our own bespoke metrics.

As part of performance measuring, benchmark comparisons were carried out against the median score of a handpicked group of peers and the median scores for 2019 performances of regional and national groups. For all peer organisations, metric scores are sourced from 31 March 2019 audited financial statements.

Further performance measuring looks at 2019 actual performance, performance of the last 3 years and the target set last year for 2019. Finally, a look-forward 2020 target is also included.

Peer Group

The Association is a community-focussed housing association, owning and managing some 4,000 homes in rural East of England and it is the biggest provider of support and care in Suffolk. This means that the Association’s offer is not typical of the sector and as a result, performance may look very different, for example, from that of a much larger housing association operating exclusively in a built-up metropolitan area. Consequently, the selected peer group are similar, medium-sized organisations, operating wholly or mainly in East of England, with a significant proportion of their activity made up of care and support and sheltered housing for older people (HfOP). The only exception to this is the inclusion of Westward Housing, which although based in the rural South West of England, has similar levels of care and supported activity and comparable rent levels to those in the East of England. Details of the peer group are shown in the table below:

ORWELL HOUSING ASSOCIATION LIMITED

Strategic report for the year ended 31 December 2019 (Continued)

Peer Group (continued)

Organisation	Owned Units (Social stock)	Turnover (£,000)	% Stock in East of England	% Care and Support Owned	% Stock Sheltered/HfOP Owned
Orwell Housing	3,655	£38,513	100%	10%	12%
Hightown HA	4,272	£84,693	79%	8%	2%
The Cambridge Housing Society	2,652	£32,589	100%	7%	8%
Colne Housing Society	3,053	£19,887	100%	5%	7%
Saffron Housing	6,237	£36,062	100%	3%	11%
Broadland Housing Association Ltd	5,005	£29,139	100%	3%	12%
Axiom Housing Association Ltd (pre-merger)	2,002	£17,748	89%	11%	22%
Westward Housing	7,164	£40,185	N/A - South West (100%)	6%	10%

Regulator VfM metrics

The RSH 2018 Value for Money Standard and the associated Code of Practice, requires registered providers to report on a suite of defined performance metrics to measure economy, efficiency and effectiveness on a comparable basis across the sector. These metrics are shown below:

ORWELL HOUSING ASSOCIATION LIMITED

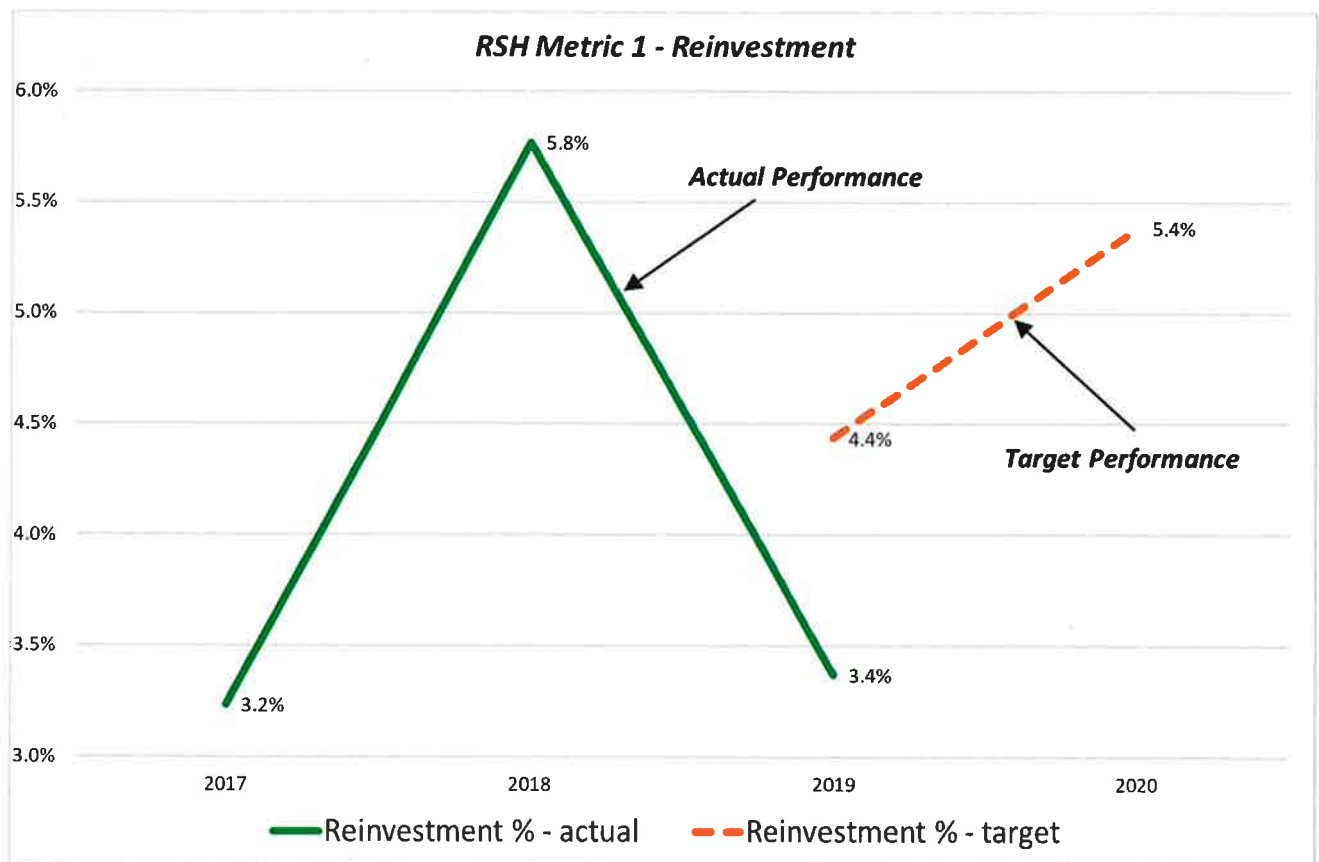
Strategic report for the year ended 31 December 2019 (Continued)

Regulator VfM metrics (continued)

1. RSH Metric 1 – Reinvestment %

This metric reflects investment in properties (existing stock as well as new supply) as a percentage of the value of total properties held.

Orwell Housing	Peer group	East of England	UK
3.4%	8.8%	8.2%	6.2%



The Association, with reinvestment of 3.4% has failed to achieve both the 2019 target of 4.4% and also the peer group average of 8.8%. Development has been unusually low with only 52 units completed in the year compared to the strategic plan target of 100 units. This was due to deferred starts on site caused by a combination of planning permission, statutory services and highways delays.

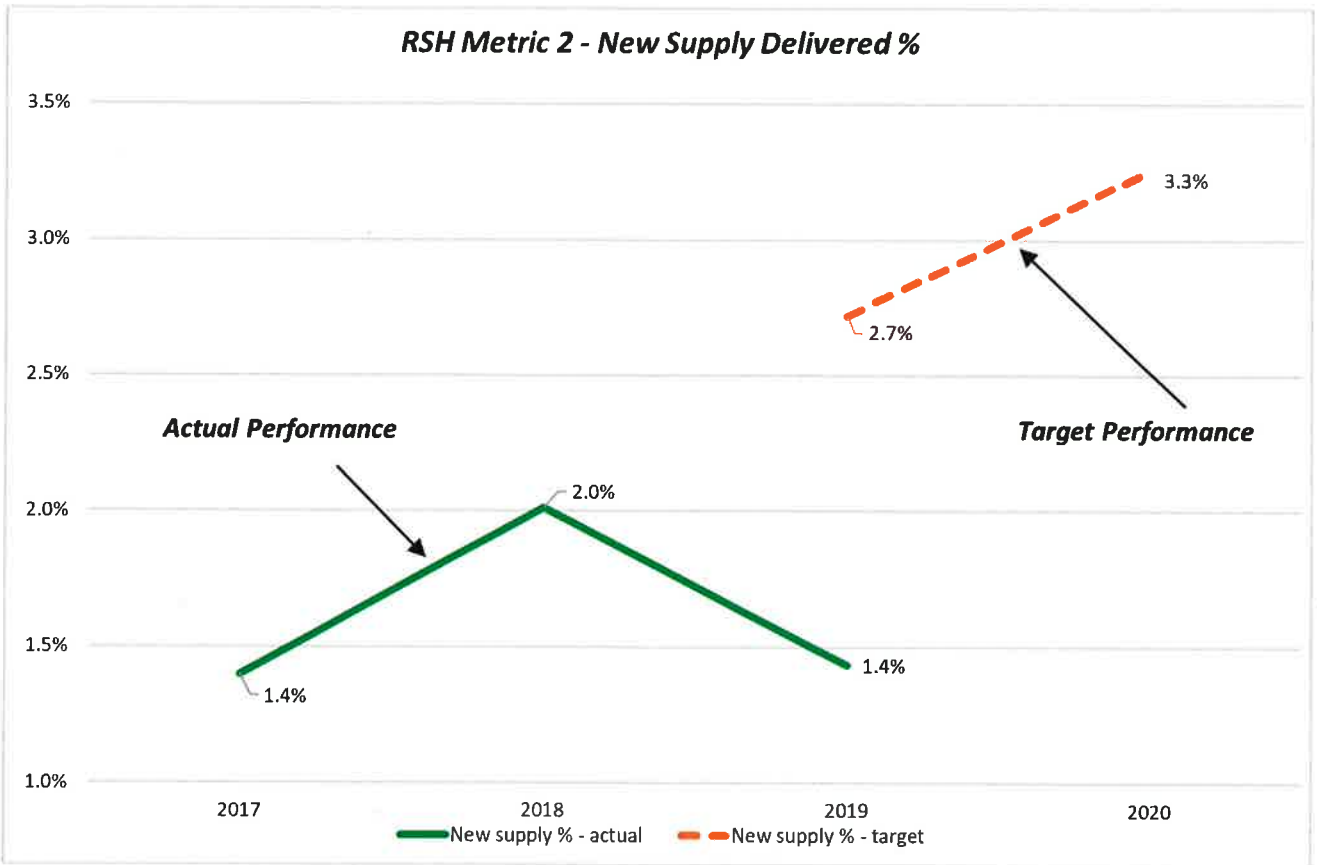
Projecting forward, some of the shortfall experienced in 2019 is expected to be delivered in 2020, hence a higher target of 5.4% for the coming year.

Regulator VfM metrics (continued)

2. RSH Metric 2a – New Supply Delivered (Social Housing) %

This metric reports on the number of new social housing homes that have been acquired or developed during the year as a proportion of total social housing homes owned at period end.

Orwell Housing	Peer group	East of England	UK
1.4%	1.7%	2.5%	1.2%



The Association, with new supply delivered of 1.4%, has failed to achieve both the 2019 target of 2.7% and also the peer group average of 1.7%. As with Metric 1 – the lower reinvestment %, this was due to deferred starts and projecting forward, some of the shortfall experienced in 2019 is expected to be delivered in 2020, hence a higher target of 3.3% for the coming year.

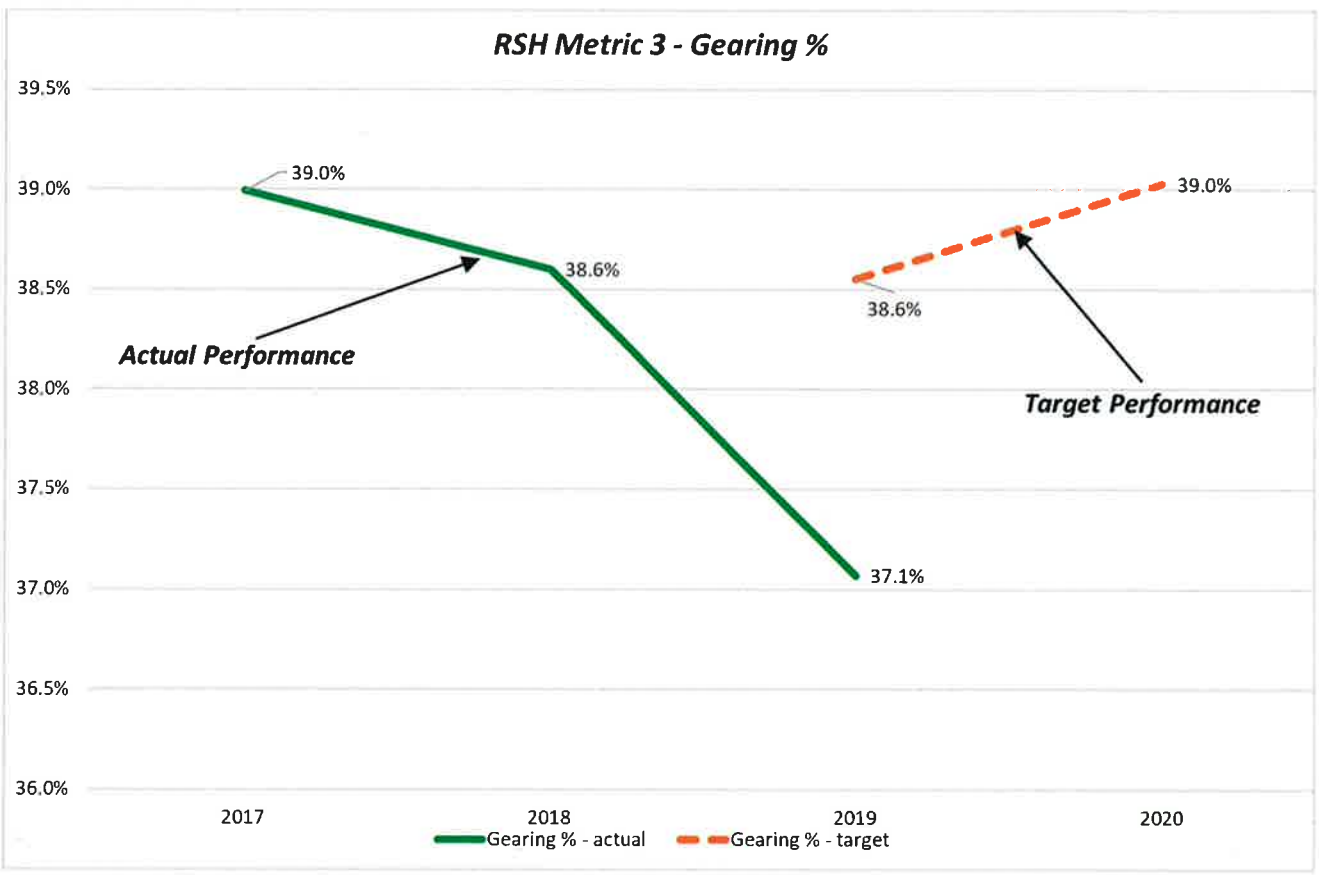
RSH Metric 2b – New Supply Delivered (Non-Social Housing) % - the Association produced no new non-social homes, in keeping with the majority of housing associations in the sector.

Regulator VfM metrics (continued)

3. RSH Metric 3 – Gearing %

This metric assesses how much of the adjusted assets are funded by debt and the degree of dependence on debt finance. It is often a key indicator of a housing association’s appetite for growth.

Orwell Housing	Peer group	East of England	UK
37.1%	49.8%	54.0%	38.4%



The Association’s gearing ratio of 37.1% is lower than peer group and other comparators and is also lower than target due to the lower than forecast development spend in 2019.

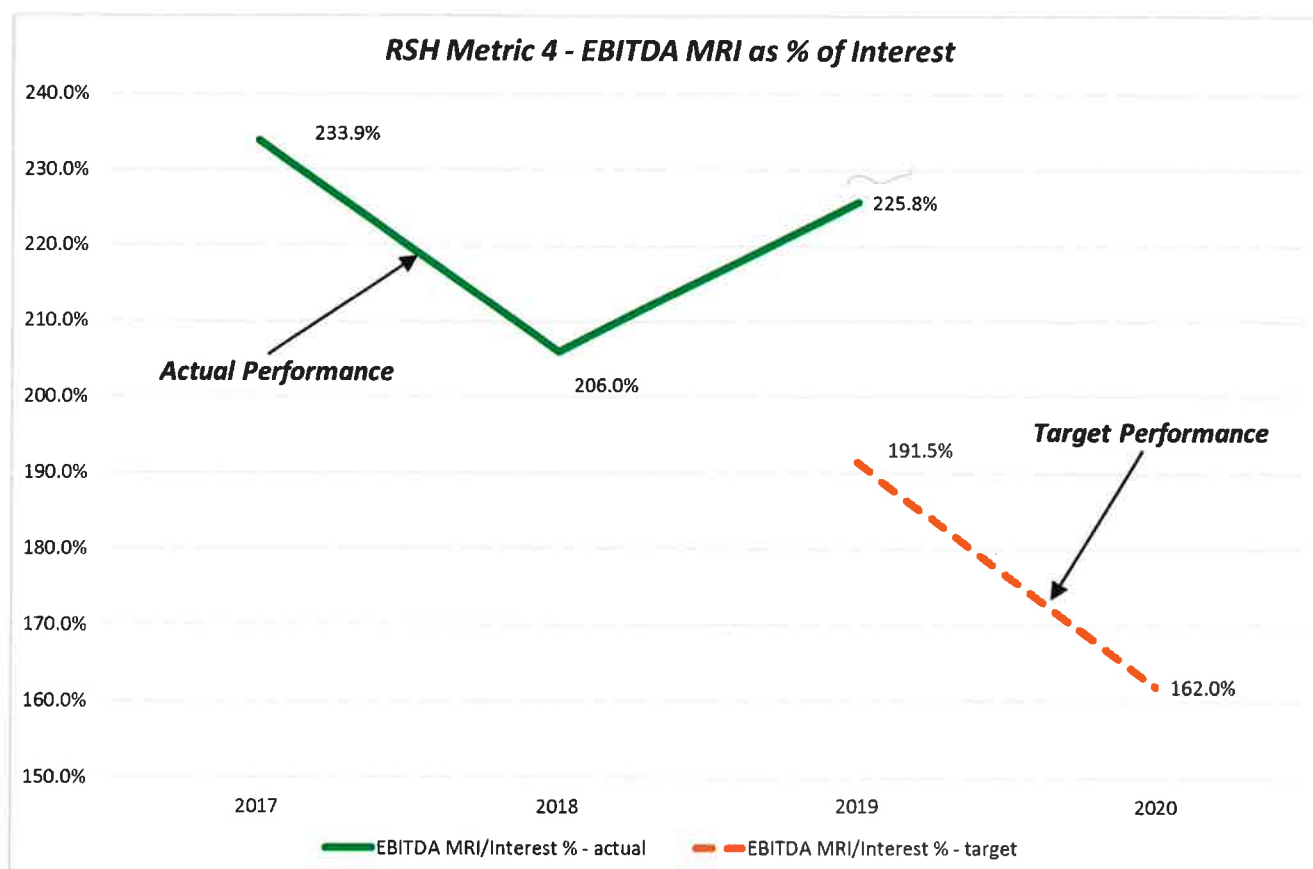
The anticipated increase in gearing moving into 2020 reflects an increased level of borrowing to fund increased development activity included within the Strategic Plan 2020-2023.

Regulator VfM metrics (continued)

4. RSH Metric 4 – Earnings Before Interest, Tax, Depreciation, Amortisation, Major Repairs Included (EBITDA MRI) as % interest

This metric is a key indicator of liquidity and investment capacity. It seeks to measure the level of surplus a registered provider generates to meet interest payments (the measure avoids any distortions stemming from non-cash depreciation charges).

Orwell Housing	Peer group	East of England	UK
225.8%	199.6%	172.3%	191.0%



As context to this metric, 2019 was the third year of four consecutive years of applying the 1% rent reduction. The Association’s comparatively low level of gearing is reflected in high interest cover of 225.8% which is better than the peer group and other comparators.

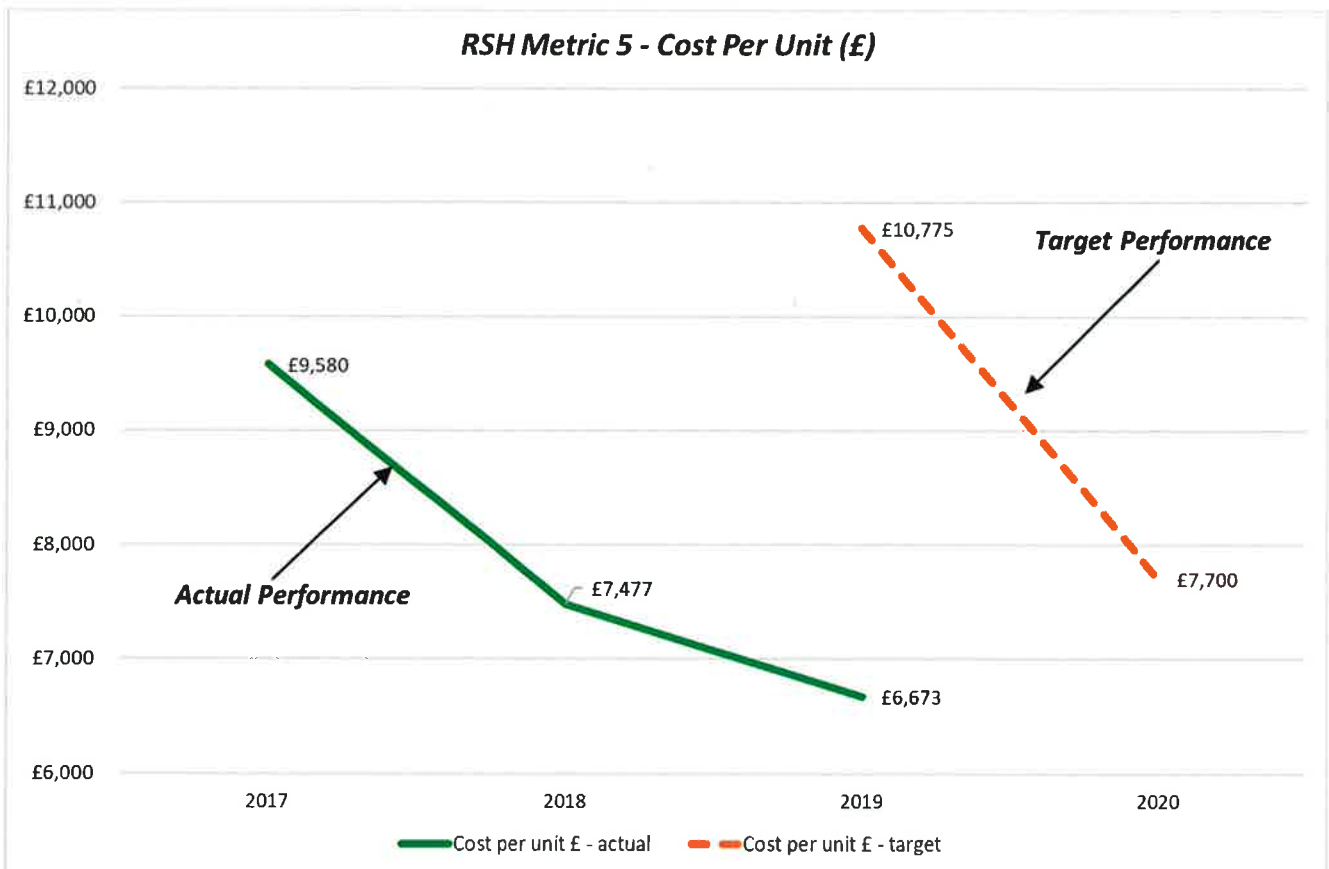
Looking forward to 2020, it is anticipated that EBITDA will fall to 162% with a planned increase in development units, together with additional costs related to the Transformation Project underpinning the new Strategic Plan 2020-2023.

Regulator VfM metrics (continued)

5. RSH Metric 5 – Headline Social Housing Cost Per Unit (£)

This metric assesses the headline social housing cost per unit as defined by the RSH.

Orwell Housing	Peer group	East of England	UK
£6,673	£4,613	£3,409	£3,592



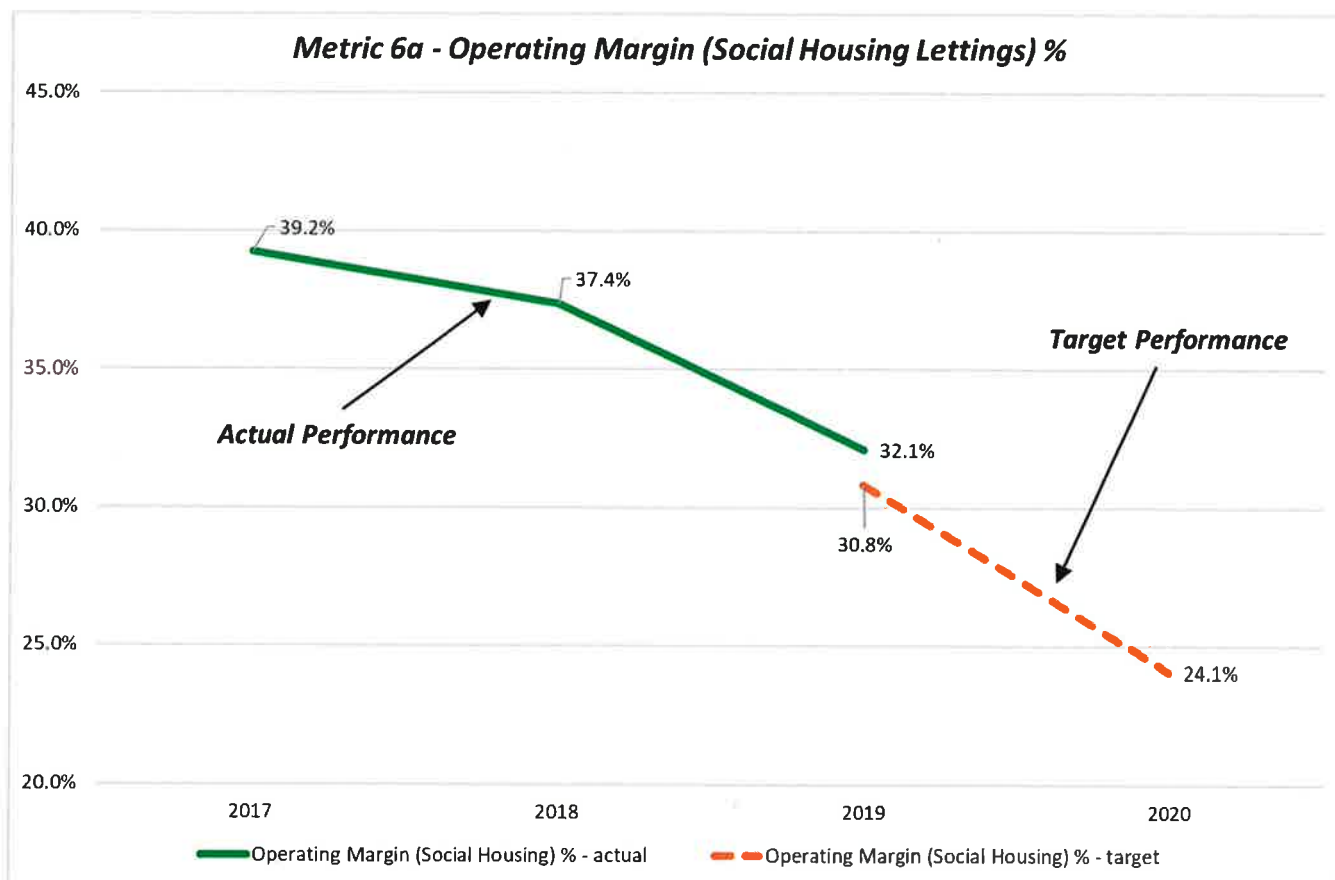
Calculation of this metric includes both support and care activities and also provision of development services (e²). Inclusion of these elements makes meaningful comparison very difficult as it makes the Association's figures higher than they would otherwise be. A more reflective measure of cost per unit performance is included within this report under metric 8.

Regulator VfM metrics (continued)

6a. RSH Metric 6a - Operating Margin (Social Housing Lettings) %

Calculation of the RSH metric 6b, Operating Margin, includes both support and care activities and also provision of development services (e²). Inclusion of these elements makes meaningful comparison very difficult and this metric, removes these elements from the calculation.

Orwell Housing	Peer group	East of England	UK
32.1%	31.7%	34.5%	28.4%



As context to this metric, 2019 was the third year of four consecutive years of applying the 1% rent reduction. Having adjusted the metric, the 2019 performance of 32.1% compares favourably with the peer group and other comparators. Whilst the performance is also above target for the year, it should be noted that included is a number of non-recurring items of income received within the support and care part of the business.

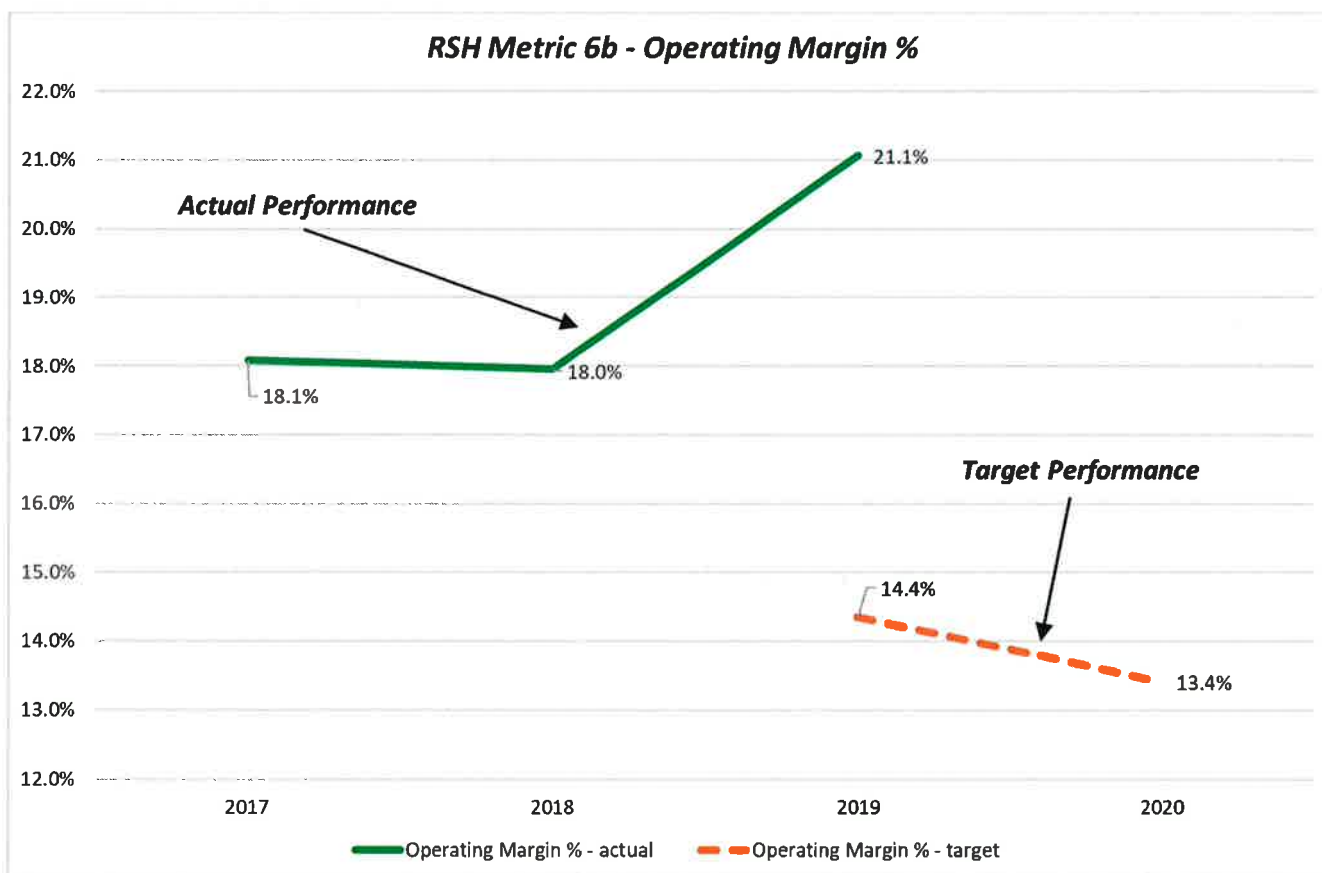
As well as adjusting for the non-recurring items that were of benefit in 2019, the 2020 target reflects additional costs supporting the Transformation Project.

Regulator VfM metrics (continued)

6b. RSH Metric 6b – Operating Margin %

This metric demonstrates the profitability of operating assets before exceptional expenses are taken into account.

Orwell Housing	Peer group	East of England	UK
21.1%	28.4%	31.3%	26.1%



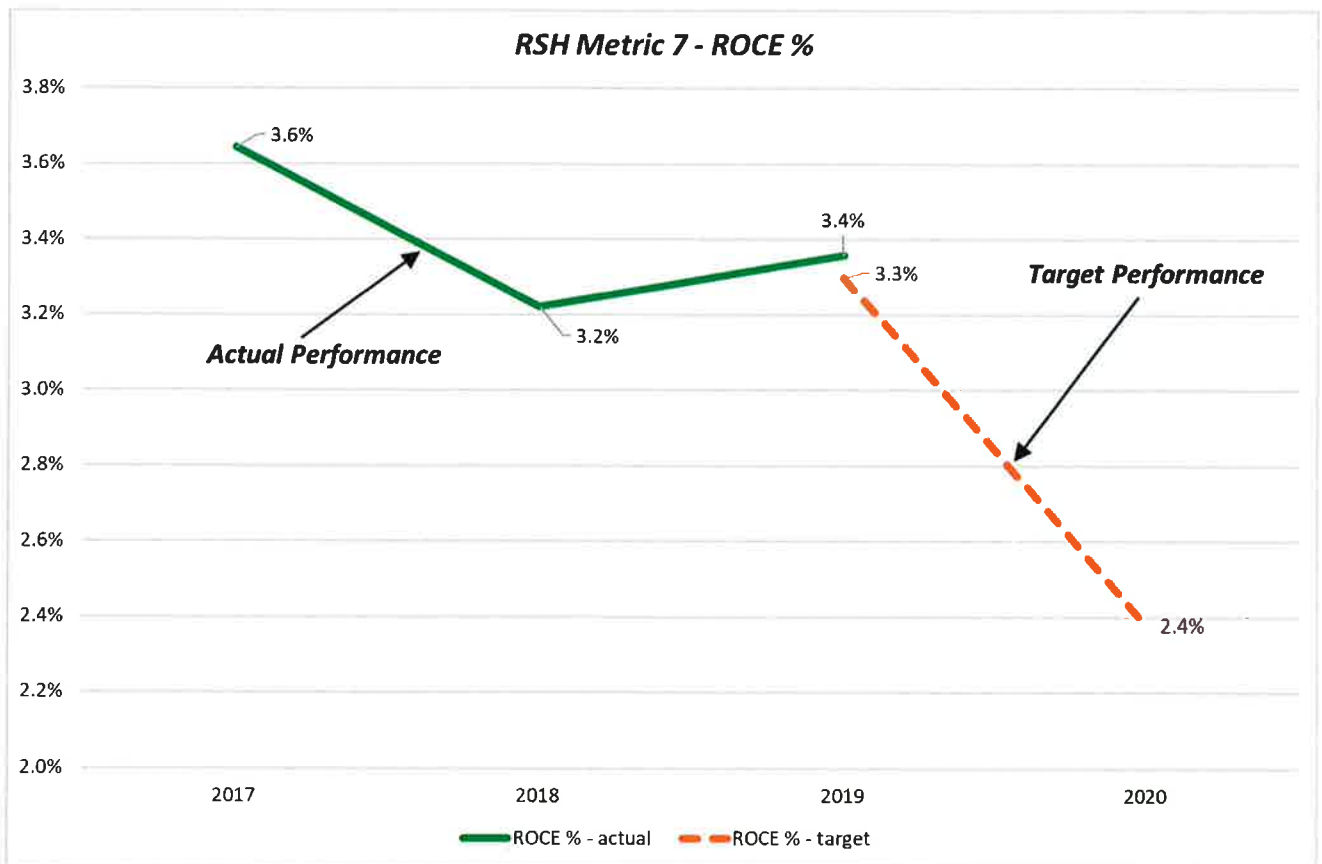
As context to this metric, 2019 was the third year of four consecutive years of applying the 1% rent reduction. Calculation of this metric includes both support and care activities and also provision of development services (e²). Inclusion of these elements makes meaningful comparison very difficult as it makes the Association figures lower than they would otherwise be. A more reflective measure of operating margin performance is included within this report under metrics 6a and 10.

Regulator VfM metrics (continued)

7. RSH Metric 7 – Return on capital employed (ROCE) %

This metric compares operating surplus to total assets, less current liabilities and is a common measure in the commercial sector to assess the efficient investment of capital resources.

Orwell Housing	Peer group	East of England	UK
3.4%	3.5%	4.0%	3.4%



As context to this metric, 2019 was the third year of four consecutive years of applying the 1% rent reduction. The Association achieved a ROCE of 3.4% for 2019 which was above the target level of 3.3% and only slightly below the peer group and other comparators. This slightly lower score is mainly due to the Association having higher levels of care and support.

The 2020 target reflects increased borrowing to fund increased development, together with additional costs supporting the Transformation Project and additional annual depreciation of £1.5m on property structure.

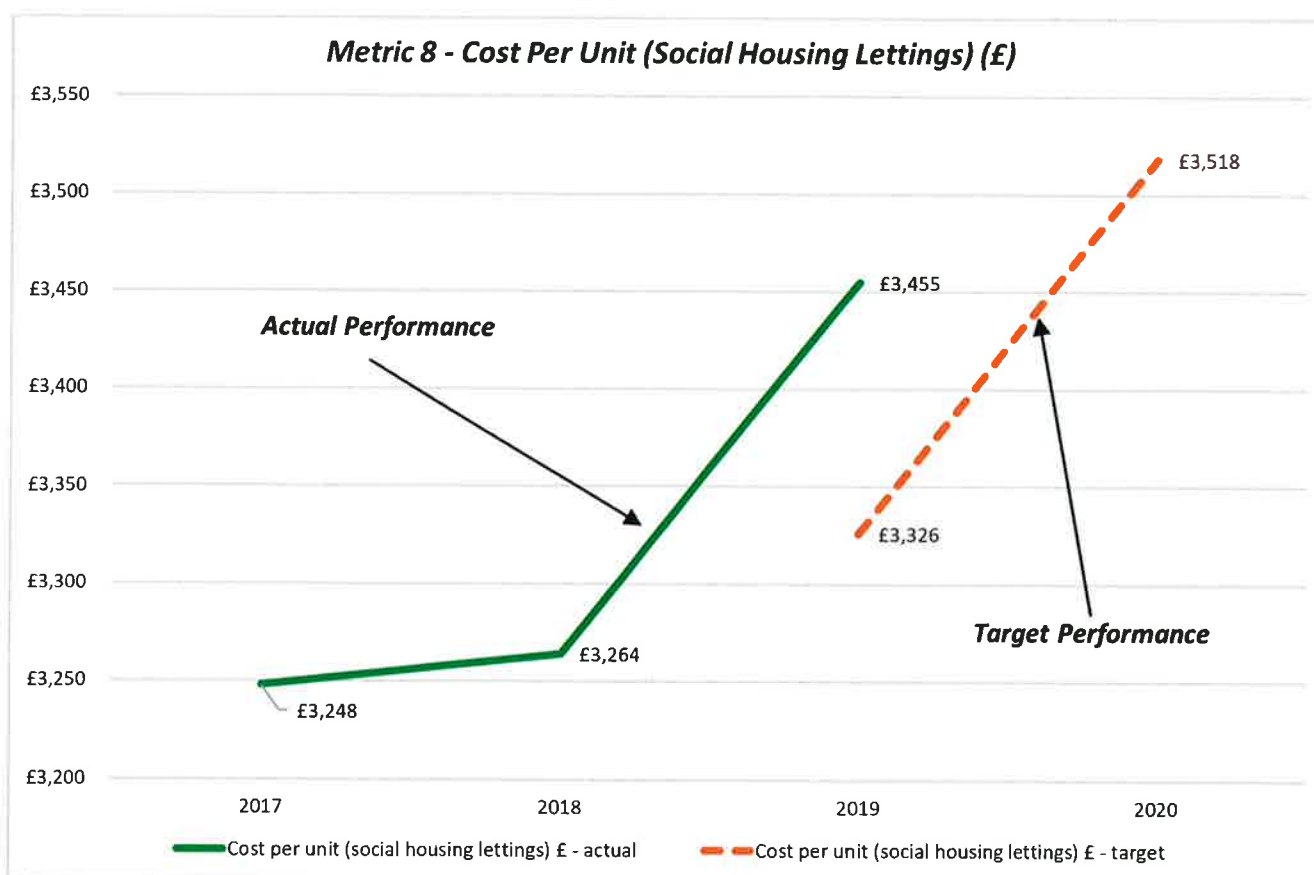
Sector Scorecard and own metrics

In addition to the mandatory RSH metrics, Orwell monitors other metrics which add value in assessing performance, including some from the Sector Scorecard. Please note that for Sector Scorecard metrics, peer group comparative data was only available for Broadland Housing, Saffron Housing and Hightown HA.

8. Own metric - Cost Per Unit (Social Housing Lettings only) (£)

Calculation of the RSH metric number 5, Headline Social Housing cost per unit includes both support and care activities and also provision of development services (e²). Inclusion of these elements makes meaningful comparison very difficult and this metric, removes these elements from the calculation for the Association.

Orwell Housing	Peer group	East of England	UK
£3,455	£4,613	£3,409	£3,592



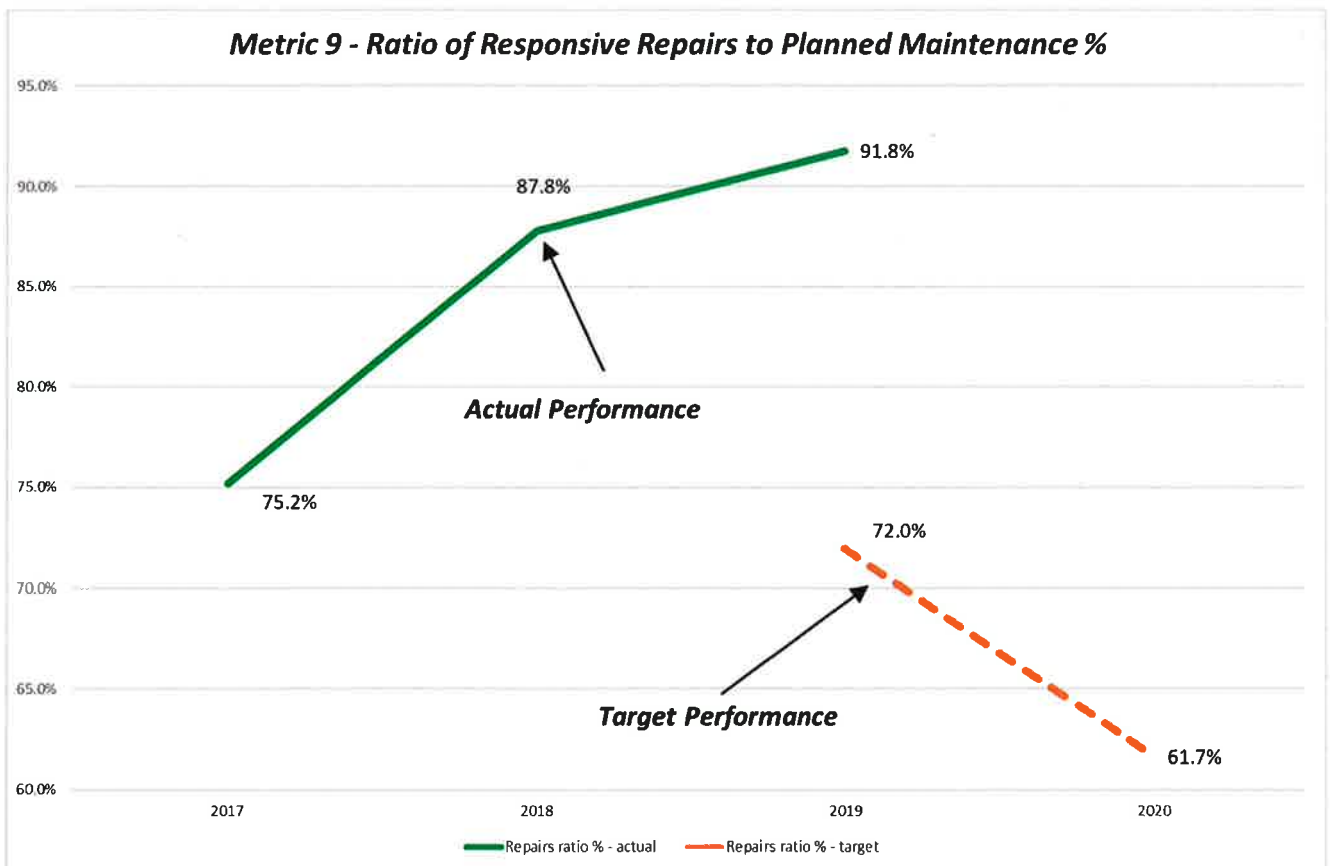
Having adjusted the metric, the 2019 performance of £3,455 compares favourably with the peer group and other comparators. The performance is above target although it should be noted that an unplanned loan refinancing deal took place towards the end of 2019 together with cost increases around cyber security improvements. The 2020 target reflects increased costs supporting the Transformation Project and additional annual depreciation of £1.5m on property structure.

Sector Scorecard and own metrics (continued)

9. Sector Scorecard – Effective Asset Management - Ratio of responsive repairs to planned maintenance (%)

This metric indicates the ratio of responsive repairs to planned maintenance with the general ambition of achieving a figure of circa 60%.

Orwell Housing	Peer group	East of England	UK
91.8%	65.0%	71.0%	64.2%

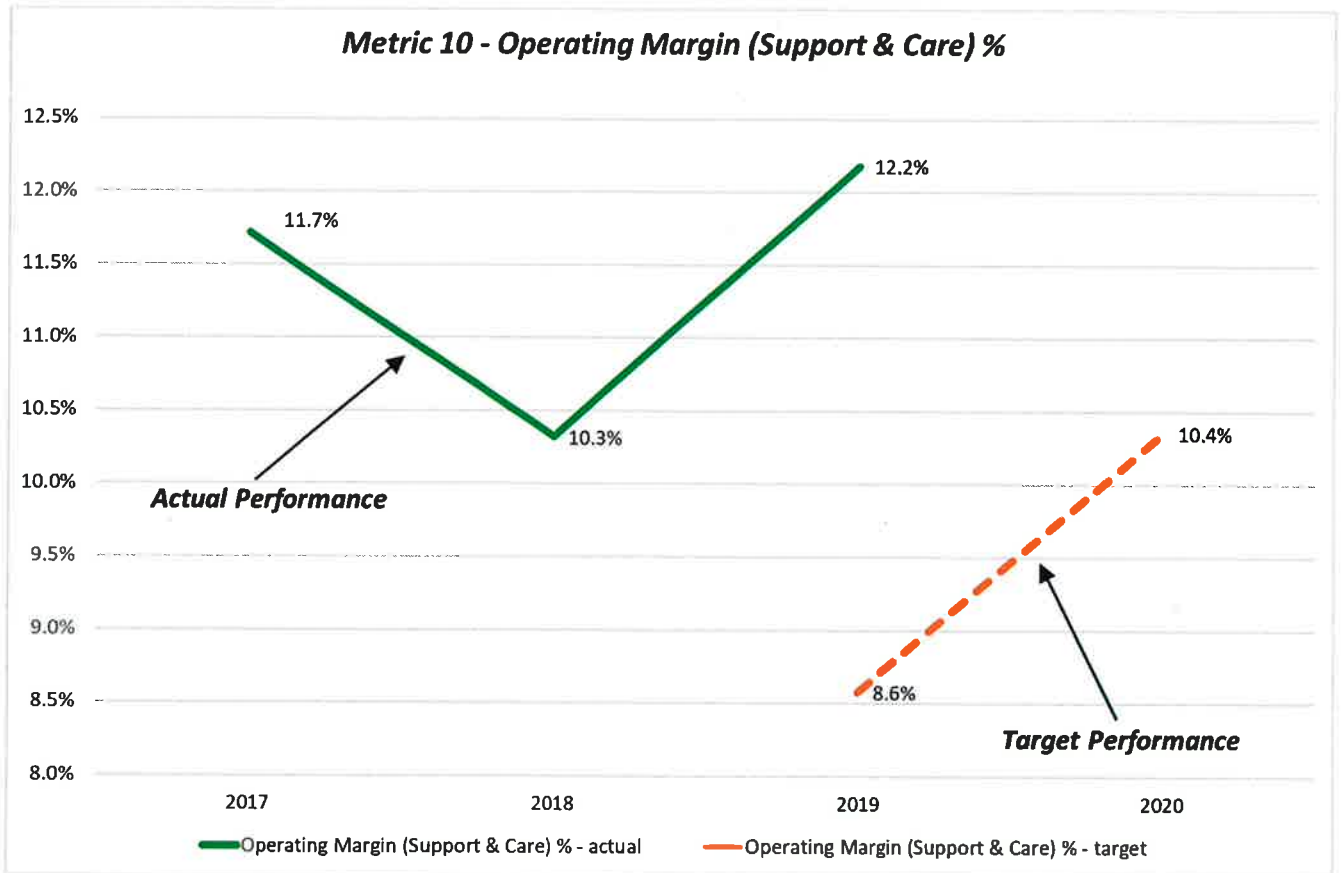


Performance for this metric in 2019 has been disappointing and significantly adrift of the target for the year of 72.0%. The Association’s performance in the year was worsened by the fact that ROALCO, a contractor going into administration late in the year, meant that the budget on planned maintenance could not be spent in 2019. However, the expectation is that this amount will be rolled forward in to 2020, hence the improved performance target at 61.7%.

Sector Scorecard and own metrics (continued)

10. Own metric - Operating Margin (Support & Care) (%)

This metric demonstrates the profitability of support and care activities and is an important metric for the Association given that it is expected that these activities generate an overall surplus.



The achievement of an increase in the year to 12.2%, above the target of 8.6% is due in the main to:

- A number of non-recurring items of income received in the Association’s learning disabilities schemes which have resulted in the delivery of a surplus of £492,000 compared to a budget of £130,000.

partially offset by

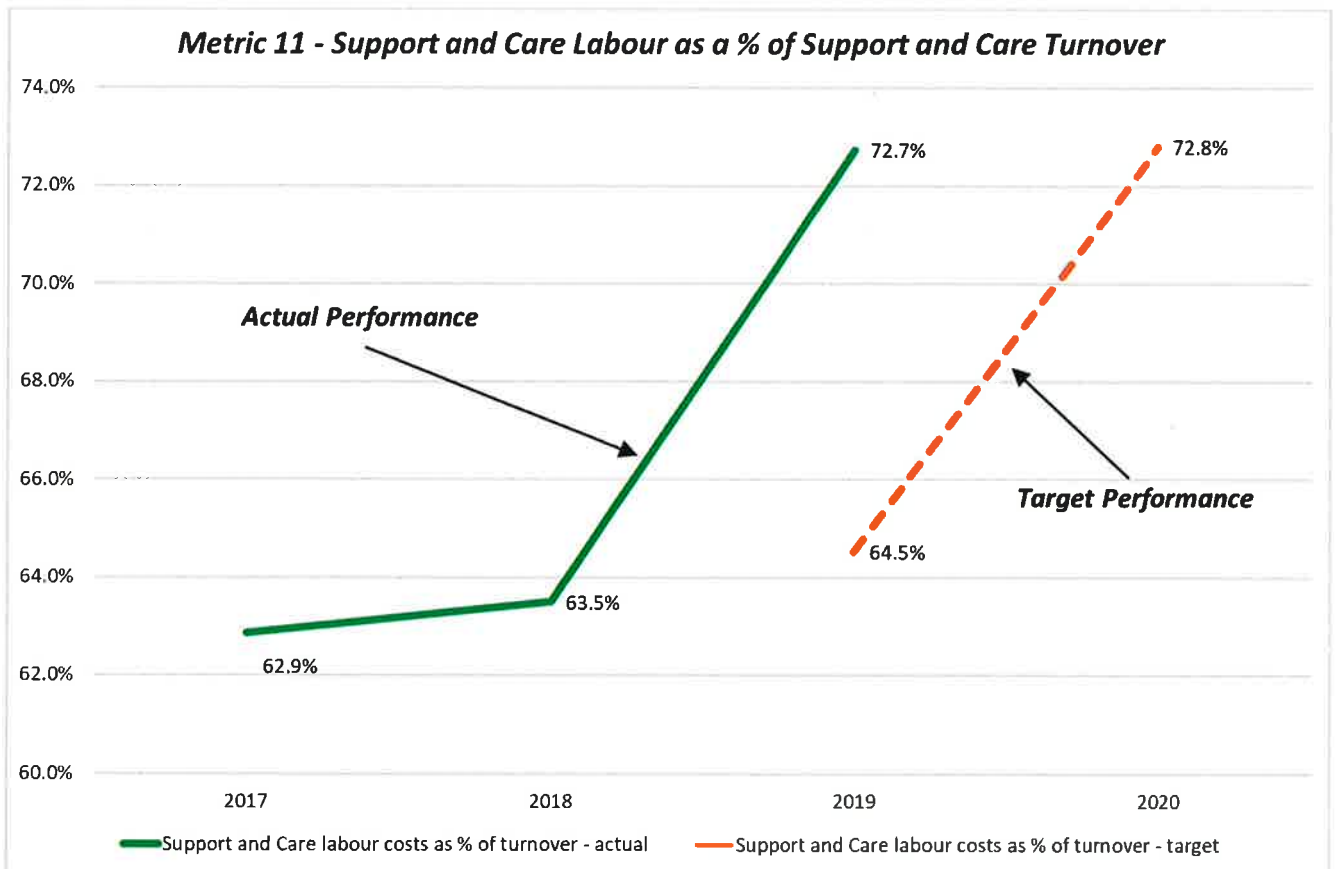
- Increased agency costs as detailed in the next metric.

The target for 2020 has been set at a more sustainable level of performance.

Sector Scorecard and own metrics (continued)

11. Own metric - Support and Care Labour as a % of Support and Care Turnover

Labour is the biggest single cost in the delivery of support and care and this metric indicates the profitability of operations. A lower percentage represents a better control over costs and so a better performance.



As the graph above demonstrates, the performance of the Association at 72.7% is significantly above the previous year and the target of 64.5%, which is disappointing. A significant factor has been the difficulty to recruit and retain permanent employees and the resulting increase in agency costs. Initiatives are now underway to improve both recruitment and retention with a specialist recruitment role added in December 2019. The target for 2020 is a cautious target, reflecting both current challenges and the impact that Brexit may have on labour shortages.

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:

- 162 tenants have taken out contents insurance policies.
- 61 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.

ORWELL HOUSING ASSOCIATION LIMITED

Strategic report for the year ended 31 December 2019 (Continued)

Social Impact (continued)

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

- Delivered in excess of 400,000 hours of support and care to meet people’s personal care needs and to help avoid unnecessary hospital admissions.
- Supported over 464 older people to remain living independently in extra care accommodation.
- Supported 72 people with a learning disability to live independently in their own home.
- Supported 70 women and 23 accompanying children through our refuge accommodation to flee from domestic abuse and to start to begin to rebuild their lives.
- Supported 235 homeless people in our hostel accommodation to enable better future opportunities.
- Supported 174 women and 120 affected children through our specialist early help domestic abuse worker based in South Norfolk

Financial Review

The Group is pleased to report another successful year in delivering its financial plan and has achieved a surplus for the year after tax of £4,776,000, compared to the plan target of £4,394,000. From an income perspective, the year includes the third of four years of 1% rent reductions, effective 1 January 2019.

Group turnover for the year fell from £38,513,000 last year to £35,264,000 due to a fall in development income of £5,236,000 with lower development levels in e². Income from principal activities increased by £1,987,000, including increased turnover from Support & Care activities of £1,740,000, reflecting a full year for activities taken on during 2018. A total of 43 social housing units have been brought into management during 2019 and increased the existing stock by 1.1% to 3,878.

Group operating expenditure for the year, has reduced from £30,576,000 last year to £27,807,000. As with turnover, £5,290,000 of the reduction was due to the fall in development activity. Excluding the effects of subsidiary, shared ownership and development activities, operating expenditure has increased by £2,559,000. Costs in the year in respect of Support & Care activities increased by £1,280,000, reflecting a full year for activities taken on during 2018. Existing business costs increased by £1,279,000 and this included additional investment in ICT and resources to prepare for the Transformation Project, together with costs of competitively re-financing an existing loan facility.

The combined income and expenditure movements identified above have resulted in a Group operating surplus, excluding remeasurement of pension deficit contribution in 2018, which has reduced from £7,937,000 to £7,457,000.

Expenditure on housing stock maintenance comprises both revenue and capital spend and for the year was £ 5,663,000 (2018: £5,376,000).

Net interest costs for the year have reduced from £3,176,000 to £2,947,000, reflecting a one-off benefit arising from the accounting treatment of a loan portfolio repayment. Adjusting for this benefit, the Association’s average interest rate increases marginally from 3.6% to 3.7%. As shown on the face of the Consolidated Statement of Cashflows, funds generated have been invested in the income generating assets of the Association with £4,765,000 (cost less grant) expended on the acquisition and construction of housing properties.

This year is the first year where it has been possible for the Association to reflect the proportion of assets and liabilities of the Social Housing Pension Scheme (SHPS) in the accounts and this has resulted in an initial recognition cost of £638,000. Further details of this item are provided in note 27.

ORWELL HOUSING ASSOCIATION LIMITED

Strategic report for the year ended 31 December 2019 (Continued)

Financial Review (continued)

The net result of the above financial performance is a Group retained surplus for the year of £3,565,000 (2018: £3,885,000) which has been transferred to General reserves and ultimately will support the ongoing development work of the Association and provision of new accommodation.

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 2019 the loan portfolio comprised 33% (2018 - 29%) short term variable interest rates and 67% (2018 – 71%) 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.

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 £8,861,000 compared with £10,949,000 for 2018. Cash less grant expended for the construction and purchase of housing properties during the year was £4,765,000.

During December 2019, a refinancing opportunity occurred and repayment of one funder's outstanding loan balance took place, with £13,000,000 drawn from existing revolving credit facilities for this purpose. To replace this funding, a new facility of £13,000,000 was put in place during February 2020.

Loan drawings during the year, excluding the refinancing repayment, were £1,000,000 and as a result cash balances during the year decreased by £48,000 (2018 – decreased £5,999,000).

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

At 31 December 2019 the Association had secured undrawn facilities of £13,500,000 (2018: £17,500,000) and the Group had cash balances of £2,988,000 (2018: £3,036,000).

Going concern

In the opinion of the Board, the Association and Group have adequate resources to continue in operation for the foreseeable future and have considered and modelled the potential financial impact of COVID-19 on the Association and the Group. For this reason, the going concern basis has been adopted in preparing the financial statements.

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.

ORWELL HOUSING ASSOCIATION LIMITED

Strategic report for the year ended 31 December 2019 (Continued)

Corporate Governance

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 and Nominations Committee.

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;
- Annual assessments of the effectiveness of all Boards and Committees;
- 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.

The Audit Committee 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 Governance Committee usually comprises 4 members. It reports to the Board on matters of compliance, the adequacy and effectiveness of governance within Orwell and promotes excellence in governance. It also oversees Board member appraisals, Board skills analysis and development, succession planning and assessment of Board and Committee effectiveness.

The Remuneration and Nominations Committee usually comprises 5 members and meets annually to review the salaries of the Chief Executive and directors, together with employee benefits. The Committee also oversees and supports the selection, interview and recruitment of new Board members.

The Board

Kim Newman BSc (Hons) FCIPS MCMI – Chair
Alastair Thomas BSc (Hons) FRICS – Vice Chair
Cynthia Alers MBA MA MIRSoc
Jeanette Alfano
Ian Beaumont (retired 27 March 2019)

Helen Driver BA (Hons) CFA CFAB
DiPFA (appointed 27 March 2019)
Daniel Gaul BSc (Eng) MSc
Peter Jones
Robyn Llewellyn
Barbara Thorndick OBE BA (Hons) FCIOH

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

Chief Executive and Senior Management Team

The executive officers of the Association who served during 2019 were as follows:

Wendy Evans-Hendrick BA (Hons) Dip DM DMS	Chief Executive
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.

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.

Risk Management And Statement On Internal Controls Assurance

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.

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 risks and major operational risks are considered at every Board meeting and 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
- Health & safety of customers and employees
- Regulatory compliance including the Care Quality Commission (CQC) 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.

Risk Management And Statement On Internal Controls Assurance (continued)

Regular review of the risk register has confirmed that appropriate controls are in place for all of the strategic risks recognised. The Association also has in place an Assurance Map to monitor and confirm assurance activities across the business. The Assurance Map is regularly reviewed at Board, Audit Committee and by the Executive Directors and Operational Management.

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

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

Key elements of the internal control framework are:

- A work environment which includes a commitment to quality and competent leadership and control by example, communication of ethical values, an appropriate organisational structure, independence, integrity and openness at Board level, appropriate delegation of authority with accountability and a professional approach to financial reporting;
- A robust risk management system across the Association;
- Monitoring through internal audit of systems and controls. This is out-sourced to a specialist service provider with whom a programme of specific internal audits is agreed and performed;
- 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. Planned mitigations are prepared together with trigger points indicating when to implement;
- Detailed information presented to the Board on a regular basis covering monthly financial performance, compliance with funding covenants, 3 year cashflow projections, treasury management performance and strategy, annual budget, insurance review and unencumbered asset review;
- 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; and
- A Strategic Plan and policies in place to support the running of an effective business and which include probity, anti-fraud and corruption, anti-tax evasion, anti-money laundering, anti-bribery and whistle-blowing.

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.

ORWELL HOUSING ASSOCIATION LIMITED

Strategic report for the year ended 31 December 2019 (Continued)

Risk Management And Statement On Internal Controls Assurance (continued)

Internal audit

The Association makes use of external advisers to conduct its internal audit. Internal audit differs from other sources of assurance in that it can provide independent and objective assurance across the whole range of the Association's activities.

The Audit Committee is responsible for receiving reports on risk and internal audit on behalf of the Board. The Committee challenges and scrutinises the reports to ensure that management responses to recommended actions are appropriate and implemented. The Audit Committee reports to the Board on its work after each meeting.

The 2019 annual report from the Association's internal auditors sets out the following internal audits and advisory reports:

<i>Review</i>	<i>Original Grading</i>	<i>Update</i>
Risk Management Framework	Partial assurance with improvements required - improvement action plan put in place.	29 improvement actions now all completed.
Governance (Assurance Mapping)	Advisory report - improvement action plan put in place.	14 improvement actions now completed with 10 improvement actions remaining to be implemented by the end of 2020. All high risk actions have been completed.
General Data Protection Regulation (GDPR)	Advisory report - improvement action plan put in place.	40 improvement actions now completed with 8 improvement actions remaining to be implemented by the end of July 2020. This includes 2 high risk actions which will be completed by the end of March 2020.
Cyber Security Framework	No assurance - improvement action plan put in place.	A follow up review has been conducted by the internal auditors and out of the 49 original actions specified, 33 have subsequently been completed with the remaining 16 all in progress and due to be completed by the end of 2020. Action taken has now improved the overall risk grading to "Partial assurance with improvements required".
Regulatory Compliance (Health & Safety) - Fire Safety and Electrical Checks	Significant assurance with minor improvement opportunities - improvement action plan put in place.	5 improvement actions now completed with 1 medium risk improvement action remaining to be completed by the end of March 2020.
Operational Key Controls (Allocations & Lettings and Rent Setting & Collection)	Partial assurance with improvements required - improvement action plan put in place.	9 improvement actions now completed with 6 improvement actions remaining to be completed by the end of August 2020. All high risk actions have been completed.

Where there have been opportunities to improve assurance, the Association has responded by investing time and resource to quickly improve the position, including follow-up internal audit reviews to gain independent assurance over the progress made.

Risk Management And Statement On Internal Controls Assurance (continued)

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 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 2019, there were no known instances of actual or attempted fraud reported.

Statement Of Compliance – Governance Code

Under the revised Regulatory Framework published in 2015, the Board is required to select and comply with a published Code of Governance. The Board has chosen to adopt the Code of Excellence in Governance published by the National Housing Federation in 2015 as its code of governance. The Board considers that this Code is the most appropriate for the Association taking into account its size, corporate structure and the nature of its activities and is compliant in full with the code.

Statement Of Compliance – Governance And Financial Viability Standard

As a Registered Provider, the Association is required to comply with the Regulatory Framework published by the Regulator of Social Housing (RSH). During the year, and after completion of improvement actions identified in 2018, the RSH regraded the Association to G1 (from G2). The Association's financial viability rating with the RSH remained throughout the year at the highest rating of V1.

The Board considers the Association to be compliant with the Governance and Financial Viability Standard in all material respects.

Statement Of The Board's Responsibilities In Respect Of The Financial Statements

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 2019. 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.

ORWELL HOUSING ASSOCIATION LIMITED

Strategic report for the year ended 31 December 2019 (Continued)

Disclosure Of Information To The 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.

In preparing the Strategic Report, the Board has followed the principles set out in the Statement of Recommended Practice for Social Housing Providers (Housing SORP 2014 (updated 2018)).

Whilst RSM UK Audit LLP has indicated its willingness to continue in office, the outcome of a tender exercise conducted in 2019 was that Crowe U.K. LLP should be selected as auditors for the year ending 31 December 2020.

A resolution to appoint Crowe U.K. LLP as auditors will be put to the members at the annual general meeting.

The Strategic Report was approved by the Board on 25 March 2020 and signed on its behalf by:



Kim Newman
Chair

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

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 2019 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 2019 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)*

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 27, 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

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

20 May 2020

ORWELL HOUSING ASSOCIATION LIMITED

Statements of comprehensive income for the year ended 31 December 2019

	Note	2019		2018	
		Group £000	Association £000	Group £000	Association £000
Turnover	4	35,264	34,984	38,513	37,986
Operating expenditure	4	(27,807)	(27,571)	(30,576)	(30,166)
Remeasurement of pension deficit contribution	4	-	-	(1,023)	(1,023)
Operating surplus	4, 8	7,457	7,413	6,914	6,797
Profit on disposal of housing properties	9	184	184	267	267
Interest receivable	10	34	32	39	38
Interest and finance costs	11	(2,981)	(2,981)	(3,215)	(3,215)
Surplus for the year before tax		4,694	4,648	4,005	3,887
Taxation	12	82	-	(49)	-
Surplus for the year after tax		4,776	4,648	3,956	3,887
Initial recognition of multi-employer defined benefit scheme	27	(638)	(638)	-	-
Actuarial (loss)/gain in respect of pension schemes	26, 27	(573)	(573)	(71)	(71)
Total comprehensive income for the year		3,565	3,437	3,885	3,816

The notes on pages 35 to 69 form part of these financial statements.

ORWELL HOUSING ASSOCIATION LIMITED

Statements of changes in reserves for the year ended 31 December 2019

Group	General reserve £000	Restricted reserve £000	Total £000
Balance at 1 January 2018	56,555	1,828	58,383
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)	-
Balance as at 31 December 2018	<u>60,352</u>	<u>1,916</u>	<u>62,268</u>
Surplus for the year	3,565	-	3,565
Transfer from general reserve to restricted reserve	(119)	119	-
Transfer from restricted reserve to general reserve	37	(37)	-
Balance as at 31 December 2019	<u>63,835</u>	<u>1,998</u>	<u>65,833</u>
Association	General reserve £000	Restricted reserve £000	Total £000
Balance at 1 January 2018	56,406	1,828	58,234
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)	-
Balance as at 31 December 2018	<u>60,134</u>	<u>1,916</u>	<u>62,050</u>
Surplus for the year	3,437	-	3,437
Transfer from general reserve to restricted reserve	(119)	119	-
Transfer from restricted reserve to general reserve	37	(37)	-
Balance as at 31 December 2019	<u>63,489</u>	<u>1,998</u>	<u>65,487</u>

The notes on pages 35 to 69 form part of these financial statements.

ORWELL HOUSING ASSOCIATION LIMITED

Statements of financial position for the year ended 31 December 2019

	Note	2019		2018	
		Group £000	Association £000	Group £000	Association £000
Fixed assets					
Intangible fixed assets	13	179	179	200	200
Housing properties	14, 15	225,055	224,579	219,815	219,529
Other tangible fixed assets	16	2,916	2,916	2,863	2,863
Investments	17	394	394	382	382
		<u>228,544</u>	<u>228,068</u>	<u>223,260</u>	<u>222,974</u>
Current assets					
Stock and work in progress	18	1,270	806	1,595	1,240
Debtors	19	4,783	4,797	4,853	4,848
Cash and cash equivalents		2,988	2,594	3,036	2,946
		<u>9,041</u>	<u>8,197</u>	<u>9,484</u>	<u>9,034</u>
Creditors: amounts falling due within one year	20	<u>(10,007)</u>	<u>(9,033)</u>	<u>(9,725)</u>	<u>(9,207)</u>
Net current assets		<u>(966)</u>	<u>(836)</u>	<u>(241)</u>	<u>(173)</u>
Total assets less current liabilities		<u>227,578</u>	<u>227,232</u>	<u>223,019</u>	<u>222,801</u>
Creditors: amounts falling due after more than one year	21	<u>(157,335)</u>	<u>(157,335)</u>	<u>(157,380)</u>	<u>(157,380)</u>
Provisions for liabilities					
Defined benefit pension scheme liability	26, 27	(3,935)	(3,935)	(219)	(219)
Other provisions	28	(475)	(475)	(3,152)	(3,152)
		<u>65,833</u>	<u>65,487</u>	<u>62,268</u>	<u>62,050</u>
Total net assets		<u>65,833</u>	<u>65,487</u>	<u>62,268</u>	<u>62,050</u>
Capital and reserves					
Called up share capital	31	-	-	-	-
Restricted reserves	31	1,998	1,998	1,916	1,916
General reserves	31	63,835	63,489	60,352	60,134
		<u>65,833</u>	<u>65,487</u>	<u>62,268</u>	<u>62,050</u>

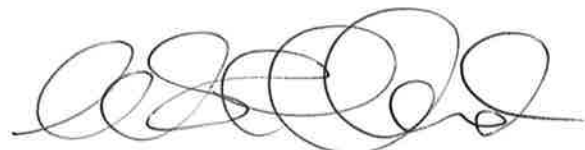
The financial statements on pages 31 to 69 were authorised and approved for issue by the Board on 25 March 2020 and signed on its behalf by



Kim Newman
Chair



Robyn Llewellyn
Board Member



Wendy Evans-Hendrick
Chief Executive

The notes on pages 35 to 69 form part of these financial statements.

ORWELL HOUSING ASSOCIATION LIMITED

Consolidated statement of cash flows for the year ended 31 December 2019

	Note	Group 2019 £000	Group 2018 £000
Cash inflow from operating activities	35	8,861	10,981
Tax paid		-	(32)
Net cash inflow from operating activities		8,861	10,949
Cash flow from investing activities			
Acquisition and construction of housing properties		(7,007)	(12,539)
Purchase of other tangible fixed assets		(287)	(235)
Sale of housing properties		449	550
Sale of other tangible fixed assets		-	15
Social Housing and Other Grants received		2,242	1,144
Interest received		34	39
Net cash outflow from investing activities		(4,569)	(11,026)
Net cash (outflow)/inflow before financing activities		4,292	(77)
Cashflow from financing activities			
Housing loans received		14,000	-
Housing loans repaid		(15,411)	(2,752)
Interest paid		(2,929)	(3,170)
Net cash (outflow)/inflow from financing activities		(4,340)	(5,922)
Net change in cash and cash equivalents	36	(48)	(5,999)
Cash and cash equivalents at beginning of the year		3,036	9,035
Cash and cash equivalents at end of the year		2,988	3,036
Cash and cash equivalents comprise:		2019	2018
		£000	£000
Cash at bank		2,988	3,036
		2,988	3,036

The notes on pages 35 to 69 form part of these financial statements.

ORWELL HOUSING ASSOCIATION LIMITED

Notes forming part of the financial statements for the year ended 31 December 2019

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 2018 "Statement of Recommended Practice for Registered Housing Providers" and comply with the Accounting Direction for Private Registered Providers of Social Housing 2018, and under the historical cost convention.

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

Change in accounting policy

In the preparation of these financial statements, the requirements set out in: "Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland: Multi-employer defined benefit plans" have been adopted. This has resulted in changes to the accounting policy for the Social Housing Pensions Scheme (SHPS) multi-employer scheme from the start of the reporting period. This means that accounting for SHPS has not been consistently applied as compared to reporting in prior years. Further information on the impact of adopting these requirements is set out in note 27.

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.

ORWELL HOUSING ASSOCIATION LIMITED

Notes forming part of the financial statements for the year ended 31 December 2019 *(Continued)*

Going concern

In the opinion of the Board, the Association and Group have adequate resources to continue in operation for the foreseeable future and have considered and modelled the potential financial impact of COVID-19 on the Association and the Group. For this reason, the going concern basis has been adopted in preparing the financial statements.

Turnover

Turnover represents rental and fee income receivable, fees and revenue grants from local authorities and Homes England, development income as a result of the e² consortium, and subsidiary company activities. Rental income is recognised on the execution of tenancy agreements. Development income as a result of the e² 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, 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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ORWELL HOUSING ASSOCIATION LIMITED

Notes forming part of the financial statements for the year ended 31 December 2019 *(Continued)*

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.

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 2019 (*Continued*)

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 e² 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 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

Taxation (continued)

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).

In respect of SHPS, for financial years ending on or after 31 December 2019, the way in which the defined benefit pension obligation is stated in the financial statements has changed. Previously there has been insufficient information available to account for these obligations on a defined benefit basis (i.e. stating assets and obligations). As a result, and as required by FRS 102, the obligation has been accounted for by stating the present value of agreed future deficit repayment contributions. For financial years ending on or after 31 December 2019 sufficient information is available to account for the obligations on a defined benefit basis. The comparative figures for year ended 31 December 2018 do not require restatement and an adjustment reflecting the initial recognition of the SHPS scheme on a defined benefit accounting basis is shown in the statement of other comprehensive income for the year ending 31 December 2019.

For 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.

ORWELL HOUSING ASSOCIATION LIMITED

Notes forming part of the financial statements for the year ended 31 December 2019 *(Continued)*

Asset/Liability (continued)

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.

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.

Trade creditors (continued)

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

Borrowings

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

Derecognition of financial assets and liabilities

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

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 2019 and full details are disclosed in note 26.

The SHPS pension liability is based on the SHPS valuation as at 31 December 2019 and full details are disclosed in note 27.

ORWELL HOUSING ASSOCIATION LIMITED

Notes forming part of the financial statements for the year ended 31 December 2019 (Continued)

3 Critical accounting estimates and areas of judgement (continued)

Construction contracts

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

Provision 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 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 28.

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. Whilst there has been no impairment in 2019, a previous impairment provision of £262,000 against two general needs properties is no longer required and has been released during the year.

Pensions

This was the first year that sufficient information was available to account for the Association's share of the Social Housing Pension Scheme (SHPS) on a defined benefit basis.

4 Turnover, operating costs and operating surplus

2019	Turnover £000	Operating costs £000	Operating surplus £000
Social housing lettings (see note 5)	20,199	13,756	6,443
Other social housing activities:			
Current asset property sales	1,788	1,128	660
Charges for support services	3,031	3,031	-
Care	7,218	6,801	417
Development activities	2,606	2,780	(174)
Non-social housing activities:			
Lettings	142	75	67
Association activities	34,984	27,571	7,413
Subsidiary company	280	236	44
Group activities	35,264	27,807	7,457

ORWELL HOUSING ASSOCIATION LIMITED

Notes forming part of the financial statements for the year ended 31 December 2019 (Continued)

4 Turnover, operating costs and operating surplus (continued)

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

Other social housing activities - charges for support services includes £853,000 of Supporting People income (2018: £1,055,000).

Non-social housing activities – other in 2018 is the costs arising from the triennial SHPS pension valuation in respect of amendments to the contribution schedule and changes in assumptions amounting to £1,023,000.

ORWELL HOUSING ASSOCIATION LIMITED

Notes forming part of the financial statements for the year ended 31 December 2019 *(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	2019 Total £000	2018 Total £000
Rent receivable net of identifiable service charges	13,103	2,897	239	16,239	16,085
Service income	537	1,701	125	2,363	2,197
Management services and other income	33	759	3	795	849
Gross rental income	13,673	5,357	367	19,397	19,131
Voids	(69)	(193)	-	(262)	(271)
Net rental income	13,604	5,164	367	19,135	18,860
Amortised government grants	734	221	-	955	973
Government grants taken to income	-	3	-	3	1
Revenue grant for major repairs	-	106	-	106	-
Land donated/acquired below market price	-	-	-	-	90
Turnover from social housing lettings	14,338	5,494	367	20,199	19,924
Management	3,963	1,808	29	5,800	4,453
Services	480	1,518	90	2,088	1,921
Routine maintenance	2,073	630	7	2,710	2,513
Planned maintenance	831	448	2	1,281	1,595
Bad debts	167	42	-	209	4
Depreciation of housing properties	1,384	218	-	1,602	1,650
Impairment of housing properties	(262)	-	-	(262)	-
Other costs	247	81	-	328	344
Operating costs on social housing lettings	8,883	4,745	128	13,756	12,480
Operating surplus on social housing lettings	5,455	749	239	6,443	7,444

The impairment credit during the year relates to two properties where the previous conditions requiring impairment no longer apply. The previous impairment has therefore been reversed and the original asset value reinstated.

ORWELL HOUSING ASSOCIATION LIMITED

Notes forming part of the financial statements for the year ended 31 December 2019 (Continued)

6 Employees

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

	2019		2018	
	Full time	Part time	Full time	Part time
Administration	85	78	80	73
Wardens/Care Workers	54	419	44	405
Gardeners/Caretakers/Repairs	51	58	50	60
	<u>190</u>	<u>555</u>	<u>174</u>	<u>538</u>

The above represents full time equivalents of 495 (2018: 464).

	2019 £000	2018 £000
Staff costs consist of:		
Wages and salaries	11,104	10,377
Social security costs	807	758
Defined contribution pension costs	193	118
Other pension costs and current service cost	481	403
	<u>12,585</u>	<u>11,656</u>

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

	2019	2018
£60,000 - £69,999	1	-
£70,000 - £79,999	2	-
£90,000 - £99,999	-	1
£100,000 - £109,999	1	2
£110,000 - £119,999	1	-
£120,000 - £129,999	1	-
£140,000 - £149,999	-	1

ORWELL HOUSING ASSOCIATION LIMITED

Notes forming part of the financial statements for the year ended 31 December 2019 *(Continued)*

7 Directors

Directors are defined as the nine members of the Board (2018: nine) together with the three members of the senior management team (2018: three), which includes the Chief Executive. Board member remuneration during the year was as follows:

Group and Association

	2019 £000	2018 £000
Cynthia Alers	4	4
Jeanette Alfano	5	4
Ian Beaumont (retired 27 March 2019)	3	11
Joy Bounds (retired 21 March 2018)	-	2
Helen Driver (appointed 27 March 2019)	3	-
Daniel Gaul	4	4
Peter Jones	4	4
Robyn Llewellyn	7	6
Richard Mathias (retired 5 September 2018)	-	3
Kim Newman	10	7
Barbara Thorndick	7	6
Alastair Thomas	7	6
Total emoluments – non-executive	<u>54</u>	<u>57</u>
Emoluments (including social security costs of £55,386 (2018: £51,120) – executive	387	499
Pension scheme contributions – executive	54	63
Total Key Management compensation – thirteen directors (2018: fourteen)	<u>495</u>	<u>619</u>
Emoluments of the highest paid director	<u>145</u>	<u>159</u>

The three executive directors (2018: three) 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 £18,572 (2018: £15,000). 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 2019 *(Continued)*

8 Operating surplus

	2019		2018	
	Group £000	Association £000	Group £000	Association £000
This has been arrived at after charging:				
Housing properties depreciation	1,616	1,616	1,666	1,666
Other depreciation and amortisation	256	256	262	262
Impairment	(262)	(262)	-	-
Internal auditors' remuneration	42	42	9	9
Hire of assets – operating leases – land and buildings	338	338	353	353
Hire of assets – operating leases – motor vehicles	230	230	211	211
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)
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	23	26	22
Audit related advisory services	-	-	2	2
Taxation compliance services	1	-	4	4

9 Profit on disposal of housing properties

	2019		2018	
	Group £000	Association £000	Group £000	Association £000
External disposals				
Disposal proceeds	722	722	407	407
Cost, less Social Housing Grant not recycled	(538)	(538)	(140)	(140)
Profit	184	184	267	267

10 Interest receivable

	2019		2018	
	Group £000	Association £000	Group £000	Association £000
On bank and building society deposits	34	32	39	38

ORWELL HOUSING ASSOCIATION LIMITED

Notes forming part of the financial statements for the year ended 31 December 2019 (Continued)

11 Interest and finance costs

	2019		2018	
	Group £000	Association £000	Group £000	Association £000
On bank loans and other loans repayable wholly or partly within 5 years	62	62	79	79
On bank loans and other loans repayable wholly or partly after more than 5 years	2,872	2,872	3,156	3,156
Bond premium released	(50)	(50)	(48)	(48)
Defined benefit pension charge	97	97	28	28
	<u>2,981</u>	<u>2,981</u>	<u>3,215</u>	<u>3,215</u>

12 Taxation

	2019		2018	
	Group £000	Association £000	Group £000	Association £000
Current tax:				
UK Corporation tax on profits of current year	-	-	49	-
Group relief claimed in respect of prior years	(82)	-	-	-
	<u>(82)</u>	<u>-</u>	<u>49</u>	<u>-</u>

Factors affecting tax charge for the year:

In respect of financial years ending 31 December 2018 and 31 December 2017, tax was assessed for the period equal to the main rate of corporation tax (2018 – 19%). For year ending 31 December 2019, the profit of Orwell Homes Limited has been offset against Group interest paid and no UK Corporation tax is assessed as payable. In addition, for the previous two financial years the profit of Orwell Homes Limited has also been offset against Group interest paid, and UK Corporation tax previously assessed as payable has been reclaimed.

	2019 £000	2018 £000
Subsidiary profit on ordinary activities before tax	87	260
Profit on ordinary activities multiplied by the main rate of corporation tax of 19% (2018 – 19.25%)	-	49
Corporation tax reclaimed in the year	(82)	-
	<u>(82)</u>	<u>49</u>

ORWELL HOUSING ASSOCIATION LIMITEDNotes forming part of the financial statements for the year ended 31 December 2019 (*Continued*)**13 Intangible fixed assets**

Group and Association	Software £000	2019 Total £000
<i>Cost</i>		
At beginning of year	462	462
Additions during year	133	133
Disposals during year	(146)	(146)
At end of year	449	449
<i>Less: Amortisation</i>		
At beginning of year	(262)	(262)
Charge for year	(154)	(154)
Disposals during year	146	146
At end of year	(270)	(270)
<i>Net book value</i>		
At beginning of year	200	200
At end of year	179	179

ORWELL HOUSING ASSOCIATION LIMITED

Notes forming part of the financial statements for the year ended 31 December 2019 *(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	2019 Total £000
<i>Cost</i>					
At beginning of year	1,065	4,805	6,161	226,145	238,176
Additions during year	792	4,315	171	2,448	7,726
Disposals during year	-	-	(562)	(1,247)	(1,809)
Transfer	(609)	(6,056)	609	6,056	-
At end of year	1,248	3,064	6,379	233,402	244,093
<i>Depreciation</i>					
At beginning of year	-	-	(1)	(18,360)	(18,361)
Charge for the year	-	-	-	(1,616)	(1,616)
Reversal of impairment	-	-	-	262	262
On disposal	-	-	1	676	677
At end of year	-	-	-	(19,038)	(19,038)
<i>Net book value</i>					
At beginning of year	1,065	4,805	6,160	207,785	219,815
At end of year	1,248	3,064	6,379	214,364	225,055
					2019
					£000
Freehold land and buildings					216,952
Long leasehold land and buildings					7,957
Short leasehold land and buildings					146
					225,055

During the year, £1,672,000 of works to existing properties were capitalised (2018: £1,268,000) and £3,315,000 (2018: £4,108,000) 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 2019 *(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	2019 Total £000
<i>Cost</i>					
At beginning of year	1,065	4,519	6,161	226,342	238,087
Additions during year	792	4,125	171	2,448	7,536
Disposals during year	-	-	(562)	(1,247)	(1,809)
Transfer	(609)	(6,056)	609	6,056	-
At end of year	1,248	2,588	6,379	233,599	243,814
<i>Depreciation</i>					
At beginning of year	-	-	(1)	(18,557)	(18,558)
Charge for the year	-	-	-	(1,616)	(1,616)
Reversal of impairment	-	-	-	262	262
On disposal	-	-	1	676	677
At end of year	-	-	-	(19,235)	(19,235)
<i>Net book value</i>					
At beginning of year	1,065	4,519	6,160	207,785	219,529
At end of year	1,248	2,588	6,379	214,364	224,579
					2019
					£000
Freehold land and buildings					216,476
Long leasehold land and buildings					7,957
Short leasehold land and buildings					146
					224,579

During the year, £1,672,000 of works to existing properties were capitalised (2018: £1,268,000) and £3,315,000 (2018: £4,108,000) 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 2019 *(Continued)*

16 Tangible fixed assets - Other

Group and Association	Freehold offices £000	Motor vehicles £000	Office furniture, plant & equipment £000	Gardening equipment £000	2019 Total £000
<i>Cost</i>					
At beginning of year	2,594	4	368	33	2,999
Additions during year	-	-	150	5	155
Disposals during year	-	-	(111)	-	(111)
At end of year	2,594	4	407	38	3,043
<i>Less: Depreciation</i>					
At beginning of year	-	(2)	(129)	(5)	(136)
Charge for year	-	(1)	(93)	(8)	(102)
Disposals during year	-	-	111	-	111
At end of year	-	(3)	(111)	(13)	(127)
<i>Net book value</i>					
At beginning of year	2,594	2	239	28	2,863
At end of year	2,594	1	296	25	2,916

ORWELL HOUSING ASSOCIATION LIMITED

Notes forming part of the financial statements for the year ended 31 December 2019 (Continued)

17 Investments

	2019		2018	
	Group £000	Association £000	Group £000	Association £000
Liquidity reserve at beginning of year	382	382	382	382
Interest accrued in the year	12	12	-	-
Liquidity reserve at end of year	394	394	382	382

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

Association

At 1 January 2019 and 31 December 2019

£

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

	2019		2018	
	Group £000	Association £000	Group £000	Association £000
First tranche disposals Shared Ownership Properties	-	-	1,197	1,197
Land banked for market sale	727	727	-	-
Market sale properties	464	-	355	-
Work in progress	79	79	43	43
	1,270	806	1,595	1,240

ORWELL HOUSING ASSOCIATION LIMITED

Notes forming part of the financial statements for the year ended 31 December 2019 *(Continued)*

19 Debtors

	2019		2018	
	Group £000	Association £000	Group £000	Association £000
Arrears of rent and service charges	746	746	790	790
Less: Provision for bad/doubtful debts	(208)	(208)	(195)	(195)
	<u>538</u>	<u>538</u>	<u>595</u>	<u>595</u>
Trade debtors	947	947	1,487	1,487
Less: Provision for bad/doubtful debts	(415)	(415)	(359)	(359)
	<u>532</u>	<u>532</u>	<u>1,128</u>	<u>1,128</u>
Amounts recoverable on contracts	1,039	1,039	1,476	1,476
Amounts due from group companies	-	73	-	22
Other debtors	2,674	2,615	1,654	1,627
	<u>4,783</u>	<u>4,797</u>	<u>4,853</u>	<u>4,848</u>

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

Group and Association

	Bad and doubtful debts £000
At 1 January 2018	650
Charge to income and expenditure account for the year	4
Expenditure charge to the provision for the year	(100)
	<u>554</u>
At 31 December 2018	554
Charge to income and expenditure account for the year	213
Expenditure charge to the provision for the year	(144)
	<u>623</u>
Balance at 31 December 2019	623

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 2019 *(Continued)*

20 Creditors: amounts falling due within one year

	2019		2018	
	Group £000	Association £000	Group £000	Association £000
Payments on account of long term work in progress	266	266	498	498
Current instalments of loans (see note 24)	2,247	2,247	2,755	2,755
Contractors for certificate work and unpaid retentions	608	354	851	587
Other taxation and social security	213	213	185	185
Corporation tax	-	-	49	-
Amounts due to group companies	-	9	-	337
Deferred income	690	690	668	668
Recycled capital grants (see note 22)	249	249	112	112
Deferred capital grants (see note 23)	1,379	1,379	1,054	1,054
Other creditors and accruals	4,355	3,626	3,553	3,011
	<u>10,007</u>	<u>9,033</u>	<u>9,725</u>	<u>9,207</u>

21 Creditors: amounts falling due after more than one year

Amounts due are payable as follows:

	2019		2018	
	Group £000	Association £000	Group £000	Association £000
Recycled capital grant fund (see note 22)	261	261	296	296
Deferred capital grants (see note 23)	72,891	72,891	71,948	71,948
Borrowings (see note 24)	84,183	84,183	85,136	85,136
	<u>157,335</u>	<u>157,335</u>	<u>157,380</u>	<u>157,380</u>

ORWELL HOUSING ASSOCIATION LIMITED

Notes forming part of the financial statements for the year ended 31 December 2019 *(Continued)*

22 Recycled capital grants

	2019		2018	
	Group £000	Association £000	Group £000	Association £000
At the beginning of the year	408	408	580	580
Inputs to RCGF: grants recycled	123	123	63	63
interest accrued	5	5	6	6
Recycling of grant: new build	(26)	(26)	(241)	(241)
At the end of the year	510	510	408	408

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

23 Deferred capital grant

	2019 £000	2018 £000
Group and Association		
As at 1 January	73,002	72,641
Grant received in the year	2,294	1,385
Capital grant released	(958)	(978)
Reinstatement of grant re disposals	278	16
Disposals	(346)	(62)
As at 31 December	74,270	73,002

ORWELL HOUSING ASSOCIATION LIMITED

Notes forming part of the financial statements for the year ended 31 December 2019 *(Continued)*

24 Borrowings

	2019	2018
Group and Association	£000	£000
Creditors: amounts falling due within one year (see note 20):		
Bank loans	2,247	2,755
	<u>2,247</u>	<u>2,755</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	14,118	12,499
Bank loans repayable by instalments due after 5 years	58,768	61,283
Bank loans repayable other than by instalments due after 5 years	11,297	11,354
	<u>84,183</u>	<u>85,136</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 on dates between 2020 and 2050; the loans bear interest at variable and fixed rates of between 1.04% 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.

25 Financial instruments

	2019	2018
Group	£000	£000
Carrying amount of financial assets:		
Debt instruments measured at amortised cost	3,973	3,931
	<u>3,973</u>	<u>3,931</u>
Carrying amount of financial liabilities:		
Measured at amortised cost	92,172	93,250
	<u>92,172</u>	<u>93,250</u>

ORWELL HOUSING ASSOCIATION LIMITED

Notes forming part of the financial statements for the year ended 31 December 2019 *(Continued)*

26 Pension provision – Local Government Pension Scheme

The Association is 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 most recent formal actuarial valuation was carried out as at 31 December 2019 by a qualified independent actuary

Fair value of assets and defined benefit liability

	2019	2018
	£000	£000
Fair value of plan assets	1,005	855
Present value of funded liabilities	(1,357)	(1,074)
Net liability	<u>(352)</u>	<u>(219)</u>

Reconciliation of opening and closing balances of the fair value of plan assets:

	2019
	£000
Fair value of plan assets at 1 January	855
Interest income	26
Contribution by scheme participants	9
Contributions by the employer	49
Experience on plan assets (excluding amounts in interest income) – gain	67
Benefits paid	(1)
Fair value of plan assets at 31 December	<u>1,005</u>

Reconciliation of opening and closing balances of the defined benefit obligation:

	2019
	£000
Defined benefit obligation at 1 January	1,074
Current and past service cost	62
Interest cost	32
Contribution by scheme participants	9
Actuarial gains due to scheme experience	(16)
Actuarial gains due to changes in demographic assumptions	(24)
Actuarial losses due to changes in financial assumptions	221
Benefits paid	(1)
Defined benefit obligation at 31 December	<u>1,357</u>

ORWELL HOUSING ASSOCIATION LIMITED

Notes forming part of the financial statements for the year ended 31 December 2019 *(Continued)*

26 Pension provision – Local Government Pension Scheme *(continued)*

The actual return on the plan assets (including any changes in share of assets) over the year ended 31 December 2019 was £93,000.

Defined benefit costs recognised in Statement of Comprehensive Income

	2019
	£000
Expenses	13
Net interest expense	6
	<hr/>
	19
	<hr/>

Defined benefit costs recognised in other comprehensive income

	2019
	£000
Experience gains and losses arising on the plan liabilities – gain	83
Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation – gain	24
Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation – loss	(221)
	<hr/>
Actuarial loss in respect of pension scheme	(114)
	<hr/>

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

	2019
Equities	56%
Bonds	29%
Property	14%
Cash	1%

Financial Assumptions

The main financial assumptions used by the actuary in assessing scheme liabilities were:

	31 Dec 2019	31 Dec 2018
	% per annum	% per annum
Rate of increase in salaries	2.9	2.6
Discount rate	2.1	2.9
Inflation assumption (CPI)	2.2	2.4

26 Pension provision – Local Government Pension Scheme (*continued*)

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:

	31 December 2019	
	Males	Females
Current pensioners	21.9 years	24.1 years
Future pensioners	22.7 years	25.6 years

Contributions

The Association’s contributions to the LGPS Scheme for the period ended 31 December 2019 were £49,000 (2018: £33,000) and the employers’ contributions rate has been fixed as 35.4% of pensionable pay until 31 March 2020. At the year-end £5,000 (2018: £6,000) contributions were payable to the scheme and are included in creditors. The estimated employer’s contributions for the year to 31 December 2020 will be approximately £47,000.

27 Pension provision – the Pensions Trust Social Housing Pension Scheme

The Association participates in the Social Housing Pension Scheme SHPS (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. Previously it was not possible for the Association to obtain sufficient information to enable it to account for the Scheme as a defined benefit scheme so the Association accounted for the obligation by stating the present value of the agreed deficit repayment contributions. From 1 January 2019, sufficient information is available in SHPS for the Association to account for the obligation on a defined benefit basis.

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. The Association’s liability has been determined by calculating the liability of our members allowing for members with service split across multiple SHPS employers as appropriate. The liability for orphan members (members with no remaining sponsoring employer for historical reasons) has been allocated in proportion to each employer’s share of the overall liabilities. This approach follows the same methodology as the allocation of the liabilities for participating employers in the Scheme when deriving the deficit recovery plan contributions at the latest trustee’s triennial scheme funding valuation.

The Association’s fair value of assets is determined as the Association’s share of the market value of the Scheme assets split in proportion to the Association’s share of the trustee’s triennial funding liabilities (termed “Technical Provisions”) at the accounting date. This process has been adopted as it is the approach adopted by the trustee should an employer bulk transfer from the scheme to an alternative defined benefit scheme. Hence the output is deemed to be the employer’s fair value of assets. In order to obtain this fair value for an employer, the trustee’s funding liabilities are calculated for all employers at

ORWELL HOUSING ASSOCIATION LIMITED

Notes forming part of the financial statements for the year ended 31 December 2019 *(Continued)*

27 Pension provision – the Pensions Trust Social Housing Pension Scheme *(continued)*

the accounting date. Each employer's percentage share of the total funding liabilities is then determined. That percentage share is then applied to the market value of the assets of the Scheme as at the accounting date to determine the employer's fair value of assets at the accounting date. Assumptions have been set with reference to the Association's membership and liability profile.

Present values of defined benefit obligation, fair value of assets and defined benefit liability

	2019	2018
	£000	£000
Fair value of plan assets	11,780	-
Present value of defined benefit obligation	-	(2,677)
Present value of funded liabilities	(15,363)	-
Net liability	<u>(3,583)</u>	<u>(2,677)</u>

Reconciliation of opening and closing balances of the fair value of plan assets

	2019
	£000
Fair value of plan assets at 1 January	10,117
Interest income	291
Contribution by scheme participants	208
Contributions by the employer	433
Experience on plan assets (excluding amounts in interest income) – gain	1,154
Benefits paid	(423)
Fair value of plan assets at 31 December	<u>11,780</u>

Reconciliation of opening and closing balances of the defined benefit obligation

	2019
	£000
Defined benefit obligation at 1 January	13,432
Current and past service cost	138
Expenses	13
Interest cost	382
Contribution by scheme participants	208
Actuarial gains due to scheme experience	(121)
Actuarial losses due to changes in demographic assumptions	43
Actuarial losses due to changes in financial assumptions	1,691
Benefits paid	(423)
Defined benefit obligation at 31 December	<u>15,363</u>

ORWELL HOUSING ASSOCIATION LIMITED

Notes forming part of the financial statements for the year ended 31 December 2019 (Continued)

27 Pension provision – the Pensions Trust Social Housing Pension Scheme (continued)

The actual return on the plan assets (including any changes in share of assets) over the year ended 31 December 2019 was £1,445,000.

Defined benefit costs recognised in Statement of Comprehensive Income

	2019
	£000
Expenses	151
Net interest expense	91
	<hr/>
	242
	<hr/>

Defined benefit costs recognised in other comprehensive income

	2019
	£000
De-recognition of funding agreement liability as at 1 January 2019	2,677
Recognition of net pension deficit as at 1 January 2019	(3,315)
	<hr/>
Initial recognition of multi-employer defined benefit pension scheme	(638)
	<hr/>
Experience gains and losses arising on the plan liabilities – gain	1,275
Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation – loss	(43)
Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation – loss	(1,691)
	<hr/>
Actuarial loss in respect of pension scheme	(459)
	<hr/>
	<hr/>
Total amount recognised in other comprehensive income – loss	(1,097)
	<hr/>

ORWELL HOUSING ASSOCIATION LIMITED

Notes forming part of the financial statements for the year ended 31 December 2019 (*Continued*)

27 Pension provision – the Pensions Trust Social Housing Pension Scheme (*continued*)

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

	2019
Equities	19.4%
Bonds	4.8%
Property	4.1%
Absolute return fund	4.7%
Cash	0.3%
Other	66.7%

Financial Assumptions

The main financial assumptions used by the actuary in assessing scheme liabilities were:

	31 Dec 2019 % per annum	31 Dec 2018 % per annum
Rate of increase in salaries	3.0	3.3
Discount rate	2.1	2.9
Inflation assumption (CPI)	2.0	2.3

Mortality assumptions

Life expectancy is based on the S2PXA Tables and the CMI2017 improvement allowances. Based on these assumptions, the average future life expectancies from retirement age are summarised below:

	31 December 2019	
	Males	Females
Current pensioners	21.8 years	23.5 years
Future pensioners	23.2 years	24.7 years

Contributions

The Association's contributions to the SHPS Scheme for the period ended 31 December 2019 were £429,000 (2018: £371,000) with employers' contributions rate varying between 4.1% and 7% of pensionable pay, fixed until 31 March 2022. In addition, the Association has agreed to a deficit funding arrangement of £351,000 per annum, increasing annually on 1 April by inflation of 2.0% and payable until 30 September 2026.

At the year-end £105,000 (2018: £75,000) contributions were payable to the scheme and are included in creditors. The estimated employer's contributions for the year to 31 December 2020 will be approximately £485,000.

ORWELL HOUSING ASSOCIATION LIMITED

Notes forming part of the financial statements for the year ended 31 December 2019 *(Continued)*

28 Other provisions

Group and Association	SHPS		Total £000
	Pension £000	Sleep-Ins £000	
At 1 January 2018	1,937	512	2,449
Amendments to contribution schedule	1,067	-	1,067
Utilised in the year	(308)	(37)	(345)
Unwinding of discount	25	-	25
Increase due to change in discount rate	(44)	-	(44)
31 December 2018	2,677	475	3,152
Reversal of provision - compliance with FRS 102 defined benefit accounting	(2,677)	-	(2,677)
31 December 2019	-	475	475

SHPS Pension

In respect of SHPS, for financial years ending on or after 31 December 2019, the way in which the defined benefit pension obligation is stated in the financial statements has changed. Previously there has been insufficient information available to account for these obligations on a defined benefit basis (i.e. stating assets and obligations). As a result, and as required by FRS 102, the obligation has been accounted for by stating the present value of agreed future deficit repayment contributions as shown above in the prior year figures. For financial years ending on or after 31 December 2019 sufficient information is available to account for the obligations on a defined benefit basis.

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 2019 *(Continued)*

29 Housing stock

Group and Association

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

	2019	2018
<i>Housing units under development</i>	40	43
<i>Social housing accommodation under management</i>		
General needs housing – social rent	1,890	1,888
General needs housing – affordable rent	890	866
Supported housing and housing for older people	840	829
Low cost home ownership accommodation	120	113
Temporary social housing	108	108
Registered care home	10	10
Other	8	9
	<u>3,866</u>	<u>3,823</u>
<i>Non-social housing accommodation under management</i>		
Market rented	12	12
	<u>3,918</u>	<u>3,878</u>

30 Accommodation managed by others

Group and Association

	2019	2018
	Units	Units
Access Community Trust	62	62
Aspire	17	17
Break Disability	4	4
Heywoods Grange	10	10
Home Group	9	-
Selig Suffolk	2	-
Papworth	-	1
Stonham	-	6
United Response	-	1
	<u>104</u>	<u>101</u>

ORWELL HOUSING ASSOCIATION LIMITED

Notes forming part of the financial statements for the year ended 31 December 2019 (Continued)

31 Share capital and reserves

Share capital

Group and Association	2019	2018
	£	£
At beginning of year	29	31
Shares cancelled	(1)	(2)
Shares issued	1	-
At end of year	<u>29</u>	<u>29</u>

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.

ORWELL HOUSING ASSOCIATION LIMITED

Notes forming part of the financial statements for the year ended 31 December 2019 *(Continued)*

32 Capital commitments

Group	2019	2018
	£000	£000
Expenditure contracted, less certified	4,249	900

The above expenditure will be financed using Social Housing Grant (SHG) of £82,000 (2018: £10,000) together with Local Authority Grant of £nil (2018: £249,000) and a loan facility of £4,167,000 (2018: £641,000).

Association	2019	2018
	£000	£000
Expenditure contracted, less certified	4,717	1,003

The above expenditure will be financed using Social Housing Grant (SHG) of £82,000 (2018: £10,000) together with Local Authority Grant of £nil (2018: £249,000) and a loan facility of £4,635,000 (2018: £744,000).

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:

	2019	2018
	£000	£000
Amounts due:		
Within one year	419	398
In one to five years	1,272	1,124
In more than five years	6,143	5,676
	<u>7,834</u>	<u>7,198</u>

Motor vehicles:

	2019	2018
	£000	£000
Amounts due:		
Within one year	207	207
In one to five years	235	197
	<u>442</u>	<u>404</u>

ORWELL HOUSING ASSOCIATION LIMITED

Notes forming part of the financial statements for the year ended 31 December 2019 (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:

	2019 £000	2018 £000
Purchases from Orwell Homes Limited	4,189	8,980
Salary costs recharged to Orwell Homes Limited	88	189
Interest credited to Orwell Homes Limited	2	1

At the year end, the net amount due to Orwell Homes Limited was £594,898 (2018: £323,577).

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

Group	2019 £000	2018 £000
Surplus for the year	4,776	3,956
Depreciation, amortisation and impairment	1,642	1,928
Amortisation of grant	(958)	(978)
Defined benefit pension schemes	(269)	860
Provision movement	-	(37)
Gain on disposal of fixed assets	(184)	(267)
Loss on disposal of other fixed assets	-	15
Interest receivable	(34)	(39)
Interest payable	2,981	3,215
Taxation	(82)	49
Operating cashflows before movements in working capital	7,872	8,702
(Increase) in investments	(12)	-
(Increase)/decrease in stocks	325	(55)
Decrease/(increase) in debtors	70	3,288
Increase/(Decrease) in creditors	606	(954)
Cash generated from operating activities	8,861	10,981

ORWELL HOUSING ASSOCIATION LIMITED

Notes forming part of the financial statements for the year ended 31 December 2019 *(Continued)*

36 Analysis of changes in net debt

Group	At 1 January 2019	Cash flow	Other non- cash movements	At 31 December 2019
	£000	£000	£000	£000
Cash at bank and in hand	3,036	(48)	-	2,988
Creditors due in < 1 year: Current instalment of loans	(2,755)	508	-	(2,247)
Creditors due in > 1 year: Bank loan	(85,136)	903	50	(84,183)
Total	(84,855)	1,363	50	(83,442)

37 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 £89,324,000 (2018: £88,640,000).

38 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.

39 Post Balance Sheet Events

The financial statements were approved by the Board on 25 March 2020. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 December 2019, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

There were no adjusted post balance sheet events for the 2019 financial statements.

At 31 December 2019, whilst Coronavirus (COVID-19) existed, the severity of the virus and the responses to the outbreak including the impact on our operations occurred after this date.

Regarding the LGPS and SHPS Defined Benefit Pension schemes in which the Association participates, due to the volatility of the worldwide equity markets following the COVID-19 outbreak there may have been movements in both the assets and liabilities of the schemes which could potentially mean that the position at the current date is different from that shown in the report.