

Orbit Treasury Limited

Financial statements

For the year ended 31 March 2018

Company Registration Number 06264601

Orbit Treasury Limited

CONTENTS

	PAGE
Executive Officers and Advisors	1
Strategic Report	2
Directors' Report	4
Independent Auditor's Report to the Members of Orbit Treasury Limited	6
Statement of Comprehensive Income	8
Statement of Financial Position	9
Statement of Changes in Equity	10
Cash Flow Statement	11
Notes to the Financial Statements	12

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
David Weaver	Non-Executive Director/Chair	
David Young	Non- Executive Director	
Stuart Fisher	Non- Executive Director	
Lorne Williams	Non- Executive Director	
Dina Shah	Non- Executive Director	Resigned 31 March 2018
Mark Hoyland	Executive Director	Appointed 17 July 2017
Suzanne Forster	Group Finance Director	Resigned 1 August 2017
Joy Baggaley	Group Finance Director	Appointed 1 January 2018
Richard Wright	Secretary	

Executive officers

The company had no employees during the year other than directors (2017: 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	Principal Solicitors	Registered office
KPMG LLP One Snowhill Snow Hill Queensway Birmingham B4 6GH	Trowers and Hamblins 3 Bunhill Row London EC1Y 8YZ	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 2018.

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. The average interest rate based on a consolidated group level for the housing sector from the 2017 Global Accounts published by the HCA for the year ended March 2017 was 4.52%, 0.02% higher than Orbit Treasury's rate of 4.50%. If this benefit were to be maintained in 2017-18, with average balances of £809 million, the saving in interest cost for Orbit Treasury Limited would amount to £162,000 per annum.

Orbit continued to make strong progress in the implementation of its 2020 strategy and the delivery of 12,000 new homes with a significant increase in development activity during the year.

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 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 2018, 84% of the company's debt was fixed or hedged. Orbit Capital Plc arranged its second public bond issue on 7 June 2018 raising £450 million which was used to restructure the Groups existing debt portfolio and provide long term funding to support the group strategy. Orbit has £194 million of variable debt funding, of which £167 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 £0.8 million 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

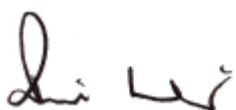
The liabilities to funders are secured by a legal charge over property assets owned by the associations with a value in excess of total borrowings. The associations have entered into a guarantee with the company over future interest payments and the property security. The carrying amount of the funding liabilities represents the maximum value exposed to credit risk. At the end of the financial year the credit rating of A2 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

24 July 2018

Orbit Treasury Limited

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 2018.

Results and dividends

The operating profit for the financial year was nil and for 2017 was nil. The directors do not recommend payment of a dividend (2017: nil).

Charitable donations

There were no donations in the year ended 31 March 2018 (2017: 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

The directors are responsible for preparing the strategic report, 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 accounting 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business;

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 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.

Orbit Treasury Limited

Directors' Report

Going concern

The financial statements are prepared on a going concern basis.

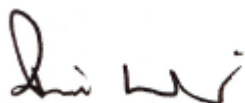
Orbit Treasury Limited is the funding vehicle for Orbit Group. An intra group loan agreement has been entered into by all of the operating associations which provide a commitment to Orbit Treasury Limited to pay interest on intra group loans. The loans are secured by way of a first fixed charge over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

Independent Auditor

KPMG LLP were appointed as the company's auditor for the year ended 31 March 2018.

A resolution to re-appoint the auditors for external audit services will be proposed at the Orbit Group Limited Annual General Meeting.

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



Richard Wright
Company Secretary

24 July 2018

Independent Auditor's Report to the Members of Orbit Treasury Limited For the year ended 31 March 2018

Opinion

We have audited the financial statements of Orbit Treasury Limited ("the company") for the year ended 31 March 2018 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Cash Flow Statement, 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 2018 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

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Other information

The directors are responsible for the other information, which comprises the strategic report, the directors' report. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information 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 other information;
- in our opinion the information given in the strategic report and the directors' report 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.

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

Independent Auditor's Report to the Members of Orbit Treasury Limited For the year ended 31 March 2018

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
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

2 August 2018

Orbit Treasury Limited

Statement of Comprehensive Income

For the year ended 31 March 2018

		<u>2018</u>	<u>2017</u>
	Note	£000	£000
Turnover		37,054	36,585
Cost of sales		(37,054)	(36,585)
Operating profit/(loss)		-	-
Interest receivable and similar income	2	161	-
Interest payable and similar charges	3	-	(3,181)
Movement in fair value of financial instruments	4	5,205	(2,448)
Profit/(Loss) before tax		5,366	(5,629)
Tax on profit/(loss) on ordinary activities	12	(72)	415
Profit/(Loss) for the financial year		5,294	(5,214)
Other comprehensive income			
Change in fair value of hedged financial instruments		10,961	(3,811)
Total comprehensive income for the year		16,255	(9,025)

All activities derive from continuing operations.

Orbit Treasury Limited

Statement of Financial Position

For the year ended 31 March 2018

	2018 £000	2017 £000
Debtors: amounts falling due after more than one year	6 782,398	761,958
Current assets		
Debtors	6 33,846	33,374
Cash at bank and in hand	7 1,314	695
	35,160	34,069
Creditors: amounts falling due within one year	8 (38,083)	(24,473)
Net current (liabilities)/assets	(2,923)	9,596
Total assets less current (liabilities)/assets	779,475	771,554
Creditors: amounts falling due after more than one year	9 (888,856)	(897,190)
Net liabilities	(109,381)	(125,636)
Capital and reserves		
Called up share capital	-	-
Cash flow hedge reserve	(54,958)	(65,919)
Revenue reserves	(54,423)	(59,717)
Total shareholders' funds deficit	(109,381)	(125,636)

The financial statements on pages 8 to 23 were approved by the Board of directors and signed on its behalf by:



David Weaver
Orbit Treasury Limited
Chair

24 July 2018

Company Registration Number 06264601

Orbit Treasury Limited

Statement of Changes in Equity

For the year ended 31 March 2018

	Called Up share capital £000	Cash flow hedge reserve £000	Revenue reserve £000	Total equity £000
Balance at 1 April 2017	-	(65,919)	(59,717)	(125,636)
Total comprehensive income for the period				
Profit for the year	-	-	5,294	5,294
Change in fair value	-	10,961	-	10,961
Balance at 31 March 2018	-	(54,958)	(54,423)	(109,381)

Orbit Treasury Limited

Cash Flow Statement

For the year ended 31 March 2018

	2018 £000	2017 £000
Cash flows from operating activities		
Profit/(Loss) for the year	-	-
Adjustments for:		
Change to amortised loan and swap costs	841	810
(Increase) in trade and other debtors	(20,986)	(2,891)
(Decrease) in trade and other creditors	(90)	(229)
Net cash from operating activities	15 (20,235)	(2,310)
Cash flows from financing activities		
Cash outflow from increase in debt	15 20,854	604
Net cash flow from financing activities	20,854	604
Net increase/(decrease) in cash and cash equivalents	619	(1,706)
Cash and cash equivalents at 1 April	695	2,401
Cash and cash equivalents at 31 March	1,314	695

Orbit Treasury Limited

Notes to the Financial Statements

For the year ended 31 March 2018

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, and no other exemptions have been taken.

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 provide 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.

Turnover

Turnover results from interest and other charges to members of Orbit to cover the cost of securing and managing the loan portfolio.

Cost of sales

Costs of sales includes interest payable and similar charges on the bank and other loans on-lent to members of Orbit and administrative costs including legal costs, valuation fees, treasury staff 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.

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.

Orbit Treasury Limited

Notes to the Financial Statements

For the year ended 31 March 2018

1. Accounting policies (continued)

Derivative financial instruments

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

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.

Movement in fair value of financial instruments

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.

Orbit Treasury Limited

Notes to the Financial Statements

For the year ended 31 March 2018

1. Accounting policies (continued)

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.

2. Interest receivable and similar income

Net gain on financial liabilities measured at fair value through statement of comprehensive income (excluding derivatives used in hedging relationships)

2018	2017
£000	£000
161	-

3. Interest payable and similar charges

Net loss on financial liabilities measured at fair value through statement of comprehensive income (excluding derivatives used in hedging relationships)

2018	2017
£000	£000
-	3,181

4. Expenses and auditor's remuneration

Included in the statement of comprehensive income are the following:

Change in fair value of derivatives through income and expenditure

2018	2017
£000	£000
(5,205)	2,448

Auditor's remuneration:

Audit of these financial statements

2018	2017
£000	£000
23	16

Orbit Treasury Limited

Notes to the Financial Statements

For the year ended 31 March 2018

5. 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.

	2018	2017
	£000	£000
Aggregate emoluments paid to or received by directors who are not executive staff members including salaries, honoraria and other benefits	12	10
Aggregate emoluments paid to or received by directors who are executive staff members including salaries, honoraria and other benefits	51	52

6. Debtors

	2018	2017
	£000	£000
Deferred tax asset (see note 12)	343	415
Amounts due from group undertakings	782,055	761,543
Total due after more than one year	782,398	761,958
Amounts due from group undertakings within one year	33,846	33,349
Other debtors	-	25
Total due in less than one year	33,846	33,374

7. Cash and cash equivalents/bank overdrafts

	2018	2017
	£000	£000
Cash at bank and in hand	1,314	695

Orbit Treasury Limited

Notes to the Financial Statements

For the year ended 31 March 2018

8. Creditors: amounts falling due within one year

	2018	2017
	£000	£000
Bank loans and overdrafts	32,480	18,780
Amounts owed to group undertakings	63	71
Accruals and deferred income	5,540	5,622
Total	38,083	24,473

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

	2018	2017
	£000	£000
Bank loans and overdrafts	787,140	779,620
Less: amortised loan/swap costs	(8,259)	(8,734)
Loan fair value adjustments	9,318	9,480
Other financial liabilities (see note 11)	100,657	116,824
	888,856	897,190

Bank loans are shown gross of loan arrangement fees of £3,062,000 (2017: £3,229,000) and swap buy-out cancellation fees of £5,198,000 (2017: £5,505,000). Additional loan arrangement fees have been incurred in the year for new loans.

Orbit Treasury Limited

Notes to the Financial Statements

For the year ended 31 March 2018

10. 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.

	2018	2017
	£000	£000
Creditors falling due more than one year		
Bank loans and overdrafts	787,140	779,620
Creditors falling within less than one year		
Secured bank loans	32,480	18,780
	819,620	798,400

The debt is repayable as follows:

	2018	2017
	£000	£000
In one year or less, on demand	32,480	18,780
Repayable by instalments:		
More than one year but not more than two years	32,480	32,480
In more than two years but not more than five years	97,440	97,440
In more than five years	472,220	499,700
	602,140	629,620
Repayable other than by instalments:		
More than one year but not more than two years	5,000	-
In more than two years but not more than five years	85,000	55,000
In more than five years	95,000	95,000
	185,000	150,000
Net debt at 31 March	819,620	798,400

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 2038.

Orbit Treasury Limited

Notes to the Financial Statements

For the year ended 31 March 2018

11. Other financial liabilities

	2018	2017
	£000	£000
Amounts falling due after more than one year		
Financial liabilities held for trading (including all derivatives)	100,657	116,824

12. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2018	2017
	£000	£000
	Assets	Assets
As at 1 April 2017	(415)	-
Movement relating to fair value losses through statement of comprehensive income	-	(467)
Tax release to statement of comprehensive income	72	52
Total (assets) as at 31 March 2018	(343)	(415)

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 should be recognised in respect of the taxable transitional adjustments.

The deferred tax asset is calculated using the tax rate of 17% of the carrying value at 31 March 2017 (£2,305,600) and spread over the remaining eight year period, resulting in £49,000 of future tax release per year to the statement of comprehensive income. There was also £23,000 of prior period unrecognised deferred tax adjustment to the statement of comprehensive income.

13. Capital and reserves

Other comprehensive income

	2018			
	Own share reserve £000	Cash flow hedge reserve £000	Statement of comprehensive income £000	Total other comprehensive income £000
Other comprehensive Income	-	-	-	-
Effective portion of changes in fair value of cash flow hedges	-	10,961	-	10,961
Total other comprehensive income	-	10,961	-	10,961

Orbit Treasury Limited

Notes to the Financial Statements

For the year ended 31 March 2018

	Own share reserve £000	Cash flow hedge reserve £000	2017 Statement of comprehensive income £000	Total other comprehensive income £000
Other comprehensive Income	-	-	-	-
Effective portion of changes in fair value of cash flow hedges	-	(3,811)	-	(3,811)
Total other comprehensive income	-	(3,811)	-	(3,811)

	No.	2018 £	No.	2017 £
Issued and fully paid shares of £1 each	2	2	2	2

14. Financial instruments

(a) Carrying amount of financial instruments

The carrying amounts of the financial assets and liabilities include:	2018 £000	2017 £000
Liabilities measured at fair value through profit or loss	109,974	126,304
Liabilities measured at amortised cost	819,620	798,400
Loan commitments at amortised cost	(8,259)	(8,734)
	921,335	915,970

(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

	Carrying amount £'000	Expected cash flows £'000	2018			
			1 year or less £'000	1 to < 2 years £'000	2 to < 5 years £'000	5 years and over
Interest rate swaps:						
Assets	-	48,910	2,171	3,260	10,683	32,796
Liabilities	54,958	(133,608)	(10,361)	(10,383)	(29,001)	(83,863)
	54,958	(84,698)	(8,190)	(7,123)	(18,318)	(51,067)

Orbit Treasury Limited

Notes to the Financial Statements

For the year ended 31 March 2018

14. Financial instruments (continued)

	2017					
	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	-	44,810	1,107	1,424	6,561	35,718
Liabilities	65,919	(143,964)	(10,359)	(10,358)	(30,188)	(93,059)
	65,919	(99,154)	(9,252)	(8,934)	(23,627)	(57,341)

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

	2018					
	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		11,958	344	522	1,845	9,247
Liabilities	45,699	(34,163)	(1,817)	(1,819)	(5,464)	(25,063)
	45,699	(22,205)	(1,473)	(1,297)	(3,619)	(15,816)

	2017					
	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	-	11,265	167	236	1,072	9,790
Liabilities	50,904	(35,980)	(1,816)	(1,818)	(5,463)	(26,883)
	50,904	(24,715)	(1,649)	(1,582)	(4,391)	(17,093)

(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:

	2018		2017	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Loan	483,995	680,838	462,775	735,341
Bond	95,000	110,259	95,000	112,882
Embedded swap	240,625	88,810	240,625	100,801
	819,620	879,907	798,400	949,024

Orbit Treasury Limited

Notes to the Financial Statements

For the year ended 31 March 2018

14. Financial instruments (continued)

Orbit Treasury Limited has thirty cash flow hedges. The hedge relationships of twenty five meets each condition for hedge accounting, which are consistent with the entity's risk management objectives for undertaking hedges. The remaining five 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.

	2018	2017
	£000	£000
Barclays £80 million	23,390	27,674
Lloyds £135 million	42,219	48,267
RBS £40 million	1,507	2,672
Dexia £19 million	7,361	8,329
	74,477	86,942

The following swap contracts do not qualify for hedge accounting.

	2018	2017
	£000	£000
Dexia £15 million	7,656	9,671
Lloyds £17.5 million	14,776	15,938
Barclays £10 million	3,748	4,272
	26,180	29,881
Total fair value of derivatives	100,657	116,823

The total movement in fair value of derivatives in the year was £16,166,000 (2017: £6,259,000) of which £10,961,000 (2017: £3,811,000) were recognised in other comprehensive income representing the effective component of the swap with the ineffective component of £1,504,000 profit (2017: £96,000 profit) representing the shortfall of the fair value of hedging instruments over the change in the fair value of expected cash flows together with £3,701,000 (2017: £2,352,000) fair value movement of swap contracts that don't qualify for hedge accounting.

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.

Orbit Treasury Limited

Notes to the Financial Statements

For the year ended 31 March 2018

14. Financial instruments (continued)

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 2018, 84% of the company's debt was fixed or hedged. Orbit Capital Plc arranged its second public bond issue on 7 June 2018 raising £450 million which was used to restructure the Groups existing debt portfolio and provide long term funding to support the group strategy. The Group has £194 million of variable debt funding 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 £0.8 million 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. 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 A2 from Moody's remained in place.

15. Reconciliation of net cash flow to movement in net debt

	2018	2017
	£000	£000
Cash (inflow)/outflow from increase in debt	(21,220)	(800)
Other cash changes	366	196
Movement in net funds in the year	(20,854)	(604)
Increase/(decrease) in cash in the year	619	(1,706)
Cash movements	(20,235)	(2,310)
Other movements	(841)	(810)
Net debt at 1 April	(788,971)	(785,851)
Net debt at 31 March	(810,047)	(788,971)

Orbit Treasury Limited

Notes to the Financial Statements

For the year ended 31 March 2018

16. Analysis of changes in net debt

	2018			
	At 1 April 2017 £'000	Cash flows £'000	Other changes £'000	At 31 March 2018 £'000
Cash at bank and in hand	695	619	-	1,314
Housing loans due within one year	(18,780)	-	(13,700)	(32,480)
Housing loans due after one year	(779,620)	(21,220)	13,700	(787,140)
Loan arrangement fees	8,734	366	(841)	8,259
	(788,971)	(20,235)	(841)	(810,047)

	2017			
	At 1 April 2016 £'000	Cash flows £'000	Other changes £'000	At 31 March 2017 £'000
Cash at bank and in hand	2,401	(1,706)	-	695
Housing loans due within one year	(9,200)	-	(9,580)	(18,780)
Housing loans due after one year	(788,400)	(800)	9,580	(779,620)
Loan arrangement fees	9,348	196	(810)	8,734
	(785,851)	(2,310)	(810)	(788,971)

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.