Orbit Treasury Limited

Financial statements

For the year ended 31 March 2021

Company Registration Number 06264601

Orbit Treasury Limited

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Orbit Treasury Limited

Executive Officers and Advisors

Directors

The Directors of the company who were in office during the year and up to the date of signing the financial statements were:

Name	Position	Appointed/resigned/retired
David Weaver	Non-Executive Director/Chair	
David Young	Non-Executive Director	Retired 9 July 2020
Stuart Fisher	Non-Executive Director	
Massy Larizadeh	Non-Executive Director	Appointed 1 March 2021
Lynn Lochhead	Non-Executive Director	
Mark Hoyland	Chief Executive	
Jonathan Wallbank	Group Finance Director	Appointed 9 November 2020
Richard Wright	Secretary	

Executive officers

The company had no employees during the year other than directors (2020: Nil). The executive officers and staff of the parent association provide services to Orbit Treasury Limited through a service agreement. The executive officers of Orbit Group Limited, the parent association, are listed in their financial statements.

Advisors

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

Orbit Treasury Limited

Strategic Report

The Directors present their strategic report on Orbit Treasury Limited for the year ended 31 March 2021.

Review of the business

Orbit Treasury Limited was set up in September 2007 as a wholly owned subsidiary of Orbit Group Limited (Orbit) to provide cost-effective treasury management to the operating Associations. Orbit Treasury Limited has loan agreements in place with a number of banks, building societies and other financial institutions and draws down funds to on-lend to those Orbit subsidiaries that have entered into an intra-group loan agreement, which sets out the basis of the relationship as well as how loans will be drawn and distributed and the basis of charging and repayment.

Orbit Treasury Limited has access to all assets of these subsidiaries, which are not subject to fixed charges to other lenders as all parties have entered into a cross guarantee structure. Loans drawn are secured on properties charged to a security trustee.

Orbit Treasury Limited supports members of Orbit in its aim to make the organisation great by continuing to provide a cost-effective treasury management service. Financial performance in the year was in line with expectation. The charge made to operating Associations is set at a level sufficient to recover interest payable, commitment fees and treasury operational costs, resulting in a breakeven position.

Orbit has implemented a new 2025 strategy with the delivery of 6,500 new homes.

Treasury policy

The Board recognises that its high degree of debt makes it important to regularly review its treasury policy. The treasury function operates within a framework of clearly defined Orbit Board approved policies, procedures and delegated authorities. The fundamental principle underlying the Company's approach is to treat treasury activities as a means of controlling risk rather than for profit generation. For Orbit Treasury Limited this is reflected in a value for money (VFM) approach to all activities undertaken in ways such as minimising loans drawn and cash held at bank and removing and reallocating excess loan security.

The following derivative transactions are currently included in the policy – interest rate swaps, forward rate agreements, interest rate options and cap and collar transactions. In relation to derivatives, Orbit Treasury Limited:

- currently does not have any collar arrangements;
- will not write any hedging transactions itself but will always transact derivatives from a counterparty; and
- may also use interest rate swaps combining options (e.g. extendible/callable/cancellable swaps).

The mark to market exposure on interest rate swaps is monitored at least weekly, and more frequently where necessary in response to movements in market rates. Property is used as security against adverse movements in the mark to market exposure and the consequent risk of cash calls. Treasury policy requires sufficient security (property and available cash) at any time to cover the risk of a 0.5% reduction in interest rates.

Further details of Orbit's risk management framework can be found in Orbit Group Limited's financial statements which are published on the Orbit website www.orbit.org.uk.

Orbit Treasury Limited

Strategic Report

Financial risk management

The Company's operations expose it to a variety of financial risks. The Group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Company and Group by monitoring levels of debt finance and related finance costs. The key risks are as follows:

Interest rate risk
At 31 March 2021, 91% of the company's debt was fixed or hedged. Orbit Capital Plc arranged its third public bond issue on 24 November 2020 raising £300 million which was used to provide long term funding to support the Group strategy. Orbit has £150 million of variable debt funding, of which £107 million is held in Orbit Treasury Limited, which could be exposed to rises in LIBOR rates. If LIBOR were to increase by 0.50%, then the impact would be additional interest costs of £535 thousand to the statement of comprehensive income. Any such costs can be recovered from the Associations.

Liquidity risk
The Company actively lends the full amount of the loans it has itself borrowed, thus the entity has assets to fully offset its liabilities and interest receivable to offset its interest payable.

Credit risk
The liabilities to funders are secured by a legal charge over property assets owned by the Associations with a value in excess of total borrowings. This includes mark to market liabilities resulting from interest rate hedging instruments. The Associations have entered into a guarantee with the Company over future interest payments, including payments due under interest rate hedging instruments and the property security. The carrying amount of the funding liabilities represents the maximum value exposed to credit risk. At the end of the financial year the credit rating of A3 stable from Moody’s remained in place.

Key Performance indicators (KPIs)

The performance of Orbit Treasury Limited is closely scrutinised by Orbit Group Limited, the parent company. In addition, the Board receives a report each quarter comparing the actual position against internal and covenant limits for a range of key indicators including liquidity, interest cover, debt per unit, swap mark to market exposure, security and funding costs.

Orbit’s KPIs are included in the operating and financial review statement in the Orbit Group financial statements.

Approved by the Board of Directors and signed by the order of the Board:

Richard Wright
Company Secretary

1 July 2021

Directors' Report

The Directors present their annual report on the affairs of Orbit Treasury Limited (the Company) and the audited financial statements for the year ended 31 March 2021.

Results and dividends

The operating profit for the financial year was nil and for 2020 was nil. The directors do not recommend payment of a dividend (2020: nil).

Charitable donations

There were no donations in the year ended 31 March 2021 (2020: nil).

Directors

The directors who served during the year and up to the date of signing the financial statements are shown on page 1. The Directors benefit from a qualifying third party indemnity provision indemnifying them against legal claims from third parties that has been in place throughout the financial year and up to and including the date the financial statements are signed. The Company is a wholly owned subsidiary of Orbit Group Limited.

Statement of directors' responsibilities in respect of the strategic report, the directors' report and the financial statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

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

Disclosure of information to auditors

Each of the persons who is a director at the date of approval of this report confirms that:

(1) so far as the Director is aware, there is no relevant audit information of which the Company's auditors is unaware; and
(2) each Director has taken all the steps they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Subsequent events

Management have not identified any subsequent events to report.

Going concern

The financial statements are prepared on a going concern basis.

Orbit Treasury Limited is the funding vehicle for Orbit Group. An intra group loan agreement has been entered into by all of the operating Associations which provides a commitment to Orbit Treasury Limited to pay interest on intra group loans. The loans are secured by way of a first fixed charge over housing properties owned by other members of the Orbit Group. The Group's financial plan and cash flow forecasts demonstrate there are sufficient committed facilities to meet forecast expenditure for the foreseeable future. The Orbit Board has a reasonable expectation the Group and Subsidiary have adequate resources to continue in operational existence for the foreseeable future. Orbit Group Limited has confirmed that it will continue to provide financial support as are needed by Orbit Treasury Limited in respect of its financial obligations to enable it to meet its financial liabilities as they fall due and to continue to trade as a going concern.

Independent Auditor

KPMG LLP were appointed as the Company's auditor for the year ended 31 March 2021. This is the final year of the current contract for external audit services and this service will be retendered later this year. A resolution to re-appoint the Group's auditors will be proposed at the Annual General Meeting.

Approved by the Board of Directors and signed by the order of the Board:

Richard Wright
Company Secretary

1 July 2021

Independent Auditor's Report to the Members of Orbit Treasury Limited
For the year ended 31 March 2021

Opinion

We have audited the financial statements of Orbit Treasury Limited ("the company") for the year ended 31 March 2021 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Going concern

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

In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of the Management, legal and internal audit as to the Company's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board, audit and risk committee and governance and remuneration committee minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

Independent Auditor's Report to the Members of Orbit Treasury Limited
For the year ended 31 March 2021

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because there are no revenue transactions. We did not identify any additional fraud risks.

In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of the Company-wide fraud risk management controls

We also performed procedures including:

- Identifying journal entries and other adjustments to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual and seldom used accounts.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors (as required by auditing standards), and discussed with the directors the policies and procedures regarding compliance with laws and regulations.

The company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

This company, as a holding company, is not subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Independent Auditor's Report to the Members of Orbit Treasury Limited
For the year ended 31 March 2021

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

  We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 4, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company'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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company'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 company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Sarah Brown (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

KPMG LLP

One Snow Hill, Snow Hill Queensway

Birmingham, B4 6GH

28 July 2021

Orbit Treasury Limited

Statement of Comprehensive Income

For the year ended 31 March 2021

	Note	2021 £000	2020 £000
Operating costs	2	**(4,083)**	(3,345)
Other Income	3	**4,083**	3,345
Operating profit/(loss)		**-**	-
Interest receivable and similar income	4	**43,607**	29,476
Interest payable and similar charges	5	**(29,183)**	(27,578)
Movement in fair value of financial instruments	16	**6,953**	(5,583)
Profit before tax		**21,377**	(3,685)
Tax on profit on ordinary activities	14	**(49)**	(49)
Profit for the financial year		**21,328**	(3,734)
Other comprehensive income			
Movement in fair value of hedged financial instruments	16	**19,027**	(16,315)
Total comprehensive income for the year		**40,355**	(20,049)

All activities derive from continuing operations.

Orbit Treasury Limited

Statement of Financial Position

For the year ended 31 March 2021

	Note	2021 £000	2020 £000
Debtors: amounts falling due after more than one year	8	505,643	561,604
Current assets			
Debtors	8	48,462	49,819
Cash at bank and in hand	9	1,968	1,651
		50,430	51,470
Creditors: amounts falling due within one year	10	(23,423)	(23,409)
Net current assets/(liabilities)		27,007	28,061
Total assets less current assets/(liabilities)		532,650	589,665
Creditors: amounts falling due after more than one year	11	(625,997)	(723,367)
Net liabilities		(93,347)	(133,702)
Capital and reserves			
Called up share capital		-	-
Cash flow hedge reserve		(57,713)	(76,740)
Revenue reserves		(35,634)	(56,962)
Total shareholders' funds deficit		(93,347)	(133,702)

The financial statements on pages 9 to 22 were approved by the Board of Directors and signed on its behalf by:

David Weaver
Orbit Treasury Limited
Chair

1 July 2021

Company Registration Number 06264601

Orbit Treasury Limited

Statement of Changes in Equity

For the year ended 31 March 2021

	Called up share capital £000	Cash flow hedge reserve £000	Revenue reserve £000	Total equity £000
Balance at 1 April 2020	-	(76,740)	(56,962)	**(133,702)**
Total comprehensive income for the period				
Profit for the year	-	-	21,328	**21,328**
Change in fair value	-	19,027	-	**19,027**
Balance at 31 March 2021	-	(57,713)	(35,634)	**(93,347)**

1. Accounting policies

Basis of accounting

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland ("*FRS 102"*).

The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The principal accounting policies, which have been consistently applied unless otherwise stated throughout the year, are set out below.

Orbit Treasury Limited has taken the exemption of not to disclose related party transactions under FRS 102.

Going concern

Orbit Treasury Limited is the funding vehicle for Orbit Group. An intra group loan agreement has been entered into by all of the operating Associations which provides a commitment to Orbit Treasury Limited to pay interest on intra group loans. The loans are secured by way of a first fixed charge over housing properties owned by other members of the Orbit Group.

The Board, after reviewing the Company's budget for 2021/22 and the Group's medium term financial position, as detailed in the 30-year business plan, including changes arising from the coronavirus pandemic, is of the opinion that, taking account of severe but plausible downsides, the Group and Company have adequate resources to continue in business for the foreseeable future.

The Board therefore continues to adopt the going concern basis in preparing the annual financial statements.

Other income

Other income comprises fees due from group undertakings.

Operating costs

Operating costs includes loan arrangement fees, administrative costs including legal costs, valuation fees and other costs.

Taxation

The charge for the year is based on profits arising on activities that are liable to tax. Taxable members of the group have adopted the accounting standard for deferred tax (FRS 102, section 29).

Deferred tax is provided in full, at the tax rates expected to apply to the period when the asset is realised or the liability is settled, on any timing differences, although deferred tax assets are only recognised to the extent it is regarded as more likely than not they will be recovered. Timing differences arising from the revaluation of fixed assets are only recognised where there is a binding agreement to sell the revalued assets.

Deferred tax assets and liabilities are not discounted.

1. Accounting policies (continued)

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Loan classifications and subsequent valuations are the key areas of judgement applied in the financial statements. Fixed rate and variable loans have been classified as basic instruments. Fixed rate loans are stated at amortised cost using the effective interest rate method. Variable rate loans are disclosed at carrying value due to the short term interest period.

Advice has been sought from external treasury advisors on fair value judgements and estimates.

Derivative financial instruments

Orbit uses derivative financial instruments to reduce exposure to interest rate movements. Orbit does not hold or issue derivative financial instruments for speculative purposes. For an interest rate swap to be treated as a hedge the instrument must be related to actual assets or liabilities or a probable commitment and must change the nature of the interest rate by converting a fixed rate to a variable rate or vice versa. Interest differentials under these swaps are recognised by adjusting net interest payable over the periods of the contracts.

Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the statement of comprehensive income. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Fair value hedges

Where a derivative financial instrument is designated as a hedge of the exposure to a fixed interest risk or foreign exchange risk of a debt instrument measured at amortised cost or the commodity price risk in a firm commitment or of a commodity held, all changes in the fair value of the derivative are recognised immediately in profit or loss. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (and any gains or losses on re-measurement are recognised in the statement of comprehensive income).

If hedge accounting is discontinued and the hedged financial asset or liability has not been derecognised, any adjustments to the carrying amount of the hedged item are amortised into the statement of comprehensive income using the effective interest method over the remaining life of the hedged item.

Cash flow hedges

Where the hedged risk is the variable interest rate risk in a debt instrument measured at amortised cost; the interest rate risk in a firm commitment or a highly probable forecast transaction, the company recognises the effective part of any gain or loss on the derivative financial instrument in other comprehensive income (OCI). Any ineffective portion of the hedge is recognised immediately in the statement of comprehensive income.

The hedging gain or loss recognised in OCI is reclassified to the statement of comprehensive income when the hedged item is recognised in the statement of comprehensive income or when the hedging relationship ends.

Orbit Treasury Limited accounting policy for derivatives is to recognise in the statement of comprehensive income gains and losses on hedges of revenues or operating payments only as they crystallise. Treasury policy states clearly all transactions will be in sterling or hedged to sterling.

1. Accounting policies (continued)

Movement in fair value of financial instruments in Hedge accounting

The principle of hedge accounting applies only to standalone swaps, which have to be fair valued at each period end.

However, RPI swaps and swaps with cancellable options do not meet the criteria of hedging instruments (FRS102 section 12.17C). The movement in fair value is therefore taken directly to the statement of comprehensive income.

For the remaining vanilla interest rate swaps an assessment must be made of the hedge effectiveness. The mark to market movement during the accounting period on each vanilla swap is analysed between effective and ineffective, with the effective element posted to the cash flow hedge reserve and the ineffective element charged/credited to the statement of comprehensive income.

Debt instruments (loan portfolio)

External loans also need to be categorised either as basic or other. The basic approach results in a requirement to report interest costs using the effective interest rate (EIR) method. This necessitates modelling on a loan by loan basis averaging (via an EIR calculation) all elements of income and expenditure relating to the loan (margin, including future step ups, arrangement fees)

The EIR for fixed rate instruments will be calculated as the rate which exactly discounts the instrument's future cash flows to the carrying amount (FRS102 section 11.15). Arrangement fee amortisation will be calculated separately and netted off against the carrying value of the debt liability.

Due to the short term of our floating rate instruments the carrying amount will be set equal to the nominal loan amount less unamortised fee.

Statement of Cash Flows

Orbit Treasury Limited has taken advantage of the exemptions available in FRS102 in preparing these financial statements, and has not prepared, per the requirements of Section 7, a Statement of Cash Flows. This information is included in the consolidated financial statements of Orbit Group Limited as at 31 March 2021 as published on the Orbit website www.orbitgroup.org.uk.

2. Operating costs

	2021 £000	2020 £000
Arrangement fees due to external bodies	**4,083**	3,345

3. Other income

	2021 £000	2020 £000
Fees due from Group undertakings	**4,083**	3,345

Orbit Treasury Limited

Notes to the Financial Statements

For the year ended 31 March 2021

4. Interest receivable and similar income

	2021 £000	2020 £000
Loan interest received from Group undertakings	**27,224**	29,141
Finance restructure costs and settlement fees*	**15,897**	-
Net gain on financial liabilities measured at fair value through statement of comprehensive income (excluding derivatives used in hedging relationships)	**486**	335
	43,607	29,476

* This represents recovery of the cash cost of swaps cancelled in the period, notably £2,147k of break costs charged to the SOCI (Note 5) and £5,575k and £8,175k to extinguish financial liabilities (Note 16) in the SOFP. An intra group loan is in place which allows for a portion of all costs, fees and expenses to be recovered from Group Associations.

5. Interest payable and similar charges

	2021 £000	2020 £000
Loan interest payable	**27,036**	27,578
Break costs	**2,147**	-
Interest payable and similar charges	**29,183**	27,578

6. Expenses and auditor's remuneration

	2021 £000	2020 £000
Included in the statement of comprehensive income are the following:		
Change in fair value of derivatives through income and expenditure	**(6,953)**	5,583

	2021 £000	2020 £000
Auditor's remuneration:		
In their capacity as auditors	**5**	4
In respect of other services	**17***	-
Total audit services	**22**	4

*Represents the charge for current and prior year

7. Directors' and executive officers' emoluments

Payments to non-executive directors are shown below except for those who have roles as directors of other Orbit entities. Their payments are disclosed in the consolidated financial statements of Orbit Group Limited. The executive directors are employed by the parent company, Orbit Group Limited, and their emoluments are disclosed within the consolidated financial statements. The remuneration paid by the parent in respect of the executive directors' services to Orbit Treasury Limited is shown below. No compensation was paid to directors for loss of office.

	2021	2020
	£000	£000
Aggregate emoluments paid to or received by directors who are not executive staff members including salaries, honoraria and other benefits	**8**	10

8. Debtors

	2021	2020
	£000	£000
Deferred tax asset (see note 14)	**196**	245
Amounts due from Group undertakings	**505,447**	561,359
Total due after more than one year	**505,643**	561,604
Amounts due from Group undertakings within one year	**48,443**	49,798
Other debtors	**19**	21
Total due in less than one year	**48,462**	49,819

9. Cash and cash equivalents

	2021	2020
	£000	£000
Cash at bank and in hand	**1,968**	1,651

10. Creditors: amounts falling due within one year

	2021	2020
	£000	£000
Bank loans and overdrafts	**18,840**	18,840
Amounts owed to group undertakings	**420**	172
Accruals and deferred income	**4,163**	4,397
	23,423	23,409

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

	2021 £000	2020 £000
Bank loans and overdrafts	**543,260**	601,100
Less: amortised loan/swap costs	**(7,863)**	(8,737)
Loan fair value adjustments	**5,302**	5,788
Other financial liabilities (see note 13)	**85,298**	125,216
	625,997	723,367

Bank loans are shown gross of loan arrangement fees of £3,586,000 (2020: £4,154,000) and Finance restructure costs of £4,277,000 (2020: £4,584,000).

12. Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost. All loans and borrowings are measured at amortised cost, including those that have embedded derivative financial instruments attached to them whereby the embedded derivative is deemed to be closely related to the host contract.

Debenture and secured bank loans are secured by way of a first fixed charge over housing properties and include an asset cover test based on the ratio on the value of properties secured to the carrying value of the loan. Secured bank loans include interest cover and gearing covenants each of which is tested on an annual basis against relevant disclosures within the profit and loss and balance sheet of the financial statements.

	2021 £000	2020 £000
Creditors falling due more than one year		
Bank loans and overdrafts	**543,260**	601,100
Creditors falling within less than one year		
Secured bank loans	**18,840**	18,840
	562,100	619,940

12. Interest-bearing loans and borrowings (continued)

The debt is repayable as follows:

	2021 £000	2020 £000
In one year or less, on demand	**18,840**	18,840
Repayable by instalments:		
More than one year but not more than two years	**18,840**	18,840
In more than two years but not more than five years	**133,820**	56,520
In more than five years	**155,600**	251,740
	308,260	327,100
Repayable other than by instalments:		
More than one year but not more than two years	**-**	100,000
In more than two years but not more than five years	**90,000**	-
In more than five years	**145,000**	174,000
	235,000	274,000
Net debt at 31 March	**562,100**	619,940

The bank loans are repaid in instalments at fixed and variable rates of interest. The final instalments fall to be repaid in the period 2037 to 2038. Loans repayable other than by instalment have bullet repayments between 2020 and 2040.

13. Other financial liabilities

	2021 £000	2020 £000
Amounts falling due after more than one year		
Financial liabilities held for trading (including all derivatives)	**85,298**	125,216

14. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2021 £000 Assets	2020 £000 Assets
As at 1 April 2020	**(245)**	(294)
Movement relating to fair value losses through statement of comprehensive income	**-**	-
Tax release to statement of comprehensive income	**49**	49
Total (assets) as at 31 March 2021	**(196)**	(245)

The adoption of FRS 102 has resulted in certain costs relating to the third-party borrowing being recognised using an effective interest rate method rather than on a straight-line basis as previously. As a result, the difference between the carrying values at 31 March 2015 using old GAAP accounting and the carrying values at that date as restated applying FRS 102 have been brought into account as a taxable transitional adjustment, spread over a ten-year period.

None of the borrowing which gave rise to the transitional adjustments was fully repaid by 31 March 2016 therefore 10% of the adjustments will be taxed each year starting with the period to 31 March 2016; a loss of £2,882,000 resulting in a deduction of £288,200 per year.

Deferred tax is recognised in respect of the taxable transitional adjustments.

The deferred tax asset relates to a 10-year transitional adjustment that arose on adoption of FRS102. The timing difference giving rise to this deferred tax asset will continue to reverse evenly over the next four accounting periods.

15. Capital and reserves

Called up share capital

	2021 No.	2021 £	2020 No.	2020 £
Issued and fully paid shares of £1 each	**2**	**2**	2	2

16. Financial instruments

(a) Carrying amount of financial instruments

The carrying amounts of the financial assets and liabilities include:	2021 £000	2020 £000
Liabilities measured at fair value through profit or loss	**90,600**	131,004
Liabilities measured at amortised cost	**562,100**	619,940
Loan commitments at amortised cost	**(7,862)**	(8,737)
	644,838	742,207

Orbit Treasury Limited

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16. Financial instruments (continued)

(b) Hedge accounting

The following table indicates the periods in which the cash flows associated with cash flow hedging instruments are expected to occur as required by FRS 102.29(a) for the cash flow hedge accounting models

	2021					
	Carrying amount £000	Expected cash flows £000	1 year or less £000	1 to < 2 years £000	2 to < 5 years £000	5 years and over
Interest rate swaps:						
Assets	-	23,376	201	453	4,358	18,364
Liabilities	57,713	(96,809)	(7,629)	(7,631)	(22,853)	(58,697)
	57,713	(73,433)	(7,428)	(7,178)	(18,495)	(40,333)

	2020					
	Carrying amount £000	Expected cash flows £000	1 year or less £000	1 to < 2 years £000	2 to < 5 years £000	5 years and over £000
Interest rate swaps:						
Assets	-	14,372	1,405	863	2,977	9,128
Liabilities	76,740	(112,868)	(9,986)	(9,822)	(23,364)	(66,695)
	76,740	(98,496)	(8,581)	(8,959)	(20,387)	(57,567)

The following table indicates the periods in which the cash flows associated with cash flow hedging instruments are expected to affect profit or loss:

	2021					
	Carrying amount £000	Expected cash flows £000	1 year or less £000	1 to < 2 years £000	2 to < 5 years £000	5 years and over £000
Interest rate swaps:						
Assets		6,987	45	134	1,015	5,793
Liabilities	27,585	(26,730)	(1,728)	(1,720)	(5,167)	(18,115)
	27,585	(19,743)	(1,683)	(1,586)	(4,152)	(12,322)

	2020					
	Carrying amount £000	Expected cash flows £000	1 year or less £000	1 to < 2 years £000	2 to < 5 years £000	5 years and over £000
Interest rate swaps:						
Assets		5,235	297	220	794	3,924
Liabilities	48,477	(40,139)	(2,368)	(2,375)	(7,107)	(28,289)
	48,477	(34,904)	(2,071)	(2,155)	(6,313)	(24,365)

(c) Fair values

The fair values of all financial assets and financial liabilities by category together with their carrying amounts shown in the statement of financial position are as follows:

	2021		2020	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Loan	341,100	437,214	368,940	490,869
Bond	95,000	113,649	95,000	121,714
Embedded swap	126,000	49,303	156,000	61,617
	562,100	**600,166**	619,940	674,200

Orbit Treasury Limited has twenty-two cash flow hedges. The hedge relationships of nineteen meet each condition for hedge accounting, which are consistent with the entity's risk management objectives for undertaking hedges. The remaining three cash flow hedges do not meet the conditions of hedge accounting due to having callable options in the swap contract from the banks.

Orbit Treasury Limited considers that an economic relationship exists between the hedging instrument (interest rate swap) and the hedged item (floating rate loan) in that the values of the hedged item and hedging instrument move in opposite directions in response to movements in LIBOR, the hedged risk, over the life of the hedge.

The objective of the hedge is to mitigate the changes in the future cash flows stemming from the floating rate interest payments related to the floating rate loan entered into by Orbit Treasury Limited.

In accordance with chapter 12 of FRS 102, hedge accounting has been applied to the following swap contracts.

	2021 £000	2020 £000
Barclays £50 million (2020: £75 million)	17,612	26,975
Lloyds £125 million (2020: £135 million)	42,099	55,154
RBS £0 million (2020: £40 million)	-	1,083
Dexia £19 million (2020: £19 million)	7,232	9,219
	66,943	92,431

The following swap contracts do not qualify for hedge accounting.

	2021 £000	2020 £000
Dexia £0 million (2020: £15 million)	-	9,602
Lloyds £30 million (2020: £30 million)	14,670	18,575
Barclays £10 million (2020: £10 million)	3,685	4,608
	18,355	32,785
Total fair value of derivatives	**85,298**	125,216

Analysis of fair value movements:

	2021	2020
	£000	£000
Movement in fair value of derivatives not qualifying for hedge accounting recognised through SOCI	6,255	(5,443)
Movement in ineffective portion of derivatives that qualify for hedge accounting through SOCI	896	1,423
Release of inception of fair value accounting shown in interest payable	(198)	(1,563)
Movement through SOCI	**6,953**	**(5,583)**
Movement in effective portion of derivatives that qualify for hedge accounting through OCI	19,027	(16,315)
Release of inception of fair value accounting shown in interest payable (as above)	198	1,563
Settlement of financial liability due to cancelling of 6 swaps that were hedge accounted	5,565	-
Settlement of financial liability due to cancelling of 2 swaps that were not hedge accounted	8,175	-
Total fair value movement in derivatives	**39,918**	**(20,335)**

The hedged items have a variable interest rate risk associated with the LIBOR linked bank loan. The counterparty to the swap and the credit risk associated is considered to be low.

Financial risk management

The company's operations expose it to a variety of financial risks. The Group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Company and Group by monitoring levels of debt finance and related finance costs. The key risks are as follows:

Interest rate risk
At 31 March 2021, 91% of the Company's debt was fixed or hedged. Orbit Capital Plc arranged its third public bond issue on 24 November 2020 raising £300 million which was used to provide long term funding to support the group strategy. The Group has £150 million of variable debt funding, of which £107 million is held in Orbit Treasury Limited, which could be exposed to rises in LIBOR rates. If LIBOR was to increase by 0.50%, then the impact would be additional interest costs of £535 thousand to the statement of comprehensive income. Any such costs can be recovered from the Associations.

Liquidity risk
The Company actively lends the full amount of the loans it has itself borrowed, thus the entity has assets, including contingent assets to fully offset its liabilities and interest receivable to offset its interest payable.

Credit risk
The liabilities to funders are secured by a legal charge over property assets owned by the Associations with a value in excess of total borrowings. The Associations have entered into a guarantee with the Company over future interest payments and the property security. The carrying amount of the funding liabilities represents the maximum value exposed to credit risk. At the end of the financial year the credit rating of A3 stable from Moody’s remained in place.

17. Related party transactions

Orbit Treasury Limited is a wholly owned subsidiary of Orbit Group Limited. As permitted by FRS 102 section 33.1A (Related Party Disclosures), the Company has taken advantage of the exemption for wholly owned subsidiaries not to disclose related party transactions with group entities. There were no other related party transactions disclosable under FRS8.