# Heylo Housing Secured Bond Plc

Annual Report and Financial Statements

Year Ended

30 September 2023

Company Number 11222614

# Heylo Housing Secured Bond Plc

## Company Information

| | |
|---|---|
| **Directors** | G P C Mackay<br>J P Conway<br>A W Géczy |
| **Company secretary** | Squire Patton Boggs Secretarial Services Limited |
| **Registered number** | 11222614 |
| **Registered office** | 6 Wellington Place<br>Fourth Floor<br>Leeds<br>England<br>LS1 4AP |
| **Independent auditor** | KPMG LLP<br>One Snowhill<br>Snow Hill Queensway<br>Birmingham<br>B4 6GH |
| **Banker** | HSBC UK<br>69 Pall Mall<br>London<br>SW1Y 5EY |
| **Solicitor** | Pinsent Masons LLP<br>30 Crown Place<br>London<br>EC2A 4ES |

# Heylo Housing Secured Bond Plc

## Contents

## Strategic Report
## For the Year Ended 30 September 2023

### Introduction

The Directors present their Strategic Report of Heylo Housing Secured Bond Plc ("the Company" or "HHSB") for the year ended 30 September 2023.

The Company is wholly owned by Manifesto Technologies Limited, the ultimate parent company of the Heylo Housing Group Limited (Heylo Group). Heylo Group is the parent of HHSB.

The parent oversees the activities of each Heylo Group company. HHSB is a property investment company that acquires residential properties that it leases to Heylo Housing Registered Provider Limited (“HHRP”), a fellow subsidiary, which in turn on leases those properties on a part buy – part rent basis to the Heylo Group’s customers. HHSB also leases directly to third party tenants under Your Home product.

### Business review

HHSB was established in 2018 and was awarded Investment Partner status by Homes England to participate in the "Shared Ownership and Affordable Homes Programme 2016 to 2021" (“SOAHP”). As at 30 September 2023, the Company had acquired 121 (2022 - 102) new build properties from housebuilders, and 5 (2022 - 6) with its Your Home product and spread across 47 (2022 - 40) sites, with associated grant received of £2.74m (2022 - £2.62 million). In the current year, the Company has acquired 22 properties and disposed 4 properties following tenants fully staircasing.

HHRP is a registered provider of social housing with the Regulator of Social Housing (registration number 4668).

### Key performance indicators

| | **2023** | **2022** |
|---|---|---|
| Collection rate (%) | **98** | 99 |

Since September 2021, collection rates are at 98%, although the number of people moving into and out of arrears or onto an off-repayment plan has increased along with the intensity of arrears management work. Based on its traditional, tried and tested approach to arrears collection, and given Government imposed limitations on legal action through possession and eviction, the Company has continued to mitigate the financial impacts of the costs of living upon some households through generous repayment plans and proactive dialogue with tenants who are in, or likely to face, distress; a form of forbearance that has so far delivered good performance outcomes for the business too.

**Principal risks and uncertainties**

The management of the business and the nature of the Company’s strategy are subject to a number of risks. The directors have set out below the principal risks facing the business.

The directors are of the opinion that the risk management processes adopted, which involve review, monitoring, and where possible, the mitigation of the risks identified below, are appropriate to the business.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The rental income from the property portfolio is due from many individual occupiers through HHRP. The Company reviews the creditworthiness of potential tenants prior to entering into contractual arrangements. Every occupier is assessed for affordability in accordance with the guidance from Homes England before entering into a lease.

Provision is made in full where recovery of financial assets is, in the opinion of the directors, significantly uncertain.

(b) Interest rate cash flow risk

Interest rate cash flow risk is the risk that the future cash flows of the Company's financial instruments will fluctuate because of changes in market interest rates. The Company has no direct exposure to interest rates as all amounts owed to external bondholders are linked to inflation rather than interest rates. The Company's rental income streams are linked to inflation and so should move proportionate to the payments due under the Company's financial instruments. Rental income is directly linked to RPI therefore the extent to which it moves is impacted by a rise or fall in RPI. The Company further manages this risk by monitoring cash flow projections on a regular basis to ensure that funds or appropriate facilities are available to be drawn upon as necessary.

(c) Capital risk management

The Company manages share capital, consisting of ordinary shares as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern. The capital structure will continue to be determined by ongoing funding requirements.

(d) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company has issued bonds and pays both interest and principal payments to its bondholders. The Company has granted security over its property portfolio in support of these bonds. The Company’s borrowings are repayable on the relevant maturity of the bonds and accordingly the Company manages any refinance risk at maturity. A significant reduction in the value of the property portfolio or in the rental collection could impact on the Company’s financial covenants. The Company aims to mitigate liquidity risk by operating with headroom to these covenants, by adhering to strict affordability criteria and through regular monitoring of its cash flow forecasts.

(e) House price inflation risk

Inflation may be higher or lower than expected. Investment cash flows are positively correlated to inflation and therefore increases/decreases to inflation (mainly House Price Index ("HPI") in the Company's case) compared to current projections would impact positively or negatively on the Company's future projected cash inflows. Furthermore, assumptions in relation to future HPI are central to the annual portfolio valuation and consequently significant increases or decreases in the rate of growth of HPI may materially impact the fair value of investment properties within the Company's portfolio. The Company performs sensitivities indicating the projected impact on the Company's Net Asset value ("NAV") of a number of alternative inflation scenarios. The Company uses a long-term view of inflation within its forecasts, benchmarked to independent analysis from valuation professionals.

**Principal risks and uncertainties (continued)**

(f) Contract risk

The performance of the Company's property investment portfolio is dependent upon each property's tenant meeting its contractual obligations. The Company is exposed to the risk that a number of its counterparties do not comply with the terms of the contract/leases and related obligations. The Company mitigates this default risk by virtue of having a highly diversified portfolio in excess of 108 separately and independently tenanted properties - no single property or group of properties is material to the overall profitability of the Company or to its liquidity forecasts.

(g) External Economic Environment

Following the macroeconomic challenges of cost of living, rising inflation and war in Ukraine, the external economic environment became more challenging for the Company and its customers. The Company and its customers are exposed to financial risk from economic volatility experienced such as mortgage costs increasing together with higher inflation, higher energy bills, increased prices for food and energy, impacts to cost of living and so on. The Company aims to mitigate these financial risks by operating with headroom to its covenants, by adhering to strict affordability criteria and through regular monitoring of its cash flow forecasts. The Company has continued to mitigate the financial risks of impairment of balances owing from its customers through generous repayment plans and proactive dialogue with tenants who are in, or likely to face, distress; a form of forbearance that has so far delivered good performance outcomes for the business too.

(h) Climate change

We have identified the potential physical and transitional risks and opportunities presented by rising temperatures and climate change for our business and have also considered the scale of this risk to the Company. Climate change is not a principal risk for the Company for the year ended 30 September 2023, but we have identified the climate transition as an emerging risk due to its intensifying importance to all stakeholders. The Company believes that its liquidity position, its business model, diversified portfolio and its focus on risk mitigation combined with operational cash and funding reserves, offer a significant degree of protection to the business.

(i) Regulatory Compliance

Non-compliance results in measures of intervention, loss of status and ultimately prohibits the Company to reinvest proceeds into acquiring the sites the business has in its pipeline to continues its journey. The Board and governance structure is in place and continuously being reviewed and improved so it is effective to managing this risk. There is ongoing compliance monitoring and independent advice and assurance are provided by external consultants and workforce of ResiManagement Limited (who provides management services to the Company) in areas such as risk management and governance.

(j) Asset Supply

It is recognised that the Company operates in a market where it acquires properties which are impacted by rising costs following labour and material shortages which as such affects both purchase prices and the customer selling prices. Also, the inability to meet targets set out in its business plan to acquire affordable housing units to help the company reinvest and continue to operate as a going concern can result in reputational damage and knock on impact of generating less income than expected. As such to mitigate this risk, management monitor activity through Investment Committee and its cash flow forecasts. Weekly meetings with housebuilders and Homes England allow the Company to be agile in its approach to reinvestment. To this end, the Company as well as ResiManagement Limited mitigates this risk through review of housebuilder contract assumptions with its solicitor and focuses on increasing strategic partnerships with new and existing housebuilders, Heylo Housing Registered Provider Limited (HHRP), councils and Homes England to meet the challenging external environment.

**Principal risks and uncertainties (continued)**

The Company believes that its liquidity position, its business model, diversified portfolio and its focus on risk mitigation combined with operational cash and funding reserves, offer a significant degree of protection to the business.

**S172 statement: Directors duty to promote the success of the Company**

Engagement with key stakeholders

*Suppliers*
The Company depends on the capability and performance of their suppliers, contractors, and other partners such as small businesses to help deliver the services needed to facilitate daily operations and to provide a professional service to our customers. The Company is focused on working with reputable suppliers that adopt the highest governances and employment practices in their organisations. The Company recognises the importance of complying with contractual terms and conditions in relation to payment terms and paying suppliers on time.

*Customers*
Communications

Heylo communicates with customers in the following ways:
- Direct staff contact via email, direct dial and a customer call centre to manage routine enquiries ranging from sales through to post sale lease and property enquiries.
- Welcome and induction materials for new customers.
- Website FAQs and info email addresses to route more complex enquiries to relevantly skilled team members.
- Customer feedback and satisfaction via an annual survey of all residents, Trust Pilot and a complaints and compensation policy overseen by the Regulator of Social Housing Ombudsman Service.
- Attendance at and support of estate based resident groups.
- Interventions to help customers manage or improve services from third party suppliers such as house builders and estate managing agents.

**S172 statement: Directors duty to promote the success of the Company (continued)**

Heylo’s customer communication strategy reflects its relatively light touch and remote relationship with customers who in the main:

- Are working households (and less likely to be benefit dependent or vulnerable) who are seeking a performance, value for money and hence transactional rather than protective relationship with their landlord.
- Have been able to exercise a reasonable level of choice in the housing tenure and property offered to them.
- Have been able to exercise a reasonable level of choice in which housing provider has offered them shared ownership accommodation.
- Exercise a reasonable level of choice over who they buy key services from, given the HHRP and Heylo Housing Group model does not seek to impose a direct estate and service charge management service, as is the case with traditional housing association providers. Where possible, HHRP and Heylo Housing Group Limited (Heylo) will support customers to exercise the Right to Manage or Right to Appoint a Manager, as permitted under Landlord and Tenant legislation and especially where shared owners are receiving poor service by agents and/or Freeholders which cannot or is unlikely to be rectified via First Tier Tribunal or complaints management.

Heylo aims to offer a fair, accountable and standardised form of service to all customers contracts via its written and published policies and procedures and through the use of a standard form lease which has been drafted to comply with regulatory and statutory requirements including the Landlord and Tenant Act 1985 and where applicable, the Homes England (HE)'s Capital Funding Guide. The sales process, leases and welcome letters provided by Heylo ensure customers are made aware at the outset of their relationship with the business of their rights and responsibilities and of the services and charges they can expect to pay. If and where any services are directly delivered by HHRP, shared owners will be provided with details on how to make contact to request those services. Heylo continues to be vigilant regarding the performance of third party managers in the delivery of health and safety and fire risks and has intervened to mitigate or remove the impact of recent cladding and other fire risk remediation works.

*The Environment*
The Company invests predominantly in new build properties, which have a higher energy efficiency than the general stock of housing in the UK. The Company continues to focus on the sustainability of its portfolio.

*Shareholders*
The Company has only one Shareholder.

*Employees*
The Company has no employees.

**Future developments**

The Company continues to achieve strong performance on income collection over the past years despite the economic turmoil that has affected the market place in which it operates. There has been many opportunities for the business to continue this journey. To ensure that it prioritises appropriately, there are annual strategic reviews which look to in the next 5 years. This means that the business can work to manage its existing portfolio and future pipeline that is in place to ensure the company reinvests into high yielding residential properties provided on a part buy – part rent basis. The plans are also reviewed to reflect the changes in performance, relationships, and the macroeconomic environment. Further, it is recognised that the Company operates in a market where it acquires properties which are impacted by rising costs following labour and material shortages which as such affects both purchase prices and the customer selling prices. To this end, the Company as well as ResiManagement Limited, continue to strive to improve existing relationships with housebuilders and create partnerships with new housebuilders and enter where appropriate long term agreements.

This report was approved by the board on 1/26/2024 and signed on its behalf.

DocuSigned by:
Jonathan Conway
733E6FACE22A4FC...

**J P Conway**
Director

# Directors' Report
## For the Year Ended 30 September 2023

The directors present their report together with the audited financial statements for the year ended 30 September 2023. The address of the registered office is 6 Wellington Place, Fourth Floor, Leeds, England, LS1 4AP and the company's registered number is 11222614.

### Results and dividends

The loss for the year, after taxation, amounted to £754k (2022 – loss of £899k).

The directors do not recommend the payment of a dividend (2022 - No dividend).

### Overview and principal activities

The Company is a property investment company that acquires residential properties that it leases to Heylo Housing Provider Limited (HHRP), a fellow subsidiary, which in turn on leases those properties on a part buy – part rent basis to the Heylo Group's customers. HHSB also leases directly to third party tenants under Your Home product.

Details of the Company's objectives and policies for financial risk management and its exposure to credit risk, interest rate cash flow risk and liquidity risk are provided in the Principal risks and uncertainties section of the Strategic report and in note 17.

### Directors

The directors who served during the year were:

G P C Mackay
J P Conway
A W Géczy

### Future developments

The business strategy of the Company is to invest in properties provided as shared ownership housing to generate future income through rent and future sales.

### Corporate governance statement

The Board of HHSB appreciates in order for Heylo Group to achieve its Purpose, Mission, and Vision that good corporate governance is essential. A strong corporate governance framework allows HHSB to operate in an effective and entrepreneurial way for the benefit of its customers, investors and other stakeholders. Details of the Company's risk management and assurance are provided in the Internal controls and risk management section of the Director's Report.

**Internal controls and risk management environment**

The directors are satisfied that the Company as well as ResiManagement Limited (who provides management services to the Company) operate a robust internal control and risk management environment. In particular, there is an extensive set of policies and procedures supporting how the day to day business operates and is managed. These policies and procedures are reviewed regularly and updated as appropriate to reflect changes in the market as well as enhancements on how the Company delivers to its customers.

Within the reporting period, the directors carried out a robust assessment of the company's emerging and principal risks including the Company's risk management and internal control systems assuring itself of the controls in place to manage and mitigate the same. The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives. It can only provide reasonable, and not absolute, assurance against material misstatement or loss.

The directors has reviewed the effectiveness of the system of internal control, including risk management, for the year to 30 September 2023 and up to the date of signing these financial statements. It has not identified any weaknesses sufficient to cause material misstatement or loss which require disclosure in the financial statements.

**Qualifying third party indemnity provisions**

The group parent has put in place qualifying third party indemnity provisions for all of the directors of Heylo Housing Group Limited, and each of its group companies, which remain in force at the date of this report.

**Going concern**

The financial statements are prepared on a going concern basis which the directors believe to be appropriate for the following reasons. As at the reporting date, the Company has net current assets of £0.8m (2022 - £1.9m) and net assets of £2.0m (2022 - £2.8m). The Company has cash at bank and in hand of £2.4m (2022 - £1.6m).

The Directors have prepared cash flow information in order to assess going concern over a period of at least 12 months from the date of the approval of the financial statements, the going concern assessment period. The directors have also considered whether the Company will comply with its financial loan covenants during this period.

The Asset Cover Ratio is a sensitive ratio and will continue to be tested on a six-monthly basis during the going concern period. The asset cover is the ratio of the value of properties to the notional amount of all notes less the charged cash. The directors acknowledge that the Company's property valuation is dependent upon various assumptions made by the external valuer when a property valuation is performed for covenant compliance purposes.

**Going concern (continued)**

In light of the ongoing global unrest and economic volatility, such as mortgage costs increasing together with higher inflation, higher energy bills, impacts to cost of living and so on the Company has considered the operational performance of its property portfolio as well as its cash flow position, including stress testing for adverse severe but plausible impacts. The Company's operational performance of its rental portfolio continues to be strong against the expected revenue. Collection rates continue to be at 98%, although the number of people moving into and out of arrears or onto an off-repayment plan has increased along with the intensity of arrears management work. Based on its traditional, tried and tested approach to arrears collection, and given Government imposed limitations on legal action through possession and eviction, the Company has continued to mitigate the financial impacts upon some households through repayment plans and proactive dialogue with tenants who are in, or likely to face, distress; a form of forbearance that has so far delivered good performance outcomes for the business too.

For the going concern assessment period, base case cash flow and valuation forecasts have been produced for the Company, which reflects the Directors' best estimate of the future prospects of the Company and its operations, and the Directors do not expect a breach of debt covenants in the going concern period.

The Directors have also performed a detailed sensitivity analysis to consider the Company's ability to withstand severe but plausible downsides affecting the Company's property valuation, such as adverse movements in house price inflation, retail price inflation, staircasing, gross rent receivable and discount rate.

Without mitigations a possible breach of the asset cover ratio could arise in a severe downside scenario. However, the Directors' are confident that effective monitoring and oversight arrangements exist in order to identify a potential breach in advance, with realistic and achievable mitigations available. Potential mitigating actions on the severe but plausible downside scenarios have been identified such as: reducing operating expenditure, in particular management fees to other group companies; accessing cash from other group companies; using surplus cash for reinvestment in high yielding properties; and obtaining covenant waivers as needed, which have historically been granted when requested.

Individual companies within the Heylo Housing Group have indicated their intention to continue to make available such funds as are needed by the Company as to mitigate the risk of an individual company within the Group breaching financial covenants during the going concern assessment period. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Therefore, the Directors consider it appropriate to prepare the Company's financial statements on a going concern basis.

**Disclosure of information to auditor**

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

**Auditor**

The auditor, KPMG LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 1/26/2024 and signed on its behalf.

DocuSigned by:

Jonathan Conway

733E6FACE22A4FC...

**J P Conway**
Director

## Directors' Responsibilities Statement
## For the Year Ended 30 September 2023

The directors are responsible for preparing the Annual 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-adopted international accounting standards and applicable law.

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 its profit or loss for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with UK-adopted international accounting standards;
- 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 its 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.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, and Corporate Governance Statement that complies with that law and those regulations.

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.

**Responsibility statement of the directors in respect of the annual financial report**

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the strategic report includes a fair review of the development and performance of the business and the position of the issuer, together with a description of the principal risks and uncertainties that they face.

DocuSigned by:

Jonathan Conway

733E6FACE22A4FC...

**J P Conway**
Director
Date: 1/26/2024

# Heylo Housing Secured Bond Plc

## Independent Auditor's Report to the Members of Heylo Housing Secured Bond Plc

---

### 1 Our opinion is unmodified

We have audited the financial statements of Heylo Housing Secured Bond Plc ("the Company") for the year ended 30 September 2023 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, and the related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 September 2023 and of its loss for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; 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 believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to those charged with governance.

We were first appointed as auditor by the directors on 17 February 2022. The period of total uninterrupted engagement is for the 2 financial years ended 30 September 2023. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

### 2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters (unchanged from 2022), in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

# Heylo Housing Secured Bond Plc

## Independent Auditor's Report to the Members of Heylo Housing Secured Bond Plc (continued)

| | The risk | Our response |
|---|---|---|
| **Valuation of investment properties**<br><br>**Risk vs 2022:**<br><br>Investment property £22,651k (2022: £20,263k)<br><br>Refer to page 1 (Strategic Report), page 28 (accounting policy), page 30 (judgements in applying accounting policies and key sources of estimation uncertainty and page 34 (financial disclosures). | **Subjective Valuation:**<br>Significant audit risk due to error and fraud.<br><br>An inappropriate amount is estimated or recorded for the fair value of investment property measured under the fair value model.<br><br>The valuation of investment property involves the application of an appropriate methodology, being Existing Use Value – Social Housing, and a range of assumptions. The specific assumptions considered to have a significant risk are discount rates, staircasing rate and the housing price index. The basis of these assumptions is inherently subjective and small changes in the assumptions and estimates used to value the investment property portfolio could have a significant effect on the financial position of the Company.<br><br>We determined the fair value of investment properties to have a high degree of estimation uncertainty and identified that there is an incentive to manipulate the valuation as Asset Cover is a key ratio for loan covenant purposes. | **Our procedures included:**<br><br>We performed the detailed tests below rather than seeking to rely on any of the company's controls because our knowledge of the design of these controls indicated that we would be unlikely to obtain the required evidence to support reliance on controls<br><br>**Assessing valuer's credentials:**<br>We considered the competence, capability, objectivity and independence of the valuer by meeting with the valuer, understanding the scope through review of the engagement letter and reviewing the final valuation report.<br><br>**Benchmarking assumption:**<br>We challenged, with the support of KPMG valuation specialists, the methods of the valuation and the assumptions applied in the fair value of the year end investment property valuation, being the discount rate, inflation rates, staircasing rate and rent collection rate against external industry data and historic and forecast Company performance.<br><br>**Assessing Transparency:**<br>We considered the adequacy and accuracy of the Company's disclosures in respect of the sensitivity of the valuation to these assumptions by agreeing back to the valuation report and completing our disclosure checklist.<br><br>**Our result:**<br>We found the valuation of investment properties, and the movements in fair value to be acceptable. (2022 result: acceptable) |

| **Going concern** | **Breach of the financial covenant:** | **Our procedures included:** |
|---|---|---|
| **Risk vs 2022:**<br><br>Going concern was identified as a key audit matter in the prior year. However, because of the potential breach of loan covenants, due to downside movement in the valuation of investment properties and deterioration of economic conditions, we have now assessed going concern to be one of the most significant risks in our current year audit<br><br>Refer to page 8 (Directors' Report), page 24 (accounting policy) and page 34 (financial disclosures). | The Company's Asset Cover Ratio covenant is based on the valuation of investment properties divided by the outstanding bond liability (net of charged cash).<br><br>The covenant is therefore highly sensitive to the valuation of investment properties, which contains a number of assumptions (as noted in the Valuation of Investment Properties KAM above).<br><br>There is a risk that management's assessment of the entity's ability to continue as a going concern does not appropriately consider the impact of current economic conditions, including plausible but severe downside scenarios.<br><br>There is a risk that disclosures in the financial statements and the annual report are not adequate with regard to the effect of economic risks on the entity's financial position, performance, business model and strategy. | **Funding assessment:**<br>We read the loan documentation and enquired with management to understand the nature of the Asset Cover Ratio covenant and its components (i.e., fair value of investment properties divided by the current notional indexed amount less charged cash).<br><br>**Sensitivity analysis:**<br>We considered the risk factors, notably sensitive valuation assumptions, which could plausibly affect covenant compliance in the going concern period. We evaluated the director's assessment of severe but plausible sensitivities which could, either individually or collectively, adversely impact the Asset Cover Ratio covenant.<br><br>**Benchmarking assumption:**<br>We evaluated whether there is adequate support for assumptions and methodologies used in the Asset Cover Ratio covenant (notably the valuation of investment property), by considering whether they are realistic, achievable, and consistent with the external and internal environment and other matters identified in the audit.<br><br>**Evaluating directors' intent:**<br>We evaluated the achievability of the actions the directors consider they would take to improve the position should the risks materialise. This included the ability and intention of the Parent Company to extend adequate support, in terms of financial assistance, in the event of a covenant breach to mitigate the risk of a default. |

| | | |
|---|---|---|
| | | **Assessing transparency:**<br>We considered whether the going concern disclosure in Note 2.2 to the financial statements gives an adequate and accurate description of the directors' assessment of going concern including the identified risks, dependencies, and related sensitivities by agreeing to the valuation report and completing our disclosure checklist. We obtained a letter of support from the Parent Company.<br><br>**Our results:**<br>We concluded that there were no events or conditions which would cast significant doubt on the Company's ability to continue as a going concern (2022 result: acceptable). Refer to Section 4. |

**3 Our application of materiality and an overview of the scope of our audit**

Materiality for Heylo Housing Secured Bond Plc was set at £240,000 (2022: £210,000), determined with reference to a benchmark of total assets, of which it represents 1.00% (2022: 0.98%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 65% (2022: 65%) of materiality for the financial statements as a whole, which equates to £156,000 (2022: £136,000). We applied this percentage in our determination of performance materiality based on control deficiencies identified during the risk assessment stage for the current year and the level of audit differences (adjusted and unadjusted) during the previous audit.

We agreed to report to those charged with governance any corrected or uncorrected identified misstatements exceeding £12,000 (2022: £10,500), in addition to other identified misstatements that warranted reporting on qualitative grounds.

The scope of the audit work performed was fully substantive as we did not rely on the Company's internal control over financial reporting.

Our audit of the Company was undertaken to the materiality level specified above and was performed by a single audit team.

**4 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").

An explanation of how we evaluated management's assessment of going concern is set out in the related key audit matter in section 2 of this report.

### 4 Going concern (continued)

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; and
- we found the going concern disclosure in note 2.2 to be acceptable.

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.

### 5 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 directors, and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, and the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board 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.

As required by auditing standards and taking into account possible pressures to meet loan covenants and performance targets, 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 and the risk of bias in accounting estimates such as valuation of investment property. On this audit we do not believe there is a fraud risk related to revenue recognition because the Company's revenue streams are routine with little judgement and have limited scope for manual intervention. Due to the predictability of the revenue streams, we consider there to be limited opportunity for fraudulent revenue recognition.

We have identified a fraud risk related to the valuation of investment properties. We have explained the risk assessment and procedures performed in the above Key Audit Matter section.

In determining the audit procedures, we took into account the results of our evaluation of some of the Company-wide fraud risk management controls.

We also performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those containing a revenue impact posted to unusual accounts, those containing a fair value on investment properties impact posted to unusual accounts, those posted after receiving the draft valuation results that affected covenant compliance and those containing a cash and borrowings impact posted to unusual accounts.
- Assessing whether the judgements made in significant accounting estimates are indicative of potential bias including assessing the assumptions used in the valuation of investment properties.

**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 Board and other management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence and discussed with the Board and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including Companies Act 2006), corporation tax legislation, related companies legislation and distributable profits legislation, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the need to include significant provisions. We identified the following areas as those most likely to have such an effect: data protection, health and safety legislation, fraud, corruption and bribery, money laundering, and environmental protection. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

**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.

**6 We have nothing to report on the other information in the Annual Report**

The directors are responsible for the other information presented in the Annual Report together with the financial statements. 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.

***Strategic report and directors' report***

Based solely on our work on the other information:

- 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.

**7 We have nothing to report on the other 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 by the Company, 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.

**8 Respective responsibilities**

***Directors' responsibilities***
As explained more fully in their statement set out on page 11, the directors are responsible for: the preparation of the financial statements including 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.

### 9 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

Date: 30 January 2024

# Heylo Housing Secured Bond Plc

## Statement of Comprehensive Income
## For the Year Ended 30 September 2023

| | Note | 2023 £000 | 2022 £000 |
|---|---|---|---|
| Revenue | 5 | **839** | 1,114 |
| Operating costs | 6 | **(423)** | (682) |
| **Gross profit** | | **416** | 432 |
| Administrative expenses | | **(262)** | (282) |
| Gain on disposal of investment properties | 7 | **287** | 23 |
| Gains from changes in fair value of investment properties (net of grant) | | **1,149** | 863 |
| **Operating profit** | | **1,590** | 1,036 |
| Interest receivable and similar income | | **1** | - |
| Interest payable and similar expenses | 10 | **(2,748)** | (1,787) |
| **Loss before tax** | | **(1,157)** | (751) |
| Taxation | 11 | **403** | (148) |
| **Loss and total comprehensive expense** | | **(754)** | (899) |

All profit and total comprehensive income are attributable to the owners of the Company, and relate to continuing operations.

The notes on pages 24 to 43 form part of these financial statements.

# Heylo Housing Secured Bond Plc
**Registered number:11222614**

## Statement of Financial Position
**As at 30 September 2023**

| | Note | 2023 £000 | 2023 £000 | 2022 £000 | 2022 £000 |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Investment property | 12 | | **22,651** | | 20,263 |
| **Current assets** | | | | | |
| Inventory | 13 | **182** | | 66 | |
| Trade and other receivables | 14 | **314** | | 416 | |
| Cash at bank and in hand | | **2,406** | | 1,596 | |
| | | **2,902** | | 2,078 | |
| **Current liabilities** | | | | | |
| Trade and other payables | 15 | **(2,140)** | | (203) | |
| **Net current assets** | | | **762** | | 1,875 |
| **Total assets less current liabilities** | | | **23,413** | | 22,138 |
| **Non-current liabilities** | | | | | |
| Loans and other payables: amounts falling due after more than one year | 16 | | **(19,641)** | | (17,209) |
| Deferred tax liability | 18 | | **(1,736)** | | (2,139) |
| **Net assets** | | | **2,036** | | 2,790 |
| **Issued capital and reserves attributable to owners of the Company** | | | | | |
| Share capital | 19 | | **50** | | 50 |
| Non-distributable reserves | 20 | | **5,787** | | 4,157 |
| Retained earnings | 20 | | **(3,801)** | | (1,417) |
| **Total equity** | | | **2,036** | | 2,790 |

The financial statements were approved and authorised for issue by the board and were signed on its behalf on

DocuSigned by:

Jonathan Conway

733E6FACE22A4FC...

1/26/2024

**J P Conway**
Director

The notes on pages 24 to 43 form part of these financial statements.

# Heylo Housing Secured Bond Plc

## Statement of Changes in Equity
## For the Year Ended 30 September 2023

| | Called up share capital | Non-distributable reserves | Retained earnings | Total equity |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| At 1 October 2022 | **50** | **4,157** | **(1,417)** | **2,790** |
| **Comprehensive expense for the year** | | | | |
| Loss for the year | **-** | **-** | **(754)** | **(754)** |
| **Total comprehensive expense for the year** | **-** | **-** | **(754)** | **(754)** |
| **Contributions by and distributions to owners** | | | | |
| Transfer between reserves | **-** | **1,630** | **(1,630)** | **-** |
| **Total transactions with owners** | **-** | **1,630** | **(1,630)** | **-** |
| **At 30 September 2023** | **50** | **5,787** | **(3,801)** | **2,036** |

## Statement of Changes in Equity
## For the Year Ended 30 September 2022

| | Called up share capital | Non-distributable reserves | Retained earnings | Total equity |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| At 1 October 2021 | **50** | **3,350** | **289** | **3,689** |
| **Comprehensive expense for the year** | | | | |
| Loss for the year | **-** | **-** | **(899)** | **(899)** |
| **Total comprehensive expense for the year** | **-** | **-** | **(899)** | **(899)** |
| **Contributions by and distributions to owners** | | | | |
| Transfer between reserves | **-** | **807** | **(807)** | **-** |
| **Total transactions with owners** | **-** | **807** | **(807)** | **-** |
| **At 30 September 2022** | **50** | **4,157** | **(1,417)** | **2,790** |

The notes on pages 24 to 43 form part of these financial statements.

# Heylo Housing Secured Bond Plc

## Statement of Cash Flows
## For the Year Ended 30 September 2023

| | 2023<br>£000 | 2022<br>£000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| (Loss) for the financial period | **(754)** | (899) |
| **Adjustments for:** | | |
| Loss on sale of investment property disposals from interim & final staircasings | **(287)** | (23) |
| Gain/(loss) on sale of investment property disposals from first tranche sales | **5** | (52) |
| Deferred government grant | **(125)** | (40) |
| Finance expense | **2,748** | 1,786 |
| Taxation | **(403)** | 149 |
| (Increase)/decrease in inventory | **(116)** | 79 |
| Decrease in trade and other receivables | **102** | 133 |
| Increase in trade and other payables | **1,938** | 78 |
| Gain from changes in fair value of investment properties | **(1,102)** | (956) |
| **Net cash generated from operating activities** | **2,006** | 255 |
| **Cash flows from investing activities** | | |
| Acquisition of investment property | **(2,126)** | (1,111) |
| Proceeds from sale of investment property | **1,121** | 1,509 |
| Short term financing | **-** | 300 |
| Proceeds from the receipt of government grant | **125** | - |
| **Net cash from investing activities** | **(880)** | 698 |
| **Cash flows from financing activities** | | |
| Interest paid | **(316)** | (281) |
| **Net cash used in financing activities** | **(316)** | (281) |
| **Net increase in cash and cash equivalents** | **810** | 672 |
| Cash and cash equivalents at beginning of year | **1,596** | 924 |
| **Cash and cash equivalents at the end of year** | **2,406** | 1,596 |
| **Cash and cash equivalents at the end of year comprise:** | | |
| Cash and cash equivalents | **2,406** | 1,596 |

The notes on pages 24 to 43 form part of these financial statements.

## 1. General information

Heylo Housing Secured Bond Plc ("the Company") is a public company, limited by shares, incorporated in England and Wales under the Companies Act 2006. The address of the registered office is 6 Wellington Place, Fourth Floor, Leeds, England, LS1 4AP and the company's registered number is 11222614. The nature of the Company's operations and its principal activities are outlined in the Directors' Report.

## 2. Accounting policies

### 2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with UK-adopted international accounting standards.

The presentation currency is pounds sterling. All amounts are rounded to the nearest thousand (£'000), except when otherwise indicated.

The preparation of financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires Company management to exercise judgement in applying the Company's accounting policies. See note 3 for further details.

In preparing the financial statements, the Directors have considered the impact of the physical and transition risks of climate change and identified this as a principal risk as set out on pages 2 and 3, but have concluded that it does not have a material impact on the carrying values of investments, and the recognition and measurement of the assets and liabilities in these financial statements as at 30 September 2023.

The following principal accounting policies have been applied:

### 2.2 Going concern

The financial statements are prepared on a going concern basis which the directors believe to be appropriate for the following reasons. As at the reporting date, the Company has net current assets of £0.8m (2022 - £1.9m) and net assets of £2.0m (2022 - £2.8m). The Company has cash at bank and in hand of £2.4m (2022 - £1.6m).

The Directors have prepared cash flow information in order to assess going concern over a period of at least 12 months from the date of the approval of the financial statements, the going concern assessment period. The directors have also considered whether the Company will comply with its financial loan covenants during this period.

The Asset Cover Ratio is a sensitive ratio and will continue to be tested on a six-monthly basis during the going concern period. The asset cover is the ratio of the value of properties to the notional amount of all notes less the charged cash. The directors acknowledge that the Company's property valuation is dependent upon various assumptions made by the external valuer when a property valuation is performed for covenant compliance purposes.

## 2. Accounting policies (continued)

### 2.2 Going concern (continued)

In light of the ongoing global unrest and economic volatility, such as mortgage costs increasing together with higher inflation, higher energy bills, impacts to cost of living and so on the Company has considered the operational performance of its property portfolio as well as its cash flow position, including stress testing for adverse severe but plausible impacts. The Company's operational performance of its rental portfolio continues to be strong against the expected revenue. Collection rates continue to be at 98%, although the number of people moving into and out of arrears or onto an off-repayment plan has increased along with the intensity of arrears management work. Based on its traditional, tried and tested approach to arrears collection, and given Government imposed limitations on legal action through possession and eviction, the Company has continued to mitigate the financial impacts upon some households through repayment plans and proactive dialogue with tenants who are in, or likely to face, distress; a form of forbearance that has so far delivered good performance outcomes for the business too.

For the going concern assessment period, base case cash flow and valuation forecasts have been produced for the Company, which reflects the Directors' best estimate of the future prospects of the Company and its operations, and the Directors do not expect a breach of debt covenants in the going concern period.

The Directors have also performed a detailed sensitivity analysis to consider the Company's ability to withstand severe but plausible downsides affecting the Company's property valuation, such as adverse movements in house price inflation, retail price inflation, staircasing, gross rent receivable and discount rate.

Without mitigations a possible breach of the asset cover ratio could arise in a severe downside scenario. However, the Directors' are confident that effective monitoring and oversight arrangements exist in order to identify a potential breach in advance, with realistic and achievable mitigations available. Potential mitigating actions on the severe but plausible downside scenarios have been identified such as: reducing operating expenditure, in particular management fees to other group companies; accessing cash from other group companies; using surplus cash for reinvestment in high yielding properties; and obtaining covenant waivers as needed, which have historically been granted when requested.

Individual companies within the Heylo Housing Group have indicated their intention to continue to make available such funds as are needed by the Company as to mitigate the risk of an individual company within the Group breaching financial covenants during the going concern assessment period. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Therefore, the Directors consider it appropriate to prepare the Company's financial statements on a going concern basis.

### 2.3 Impact of new international reporting standards, amendments and interpretations

Several amendments and interpretations apply for the first time in the current year, but do not have an impact on the financial statements of the Company. There are also a number of standards and other pronouncements in issue that are not yet effective and have not been adopted, none of which are expected to have a material impact on the financial statements.

## 2. Accounting policies (continued)

### 2.4 Revenue

Revenue comprises rental income and first tranche sales of shared ownership properties.

Revenue is shown net of value added tax.

Rentals are recognised on a straight line basis over the lease term. Future changes in the level of lease receivable caused by inflation will be recognised as an adjustment to rental income.

Property sales consist of one performance obligation – the transfer of property to the shared owner. The transaction price is fixed and specific in the sales contract. Revenue on first tranche sales is recognised at a point in time, when control of the property passes. Control is considered to pass on legal completion of the property sale. The structure of the Heylo Housing Registered Provider (HHRP) leases are such that HHRP is only required to pay onto the Head Landlord (i.e. the Company) the rental income (and other income) it receives under the underlying shared ownership leases.

### 2.5 Operating costs

Operating costs comprise costs relating to the first tranche sale portion of newly acquired shared ownership properties. These costs include a share of expenditure incurred for acquisition of those properties in proportion to the first tranche percentage sold, direct overheads and other incidental costs incurred during the course of the sale of those properties.

Operating costs also include direct property expenses related to asset management and leasing activities.

### 2.6 Interest income

Interest income is recognised in the Statement of Comprehensive Income using the effective interest method.

### 2.7 Finance costs

Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated financial instrument.

## 2. Accounting policies (continued)

### 2.8 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the United Kingdom where the Company operates and generates income.

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes at the reporting date.

Deferred tax balances are recognised in respect of all temporary differences that have originated but not reversed by the the Statement of Financial Position date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

## 2. Accounting policies (continued)

### 2.9 Investment property

Investment properties are initially recognised at cost, including directly attributable transaction costs when title passes. Subsequently, Investment property is carried at fair value determined annually by external valuers and derived from the current market rents and investment property yields for comparable real estate, adjusted if necessary for any difference in the nature, location or condition of the specific asset. The fair value is determined to be at Level 3 of the fair value hierarchy outlined in IFRS 13 Fair Value Measurement. There have been no transfers between levels of the fair value hierarchy. No depreciation is provided. Changes in fair value are recognised in the Statement of Comprehensive Income.

The Company has assessed that the highest and best use of its properties does not differ from their current use.

Derecognition of the relevant portion of the property takes place through subsequent staircasing. The difference between the net disposal proceeds and the carrying value of the related proportion of the asset disposed is recognised in profit or loss in the period of recognition.

All of the investment property relates to the Company’s share of the properties which they control and retain legal title.

**Shared ownership**

Shared ownership is where initially a long operating lease on a property is granted through the sale of an initial portion to the occupier, in return for an initial payment (the first Tranche). Initial sales are included within revenue and the related proportion of the cost of the asset recognised as cost of sales.

Shared owners have the right to acquire further tranches (staircasing) and any surplus or deficit on such subsequent sales are recognised in the Statement of Comprehensive Income as a part disposal of Investment properties.

### 2.10 Inventories

Inventories relate to the portion of the properties that will be sold as the initial sale enabling the Company to enter into a shared ownership agreement. In accordance with IAS 2 Inventories, they are held at the lower of cost and net realisable value.

### 2.11 Dividends

Final dividends are recognised when declared and approved by the shareholders at an annual general meeting and interim dividends are recognised when paid. The Company is restricted to make any other distributions from non-distributable reserves in line with the Note Programme. The government grant income received by the company is classified in the non-distributable reserves.

## 2. Accounting policies (continued)

### 2.12 Financial instruments

The Company applies the recognition and measurement provisions of IFRS 9 ' Financial instruments' and the disclosure requirements to account for all its financial instruments.

**Financial assets**

Financial assets comprise basic trade and other receivables and cash.

**Trade and other receivables**

Trade and other receivables are measured at amortised cost using the effective interest rate method.

Financial assets that do not have a significant financing component are measured for impairment purposes using a simplified lifetime expected loss approach.

**Cash and cash equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

**Financial liabilities**

Financial liabilities primarily comprise indexed linked bond issues on the Main Market of the London Stock Exchange. They are carried at historic cost plus a bi annual increase dictated by the original bond documentation which is calculated by reference to the LPI (Limited Price Indexation) index. The fair value is determined to be at Level 1 of the fair value hierarchy outlined in IFRS 13 Fair Value Measurement for indexed linked bond issues.

**Trade payables**

Short term payables are measured at the transaction price.

### 2.13 Government grants

Government grants are not recognised until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received. Grants relating to the acquisition of shared ownership investment properties are recognised immediately as income to compensate for the reduction in fair value of the investment property. Accordingly, the grant income is adjusted from revaluation gains or loss reported in the Statement of Comprehensive Income. Prior to satisfying any performance obligations related to grant (which includes acquisition of investment property, application for government funding and compliance of capital funding guide), such grants are held as a liability (deferred income) on the Statement of Financial Position.

In some circumstances, typically when a Shared Owner staircases, there arises an obligation to repay the grant to the relevant government body. This is treated as a contingent liability until the conditions for repayment are expected to apply, in which case the amount repayable is recognised as a liability on the Statement of Financial Position and deducted from the measurement of any gain on the staircase transaction.

# Heylo Housing Secured Bond Plc



## 3. Judgements in applying accounting policies and key sources of estimation uncertainty

The Company makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

For investment property valuations management engaged the services of third party independent valuers and worked with them to refine assumptions throughout the valuation exercise. Management also reviewed the principal iterations of the valuation models prior to agreeing the fair value of investment properties presented in the financial statements (Note 12).

The Company estimates the proportion of shared ownership properties that will be sold as first tranche sales and therefore classified as inventory rather than investment property. The assumptions on which the proportion has been based include, but are not limited to, the affordability of the shared ownership properties, and the Company's general experience to date of first tranche shared ownership sales.

The Company is restricted to declare or pay dividend to a direct or indirect holder of its share capital, in cash or otherwise, or make any other distributions from it's distributable and non-distributable reserves in line with the Note Programme. The government grant income received by the company is classified in the non-distributable reserves.

## 4. Segmental information

In determining the Company's operating segment, management has primarily considered the financial information in the internal reports that are reviewed and used by the Board of Directors (in aggregate the chief operating decision maker) in assessing performance and in determining the allocation of resources. The financial information in those internal reports in respect of revenue and expenses has led management to conclude that the Company has a single operating segment, i.e. generating rent income and capital returns from investment properties.

All revenue from continuing operations is attributable to, and all non current assets are located in the country of domicile of the Company, the United Kingdom.

The Company acquires residential properties that it leases to HHRP, a fellow subsidiary, which in turn on leases those properties on a part buy part rent basis to ultimate tenants. There is no individual customer/tenant of HHRP that contributes greater than 10% of total revenue.

## 5. Revenue

| | **2023**<br>**£000** | **2022**<br>**£000** |
|---|---|---|
| Gross rental income | **533** | 490 |
| First tranche property sales | **306** | 624 |
| | **839** | 1,114 |

## 5. Revenue (continued)

In the event where a tenant defaults on rental lease payments, the Company, through HHRP, can reclaim the property as they retain legal title.

Minimum undiscounted 125 year rental lease payments from tenants using prevailing annual rent as at year-end, assuming no staircasing is expected to be as follows:

| | 2023 £000 | 2022 £000 |
|---|---|---|
| 1 year | **607** | 484 |
| 2 year | **636** | 487 |
| 3 year | **639** | 489 |
| 4 year | **643** | 492 |
| 5 year | **646** | 494 |
| 6 years and onwards | **102,800** | 83,200 |
| | **105,971** | 85,646 |

## 6. Operating costs

| | 2023 £000 | 2022 £000 |
|---|---|---|
| Property expenses (see note 23) | **117** | 111 |
| First tranche cost of sales | **306** | 571 |
| | **423** | 682 |

## 7. Gain on disposal of investment properties

| | 2023 £000 | 2022 £000 |
|---|---|---|
| Gain on disposal of investment properties | **287** | 23 |

## 8. Auditor's remuneration

| | 2023 £000 | 2022 £000 |
|---|---|---|
| Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements | **69** | 52 |

## 9. Directors remuneration and staff costs

The Company has no employees. The directors did not receive any remuneration; however, they are considered as key management personnel within the Company. Any applicable remuneration including salary and employee benefits would only be through their employment by ResiManagement Limited. As detailed in the related parties note, the Company is in a long-term management agreement with ResiManagement Limited, a company with common shareholders and directors to the Company's parent, Heylo Housing Group Limited.

## 10. Interest payable and similar expenses

| | 2023 £000 | 2022 £000 |
|---|---|---|
| Bond interest cash payable (see note 16) | **316** | 282 |
| Bond interest indexation payable (see note 16) | **2,363** | 1,281 |
| Finance expenses and amortisation of bond issue costs | **69** | 224 |
| | **2,748** | 1,787 |

Bond interest payable includes interest capitalised as part of principal accounts in accordance with the terms of the bonds. Bond interest indexation payable has been added to the bond principal amounts.

## 11. Taxation

| | 2023 £000 | 2022 £000 |
|---|---|---|
| **Total current tax** | **-** | - |
| **Deferred tax** | | |
| Origination and reversal of timing differences | **(72)** | - |
| Deferred tax on revaluation of investment properties | **311** | 99 |
| Adjustments in respect of prior periods | **(642)** | 17 |
| Effect of tax rate change | **-** | 32 |
| **Total deferred tax** | **(403)** | 148 |
| **Taxation** | **(403)** | 148 |

## 11. Taxation (continued)

### Factors affecting tax (credit)/charge for the year

The tax assessed for the year is higher than (2022 - higher than) the standard rate of corporation tax in the UK of 22.01% (2022 - 19%). The differences are explained below:

| | 2023 £000 | 2022 £000 |
|---|---|---|
| Loss before tax | **(1,157)** | (751) |
| Loss multiplied by standard rate of corporation tax in the UK of 22.01% (2022 - 19%) | **(255)** | (143) |
| **Effects of:** | | |
| Fixed asset differences | **11** | (14) |
| Expenses not deductible for tax purposes | **18** | 338 |
| Effect of property re-valuations | **(17)** | - |
| Income not taxable | **-** | (181) |
| Chargeable gains | **-** | 113 |
| Adjustments to tax charge in respect of previous periods - deferred tax | **(642)** | 17 |
| Effect of tax rate change on opening balance | **-** | 31 |
| Tax losses/gains not recognised | **-** | (13) |
| Remeasurement of deferred tax for changes in tax rate | **(33)** | - |
| Movement in deferred tax not recognised | **515** | - |
| **Total tax (credit)/charge for the year** | **(403)** | 148 |

### Factors that may affect future tax charges

Chargeable gains/(losses) is the tax effected movement in the unrealised gain on the investment properties at the year-end.

The Company has tax losses of £450,352 (2022 - £463,699) that are available indefinitely for offsetting against future taxable profits. A deferred tax asset has not been recognised in respect of these losses as the Company does not believe there will be future taxable profits to offset.

In the Spring Budget 2021, the UK Government announced an increase in the corporation tax rate from 19% to 25% from 1 April 2023. As such, the UK corporation tax charge is based on a blended rate of 22% in these financial statements (2022 - 19%).

Deferred tax balances have been calculated in full on temporary differences under the liability method using the rate expected to apply at the time of the reversal of the balance. As the rate increase was substantively enacted at the balance sheet date, the deferred tax assets and liabilities have been calculated using the 25% rate (2022 - 25%).

## 12. Investment property

| | Investment property 2023 £000 | Investment property 2022 £000 |
|---|---|---|
| **Valuation** | | |
| At 1 October | **20,263** | 19,791 |
| Additions at cost | **2,125** | 1,098 |
| Disposals | **(839)** | (1,582) |
| Surplus on revaluation | **1,102** | 956 |
| **At 30 September** | **22,651** | 20,263 |

Included within investment property is leasehold property of £2,951,228 (2022 - £2,910,000) and freehold property of £19,699,812 (2022 - £17,353,000).

The gain from changes in fair value of investment properties in the Statement of Comprehensive Income is shown net of government grant expense of £77,448 (2022 - £93,635) and government grant income of £124,818 (2022 - £Nil).

During the year there were £247 (2022 - £17,538) repairs and maintenance costs included in administrative expenses that did not generate rental income during the period.

As at 30 September 2023, the Company had acquired 121 (2022 - 102) new build properties from housebuilders, and 5 (2022 - 6) with its Your Home product primarily located in the North of England and East Anglia.

The fair value of the properties for the periods presented were based on valuations which were performed by Montagu Evans (RICS), Chartered Surveyors on Existing-use Value for social housing. The established methodology for arriving at the EUV-SH valuation is a discounted cash flow. It allows the valuer to capture explicitly the many variables affecting the letting, management and operatives for each property over the long term.

**12. Investment property (continued)**

The main inputs and assumptions used relating to the valuation ranged as follows:

| | 2023 | 2022 |
|---|---|---|
| Discount rates | **6.00% - 7.50%** | 5.25% - 6.75% |
| HPI - house price index | **3.75%** | 3.75% |
| RPI - retail price index | **3.5%** | 3.5% |
| Staircasing rate | **1.5% - 1.8%** | 1.5% - 1.8% |
| % of gross rent receivable | **96%** | 96% |

Discount rates and staircasing rates are considered significant unobservable inputs.

The assumptions around how much staircasing may arise in any one year relates to tenants progressively acquiring a greater share of property they have acquired on a part buy-part rent agreement with the Company.

Our customers enter into either a 125 year or 990 year shared ownership lease and during FY23, Heylo entered a process of extending some of the leases on 125 years existing between heylo and our tenants for the heylo owned shared from 125 years to 990 years. The leases are full tenant repairing leases so the Company has no obligations in respect of repairs and maintenance.

A sensitivity analysis was performed as part of the valuation at 30 September 2023 by flexing HPI, staircasing and discount rates on both the new and second-hand parts of the Company's portfolio.

Significant increases/(decreases) in HPI would result in a significantly higher/(lower) fair value of the Company's investment portfolio. As an example, a 0.5% upward change in HPI to 4.25% would lead to a £1.0 million increase in the fair value of the portfolio.

Significant increases/(decreases) in rate of staircasing would result in a significantly lower/(higher) fair value of the Company's investment portfolio. As an example, a 0.5% increase in staircasing range to 2.0-2.30% would lead to a £1.0 million decrease in the fair value of the same portfolio.

Significant increases/(decreases) in rate of discount rate would result in a significantly lower/(higher) fair value of the Company's investment portfolio. As an example, a 0.5% increase in the discount rate would lead to a £1.9 million decrease in the fair value of the same portfolio.

Significant increases/(decreases) in RPI would result in a significantly higher/(lower) fair value of the Company's investment portfolio. As an example, a 0.5% upward change in RPI to 4.00% would lead to a £1.2 million increase in the fair value of the portfolio.

Significant increases/(decreases) in % of gross rent receivable would result in a significantly lower/(higher) fair value of the Company's investment portfolio. As an example, a 0.5% increase would lead to a £0.1 million increase in the fair value of the same portfolio.

The Company has no restrictions on the realisability of its investment properties.

As at 30th September 2023, the Company had not entered into any contractual commitments with developers to complete any property purchases.

## 12. Investment property (continued)

If the investment properties had been accounted for under the historic cost accounting rules, the properties would have been measured as follows:

| | 2023<br>£000 | 2022<br>£000 |
|---|---|---|
| Gross historic cost | **15,221** | 14,149 |

## 13. Inventory

| | 2023<br>£000 | 2022<br>£000 |
|---|---|---|
| Shared ownership properties | **182** | 66 |

An expense of £306,316 (2022 - £571,128) has been charged to the income statement in the period on first tranche sales. There were no write downs (2022 - £Nil) or reversal of prior period inventory write downs (2022 - Nil). No inventories are carried at below cost or net realisable value (2022 - £Nil).

## 14. Trade and other receivables: Amounts falling due within one year

| | 2023<br>£000 | 2022<br>£000 |
|---|---|---|
| Trade debtors | **13** | 13 |
| Amounts owed by group undertakings | **139** | 310 |
| Other debtors | **156** | 82 |
| Prepayments and accrued income | **6** | 11 |
| | **314** | 416 |

No significant impairment was deemed necessary in the current accounting period as the significant trade and other receivables balance consists of amounts owed by group undertakings.

Amounts owed by group undertakings are expected to be realised within 12 months after the reporting period. Amounts owed by group undertakings are interest free and repayable on demand. Included in amounts owed by group undertakings is an amount of £Nil (2022 - £Nil) in relation to grant income receivable from a fellow subsidiary within the Group.

## 15. Trade and other payables: Amounts falling due within one year

| | 2023 £000 | 2022 £000 |
|---|---|---|
| Trade creditors | **5** | 10 |
| Amounts owed to group undertakings | **2,008** | 5 |
| Other creditors | **11** | 19 |
| Government grant liabilities | **47** | 117 |
| Accruals | **69** | 52 |
| | **2,140** | 203 |

Amounts owed to group undertakings are interest free and repayable on demand.

## 16. Loans and other payables: Amounts falling due after more than one year

| | 2023 £000 | 2022 £000 |
|---|---|---|
| Secured 1.625% inflation linked 10 year Sterling Bond | **19,984** | 17,621 |
| Less: issue costs | **(343)** | (412) |
| | **19,641** | 17,209 |

During the year ended 30 September 2019, the Company issued index linked bonds with repayment date of 30 September 2028 (the "Bonds"). The Company sold £15,424,400 of Bonds to investors and retains £4,575,600. The Bonds are listed on the Main Market of the London Stock Exchange and are indexed to an LPI formula, calculated by reference to RPI with a base index figure from February 2018. The Bonds have asset cover and debt service cover covenants and these were in compliance at period end and at the time of approval of the accounts. The Bonds are secured on the properties of the Company.

On each interest payment date (in March and September), the amount of the Bonds increases in accordance with the LPI Index and the 1.625% interest rate is payable on the indexed amount. During the year, increases in accordance with the LPI Index were £2,362,740 (2022 - £1,281,212) and the interest payable was £316,200 (2022 - £281,724), giving a total expense in the period of £2,678,940 (2022 - £1,561,936) shown as interest costs in the Company's Statement of Comprehensive Income.

Only the £316,200 (2022 - £281,724) interest was payable and included in the calculation of the debt service cover ratio. The £2,362,740 (2022 - £1,281,212) increase due to the LPI Index was added to the opening balance £17,620,788 (2022 - £16,339,576) to give the closing balance of £19,983,528 (2022 - £17,620,788) and this figure was tested against the £22,651,041 (2022 - £20,263,057) property valuation in the calculation of the asset cover ratio.

As at 30 September 2023, the fair value of the Secured 1.625% inflation linked 10 year Sterling Bond was £13,192,489 (2022 - £17,514,406). The fair value has been calculated with reference to its published price quotation on the London Stock Exchange where the bonds were trading at 85.53 pence (2022 - 113.55 pence). The fair value is determined in accordance with Level 1 of the fair value hierarchy outlined in IFRS 13 Fair Value Measurement.

## 17. Financial instruments

| | 2023 £000 | 2022 £000 |
|---|---|---|
| **Financial assets** | | |
| Financial assets measured at amortised cost | **2,720** | 2,012 |
| **Financial liabilities** | | |
| Financial liabilities measured at amortised cost | **(21,781)** | (17,412) |

Financial assets that are debt instruments measured at amortised cost comprise cash and trade and other receivables.

Financial liabilities measured at amortised cost comprise trade and other creditors, accruals and secured bonds. The total interest expense recognised in these financial statements measured at amortised cost is included in Note 10. The secured bonds have a maturity date of 30 September 2028.

Using the level of index at the reporting date, minimum cash outflows in relation to interest payments and repayment of bond at maturity of 30 September 2028 are expected to be as follows:

| | 1 year £000 | 2-3 years £000 | 4-5 years £000 | 5 years and onwards £000 | Maturity £000 |
|---|---|---|---|---|---|
| **Period** | | | | | |
| **Current year** | 338 | 718 | 765 | 198 | 24,624 |
| **Prior year** | 317 | 707 | 750 | 390 | 24,747 |

The Board of Directors reviews and agrees policies to manage each of the risks the Company is exposed to as summarised below:

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The rental income from the property portfolio is due from many individual occupiers through HHRP. The Company reviews the creditworthiness of potential tenants prior to entering into contractual arrangements. Every occupier is assessed for affordability in accordance with the guidance from Homes England before entering into a lease.

Provision is made in full where recovery of financial assets is, in the opinion of the directors, significantly uncertain.

## 17. Financial instruments (continued)

(b) Interest rate cash flow risk

Interest rate cash flow risk is the risk that the future cash flows of the Company's financial instruments will fluctuate because of changes in market interest rates. The Company has no direct exposure to interest rates as all amounts owed to external bondholders are linked to inflation rather than interest rates. The Company's rental income streams are linked to inflation and so should move proportionate to the payments due under the Company's financial instruments. Rental income is directly linked to RPI therefore the extent to which it moves is impacted by a rise or fall in RPI. The Company further manages this risk by monitoring cash flow projections on a regular basis to ensure that funds or appropriate facilities are available to be drawn upon as necessary.

(c) Capital risk management

The Company manages share capital, consisting of ordinary shares as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern. The capital structure will continue to be determined by ongoing funding requirements.

(d) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company has issued bonds and pays both interest and principal payments to its bondholders. The Company has granted security over its property portfolio in support of these bonds. The Company’s borrowings are repayable on the relevant maturity of the bonds and accordingly the Company manages any refinance risk at maturity. A significant reduction in the value of the property portfolio or in the rental collection could impact on the Company’s financial covenants. The Company aims to mitigate liquidity risk by operating with headroom to these covenants, by adhering to strict affordability criteria and through regular monitoring of its cash flow forecasts.

(e) House price inflation risk

Inflation may be higher or lower than expected. Investment cash flows are positively correlated to inflation and therefore increases/decreases to inflation (mainly House Price Index ("HPI") in the Company's case) compared to current projections would impact positively or negatively on the Company's future projected cash inflows. Furthermore, assumptions in relation to future HPI are central to the annual portfolio valuation and consequently significant increases or decreases in the rate of growth of HPI may materially impact the fair value of investment properties within the Company's portfolio. The Company performs sensitivities indicating the projected impact on the Company's Net Asset value ("NAV") of a number of alternative inflation scenarios. The Company uses a long-term view of inflation within its forecasts, benchmarked to independent analysis from valuation professionals.

(f) Contract risk

The performance of the Company's property investment portfolio is dependent upon each property's tenant meeting its contractual obligations. The Company is exposed to the risk that a number of its counterparties do not comply with the terms of the contract/leases and related obligations. The performance of the Company's property investment portfolio is dependent upon each property's tenant meeting its contractual obligations. The Company is exposed to the risk that a number of its counterparties do not comply with the terms of the contract/leases and related obligations. The Company mitigates this default risk by virtue of having a highly diversified portfolio in excess of 108 separately and independently tenanted properties - no single property or group of properties is material to the overall profitability of the Company or to its liquidity forecasts.

## 17. Financial instruments (continued)

(g) External Economic Environment

Following the macroeconomic challenges of cost of living, rising inflation and war in Ukraine, the external economic environment became more challenging for the Company and its customers. The Company and its customers are exposed to financial risk from economic volatility experienced such as mortgage costs increasing together with higher inflation, higher energy bills, increased prices for food and energy, impacts to cost of living and so on. The Company aims to mitigate these financial risks by operating with headroom to its covenants, by adhering to strict affordability criteria and through regular monitoring of its cash flow forecasts. The Company has continued to mitigate the financial risks of impairment of balances owing from its customers through generous repayment plans and proactive dialogue with tenants who are in, or likely to face, distress; a form of forbearance that has so far delivered good performance outcomes for the business too.

(h) Climate change

We have identified the potential physical and transitional risks and opportunities presented by rising temperatures and climate change for our business and have also considered the scale of this risk to the Company. Climate change is not a principal risk for the Company for the year ended 30 September 2023, but we have identified the climate transition as an emerging risk due to its intensifying importance to all stakeholders. The Company believes that its liquidity position, its business model, diversified portfolio and its focus on risk mitigation combined with operational cash and funding reserves, offer a significant degree of protection to the business.

(i) Regulatory Compliance

Non-compliance results in measures of intervention, loss of status and ultimately prohibits the Company to reinvest proceeds into acquiring the sites the business has in its pipeline to continues its journey. The Board and governance structure is in place and continuously being reviewed and improved so it is effective to managing this risk. There is ongoing compliance monitoring and independent advice and assurance are provided by external consultants and workforce of ResiManagement Limited (who provides management services to the Company) in areas such as risk management and governance.

(j) Asset Supply

It is recognised that the Company operates in a market where it acquires properties which are impacted by rising costs following labour and material shortages which as such affects both purchase prices and the customer selling prices. Also, the inability to meet targets set out in its business plan to acquire affordable housing units to help the company reinvest and continue to operate as a going concern can result in reputational damage and knock on impact of generating less income than expected. As such to mitigate this risk, management monitor activity through Investment Committee and its cash flow forecasts. Weekly meetings with housebuilders and Homes England allow the Company to be agile in its approach to reinvestment. To this end, the Company as well as ResiManagement Limited mitigates this risk through review of housebuilder contract assumptions with its solicitor and focuses on increasing strategic partnerships with new and existing housebuilders, Heylo Housing Registered Provider Limited (HHRP), councils and Homes England to meet the challenging external environment

The Company believes that its liquidity position, its business model, diversified portfolio and its focus on risk mitigation combined with operational cash and funding reserves, offer a significant degree of protection to the business.

## 18. Deferred tax liability

| | 2023 £000 | 2022 £000 |
|---|---|---|
| At beginning of year | **2,139** | 1,991 |
| Charged to profit or loss | **(403)** | 148 |
| **At end of year** | **1,736** | 2,139 |

The provision for deferred taxation is made up as follows:

| | 2023 £000 | 2022 £000 |
|---|---|---|
| Capital gains | **2,480** | 2,139 |
| Short term temporary differences | **(744)** | - |
| | **1,736** | 2,139 |

## 19. Share capital

| | 2023 £000 | 2022 £000 |
|---|---|---|
| **Allotted, called up and fully paid shares classified as equity** | | |
| 12,500 (2022 - 12,500) Ordinary shares of £1.00 each | **13** | 13 |
| **Allotted and called up shares classified as equity** | | |
| 37,500 (2022 - 37,500) Ordinary shares of £1.00 each | **37** | 37 |
| | **50** | 50 |

Authorised share capital: 50,000 Ordinary shares of £1.00 each.

The shares have attached to them full voting, dividends and capital distribution rights.

## 20. Reserves

The Company's capital and reserves are as follows:

**Called up share capital**

Called up share capital reserve represents the nominal value of the shares issued.

**Retained earnings**

Retained earnings represents cumulative profits or losses net of dividends paid and other adjustments excluding non distributable reserves.

**Non distributable reserves**

Non-distributable reserves represent the profit or loss for the period which is not distributable. This relates to investment property revaluations, the associated deferred tax and the government grant income.

## 21. Analysis of net debt

| | At 1 October 2022 £000 | Cash flows £000 | Interest on bonds £000 | Amortisation of capitalised issue costs £000 | At 30 September 2023 £000 |
|---|---|---|---|---|---|
| Cash at bank and in hand | 1,596 | 810 | - | - | 2,406 |
| Debt due after 1 year | (17,209) | 316 | (2,678) | (69) | (19,640) |
| | (15,613) | 1,126 | (2,678) | (69) | (17,234) |

| | At 1 October 2021 £000 | Cash flows £000 | Interest on bonds £000 | Amortisation of capitalised issue costs £000 | At 30 September 2022 £000 |
|---|---|---|---|---|---|
| Cash at bank and in hand | 924 | 672 | - | - | 1,596 |
| Debt due after 1 year | (15,862) | 282 | (1,563) | (66) | (17,209) |
| | (14,938) | 954 | (1,563) | (66) | (15,613) |

## 22. Contingent liabilities and commitments

The Company has received government grant funding of £2.74 million (2022 - £2.62 million) from Homes England to support the delivery of shared ownership homes. Government grant funding of £124,818 (2022: £Nil) has been received in the current year and no government grant funding is receivable. All government grant funding received previously have been utilised to purchase properties.

In some circumstances, typically when a Shared Owner staircases, there arises an obligation to repay the grant to the relevant government body. This is treated as a contingent liability until the conditions for repayment are expected to apply, in which case the amount repayable is recognised as a liability on the Statement of Financial Position and deducted from the measurement of any gain on the staircase transaction. As at the year-end date, £47,336 (2022 - £117,006) of liabilities were recognised within other creditors in note 15.

## 23. Related party transactions

The Company has entered into a long term management agreement with ResiManagement Limited, a company with common shareholders and directors to the Company's parent, Heylo Housing Group Limited. Under the management agreement the Company pays fees to ResiManagement Limited for the provision of asset sourcing and management services to the Company. During the year ended 30 September 2023 management fees included within operating costs amounting to £116,848 (2022 - £110,992) were paid by the Company. Property acquisition costs of £Nil (2022 - £1,800) were charged by ResiManagement Limited in the year and capitalised in the financial statements of the Company. A short term working loan was provided of £100,000 (2022 - £Nil) to ResiManagement.

Heylo Housing Registered Provider Limited ("HHRP") is a related party of the Company. The Company owns the investment properties within its portfolio. It leases them to HHRP, another wholly owned subsidiary of Heylo Housing Group Limited, which will in turn onward lease the properties to customers. The agreements with HHRP stipulate that all rent and sales receipts from those properties will be directly attributable to the Company. HHRP is a registered provider regulated by the RSH (Regulator of Social Housing). During the year ended 30 September 2023, Company's gross rental income passes through the HHRP amounting to £456,049 (2022 - £383,246).

Amounts paid to Outra Limited for advertising and reporting maintenance total £26,113 (2022 - £29,944). Outra Limited is considered a related party as they have a majority shareholder in common.

As disclosed in note 14 amounts owed by parent undertakings amount to £39,297 (2022 - £37,500) and amounts owed by a fellow subsidiary within the Group amounts to £Nil (2022 - £272,894). Amounts owed to the parent company total £2,008,331 (2022 - £3,167) and £Nil (2022 - £Nil) is owed to fellow subsidiaries as disclosed in note 15.

## 24. Controlling party

The Company is wholly owned by Manifesto Technologies Limited, the ultimate parent company of Heylo Housing Group Limited (Heylo Group). Heylo Group is the parent of HHSB. G P C Mackay is the ultimate controlling party.

The smallest group in which the Company is consolidated is that headed by Heylo Housing Group Limited, and the largest group in which the Company is consolidated is that headed by Manifesto Technologies Limited, with both companies incorporated and registered in the United Kingdom. The consolidated accounts of Manifesto Technologies Limited are available to the public from its registered office, Squire Patton Boggs (UK) LLP, Rutland House, 148 Edmund Street, Birmingham, England, B3 2JR.