

Heylo Housing Secured Bond Plc

Annual Report and Financial Statements

Year Ended

30 September 2022

Company Number 11222614

Heylo Housing Secured Bond Plc

Company Information

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

Heylo Housing Secured Bond Plc

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Heylo Housing Secured Bond Plc

Strategic Report For the Year Ended 30 September 2022

Introduction

The Directors present their Strategic Report of Heylo Housing Secured Bond Plc ("the Company" or "HHSB") for the year ended 30 September 2022.

Business review

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.

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.

Total annual rental income and first tranche property sales increased from £981k in 2021 to £1,114k in 2022. This was encouraging given the continued challenges following the coronavirus pandemic.

ResiManagement Limited (who provides management services to the Company) through its workforce continue to show teamwork, dedication, and commitment to enable the Company to navigate successfully through a second year of challenges caused by the pandemic. Following continued improvement of working practices and processes adopted from the previous year has enabled the Company to continue to stay up to date with property compliance and the customers' needs.

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 2022, the Company had acquired 102 (2021 - 99) new build properties from housebuilders, and 6 (2021 - 7) with its Your Home product and spread across 40 (2021 - 35) sites, with associated grant received of £2.6 million (2021 - £2.6 million). In the current year, the Company has acquired 7 properties and disposed 5 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

	2022	2021
Rent collection rate (%)	<u>99</u>	<u>99</u>

Since September 2021, collection rates continue to be at 99%, 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, throughout 2020, 2021, 2022 and into 2023, the Company has continued to mitigate the financial impacts of Covid 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.

Heylo Housing Secured Bond Plc

Strategic Report (continued) For the Year Ended 30 September 2022

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.

Heylo Housing Secured Bond Plc

Strategic Report (continued) For the Year Ended 30 September 2022

Principal risks and uncertainties (continued)

(g) 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.

(h) Covid 19

Following the macroeconomic challenges of COVID 19 shutdown in 2020 and the return of COVID 19 restrictions at the beginning of 2021, the UK residential market has maintained and experiences strong growth. As per the market research, annual house price growth for the 2022 calendar year was 9.5% in September 2022, decreasing slightly from 10% in August. Prices were unchanged over the month from August, after taking account of seasonal effects. This is the first month not to record a sequential rise since July 2021. The company and its customers is exposed to financial risk from economic volatility experienced following COVID 19 such as mortgage costs increasing together with higher inflation, higher energy bills, 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 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.

(i) 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 2022, but we have identified the climate transition as an emerging risk due to its intensifying importance to all stakeholders.

(j) 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 in areas such as risk management and governance.

(k) 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.

Heylo Housing Secured Bond Plc

Strategic Report (continued) For the Year Ended 30 September 2022

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 surveys 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.

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.

Heylo Housing Secured Bond Plc

Strategic Report (continued)
For the Year Ended 30 September 2022

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

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 strong performance on rental 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 is prioritised 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 2/9/2023 and signed on its behalf.

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JP Conway
Director

Heylo Housing Secured Bond Plc

Directors' Report For the Year Ended 30 September 2022

The directors present their report together with the audited financial statements for the year ended 30 September 2022. 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 £899k (2021 – loss of £291k).

The directors do not recommend the payment of a dividend (2021 - 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 Geczy

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.

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 HHRP and its customers.

Qualifying third party indemnity provisions

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

Heylo Housing Secured Bond Plc

Directors' Report (continued) For the Year Ended 30 September 2022

Going concern

The financial statements have been prepared on a going concern basis which assumes that the Company will be able to meet its liabilities as and when they fall due for the foreseeable future. As at the balance sheet date, the Company has net current assets of £1.9m (2021 - £1.8m) and net assets of £2.8m (2021 - £3.7m). The Company has cash at bank and in hand of £1.6m (2021 - £0.9m).

In preparing the cash flow forecast to support the going concern assessment, the directors prepared a going concern assessment covering 12 months from the date of the approval of the financial statements. The directors have also assessed whether the Company will be able to comply with all financial loan covenants during this period.

In light of the Covid 19 pandemic and subsequent 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 reassessed the operational performance of its property portfolio as well as its cash flow position, including stress testing for adverse plausible impacts. The Company reaffirms that the operational performance of its rental portfolio continues to be strong against the expected revenue and the Covid 19 pandemic has, to date, only had a limited impact on the Company's cashflow. Since September 2021, collection rates continue to be at 99%, 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. In the property valuation, gross rent receivable percentage of 96% has been used on a prudent basis. Based on its traditional, tried and tested approach to arrears collection, and given Government imposed limitations on legal action through possession and eviction, throughout 2020, 2021, 2022 and into 2023, the Company has continued to mitigate the financial impacts of Covid 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.

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. The directors have performed a detailed sensitivity analysis in connection with house price inflation to date, retail price inflation, staircasing, gross rent receivable and discount rate assumptions affecting the Company's property valuation and are confident that the scale of a negative movement in these key assumptions required to breach the Asset Cover Ratio is unlikely; particularly given the current cash position, terms of the underlying leases as well as the valuation methodology. Therefore, the directors consider it appropriate to prepare the Company's financial statements on a going concern basis.

The Company has continued access to the resources, advice and services from its parent, HHGL via a shareholder support letter. HHGL will provide financial and other support to the Company in the form of funds appropriate for covenant purposes should it be required, to effect the company's ability to meet its financial covenants. 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. Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the 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.

Heylo Housing Secured Bond Plc

Directors' Report (continued) For the Year Ended 30 September 2022

Events after balance sheet date

During the year, Heylo Housing Registered Provider Limited (HHRP) was first placed on the Gradings Under Review list, and shortly before Christmas on 21st December 2022, received the Regulatory Judgement that rated HHRP as G3/V3. Whilst HHRP was disappointed with this outcome, it is committed to working alongside the Regulator to address their concerns and bring HHRP back to compliance as soon as possible. An assessment was performed as to the implications to the Company and leases held through HHRP and the Directors reached the conclusion that there was no impact on the going concern status of the Company. The Company has sufficient resources to continue to trade and options are being actively pursued to restructure the Group in order that HHRP can comply with governance and viability standards.

Auditor

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

This report was approved by the board on 2/9/2023 and signed on its behalf.

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J P Conway
Director

Heylo Housing Secured Bond Plc

Directors' Responsibilities Statement For the Year Ended 30 September 2022

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 these 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, Directors' Remuneration 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.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

DocuSigned by:

Jonathan Conway

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J P Conway

Director

Date: 2/9/2023

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 2022 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 2022 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 the audit committee.

We were first appointed as auditor by the directors on 17 February 2022. The period of total uninterrupted engagement is for 1 financial year ended 30 September 2022. 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, 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)

2 Key audit matters: our assessment of risks of material misstatement (continued)

	The Risk	Our Response
<p>Valuation of investment properties</p> <p>Investment property £20,263k (2021: £19,791k)</p> <p><i>Refer to page 2 (Strategic Report), page 26 (accounting policy), page 28 (Judgements in applying accounting policies and key sources of estimation uncertainty) and page 32 (financial disclosures)</i></p>	<p>Subjective Valuation:</p> <p>An inappropriate amount is estimated or recorded for the fair value of investment property measured under the fair value model.</p> <p>The valuation of investment property involves the application of an appropriate methodology, being Existing Use Value – Social Housing, and a range of assumptions, most notably inflation rates, discount rates, staircasing rate and collection rate. 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.</p> <p>As part of our risk assessment, 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.</p>	<p>Our procedures included:</p> <p>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.</p> <p>Assessing valuer's credentials: We considered the competence, capability, objectivity and independence of the valuer.</p> <p>Benchmarking assumption: 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.</p> <p>Test of detail: We agreed a sample of the underlying data including rental income to source evidence such as rent review letters and verified additions and disposals.</p> <p>Assessing Transparency: We considered the adequacy and accuracy of the Company's disclosures in respect of the sensitivity of the valuation to these assumptions.</p> <p>Our results</p> <p>We found the valuation of investment properties, and the movements in fair value to be acceptable.</p>

Heylo Housing Secured Bond Plc

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

2 Key audit matters: our assessment of risks of material misstatement (continued)

	The Risk	Our Response
<p>Going Concern as Key Audit Matter</p> <p><i>Refer to Note 2.2 in the financial statements.</i></p>	<p>Breach of the financial covenant:</p> <p>Going Concern: Asset Cover Covenant is breached during the going concern period which would trigger the repayment of the debt and the Company might not have adequate financial resources to repay the debt. This can stem from volatility of the key assumptions used in the valuation of investment properties and the Company and its directors' are unable to remedy the breach in the permitted period.</p> <p>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).</p> <p>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).</p>	<p>Our procedures included:</p> <p>I. 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), and we considered the remedial actions available to Directors.</p> <p>II. 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.</p> <p>III. We evaluated whether there is adequate support for assumptions and methodologies used in the Asset Cover Ratio covenant (notably the valuation of investment property), whether they are realistic, achievable, and consistent with the external and internal environment and other matters identified in the audit. Refer to the Investment Property KAM for details of the procedures performed.</p> <p>IV. We evaluated 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. We obtained a letter of support from the Parent and assessed the reasonableness of the Group cash forecasts prepared by management.</p> <p>V. 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.</p> <p>Our results</p> <p>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. Refer to Section 4.</p>

Heylo Housing Secured Bond Plc

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

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

Materiality for Heylo Housing Secured Bond Plc was set at £210,000, determined with reference to a benchmark of total assets, of which it represents 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% of materiality for the financial statements as a whole, which equates to £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 audits by EY.

We agreed to report to Audit Committee any corrected or uncorrected identified misstatements exceeding £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.

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;
- we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Company's use of that basis 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.

Heylo Housing Secured Bond Plc

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

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, the Audit Committee, 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, and Audit & Risk Committee minutes.
- Using analytical procedures to identify any usual 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 assumptions. 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 cash impact posted to unusual accounts, those containing a borrowing impact posted to unusual accounts and those containing an investment property revaluation impact posted to unusual accounts.
- Assessing whether the judgements made in significant accounting estimates are indicative of potential bias.

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.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the Company’s procedures for complying with regulatory requirements.

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.

Heylo Housing Secured Bond Plc

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

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

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation, 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: General Data Protection Regulation compliance, 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.

Heylo Housing Secured Bond Plc

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

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited 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 9, 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
United Kingdom

Date: 13 February 2023

Heylo Housing Secured Bond Plc

Statement of Comprehensive Income For the Year Ended 30 September 2022

	Note	2022 £000	2021 £000
Revenue	5	1,114	981
Operating costs	6	(682)	(581)
Gross profit		432	400
Administrative expenses		(282)	(302)
Gain/(loss) on disposal of investment properties	7	23	(50)
Gains from changes in fair value of investment properties (net of grant)		863	883
Operating profit		1,036	931
Interest payable and similar expenses	10	(1,787)	(565)
(Loss)/profit before tax		(751)	366
Taxation	11	(148)	(657)
Loss and total comprehensive expense		(899)	(291)

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

The notes on pages 21 to 41 form part of these financial statements.

Heylo Housing Secured Bond Plc

Registered number:11222614

Statement of Financial Position As at 30 September 2022

	Note	2022 £000	2022 £000	2021 £000	2021 £000
Non-current assets					
Investment property	12		20,263		19,791
Current assets					
Inventory	13	66		145	
Trade and other receivables	14	416		848	
Cash at bank and in hand		1,596		924	
		2,078		1,917	
Current liabilities					
Trade and other payables	15	(203)		(165)	
Net current assets					
			1,875		1,752
Total assets less current liabilities					
			22,138		21,543
Non-current liabilities					
Loans and other payables: amounts falling due after more than one year	16		(17,209)		(15,863)
Deferred tax liability	18		(2,139)		(1,991)
Net assets					
			2,790		3,689
Issued capital and reserves attributable to owners of the Company					
Share capital	19		50		50
Non-distributable reserves	20		4,157		3,350
Retained earnings	20		(1,417)		289
Total equity					
			2,790		3,689

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

DocuSigned by:

 733E6FACE22A4FC... 29/2023

J P Conway
Director

The notes on pages 21 to 41 form part of these financial statements.

Heylo Housing Secured Bond Plc

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 income for the year				
Loss for the year	-	-	(899)	(899)
Total comprehensive income 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

Statement of Changes in Equity For the Year Ended 30 September 2021

	Called up share capital	Non- distributable reserves	Retained earnings	Total equity
	£000	£000	£000	£000
At 1 October 2020	50	3,060	870	3,980
Comprehensive income for the year				
Loss for the year	-	-	(291)	(291)
Total comprehensive income for the year	-	-	(291)	(291)
Contributions by and distributions to owners				
Transfer between reserves	-	290	(290)	-
Total transactions with owners	-	290	(290)	-
At 30 September 2021	50	3,350	289	3,689

The notes on pages 21 to 41 form part of these financial statements.

Heylo Housing Secured Bond Plc

Statement of Cash Flows For the Year Ended 30 September 2022

	2022	2021
	£000	£000
Cash flows from operating activities		
(Loss) for the financial period	(899)	(291)
Adjustments for:		
Gain/(loss) on sale of investment property disposals from interim & final staircasings	(23)	50
Gain/(loss) on sale of investment property disposals from first tranche sales	(52)	-
Deferred government grant	(40)	-
Finance expense	1,786	565
Taxation	149	657
Decrease in inventory	79	24
(Increase)/decrease in trade and other receivables	133	(290)
(Decrease)/increase in trade and other payables	78	(88)
Gain from changes in fair value of investment properties	(956)	(946)
Net cash (used in)/from operating activities	255	(319)
Cash flows from investing activities		
Purchase of investment properties	(1,111)	(3,103)
Sale of investment properties	1,509	1,400
Short term financing	300	(300)
Proceeds from the receipt of government grants	-	-
Net cash (used in)/from investing activities	698	(2,003)
Cash flows from financing activities		
Interest paid	(281)	(264)
Tax paid	-	-
Net cash used in financing activities	(281)	(264)
Net increase/(decrease) in cash and cash equivalents	672	(2,586)
Cash and cash equivalents at beginning of year	924	3,510
Cash and cash equivalents at the end of year	1,596	924
Cash and cash equivalents at the end of year comprise:		
Cash and cash equivalents	1,596	924

The notes on pages 21 to 41 form part of these financial statements.

Heylo Housing Secured Bond Plc

Notes to the Financial Statements For the Year Ended 30 September 2022

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 2022.

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. Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

The following principal accounting policies have been applied:

2.2 Going concern

The financial statements have been prepared on a going concern basis which assumes that the Company will be able to meet its liabilities as and when they fall due for the foreseeable future. As at the balance sheet date, the Company has net current assets of £1.9m (2021 - £1.8m) and net assets of £2.8m (2021 - £3.7m). The Company has cash at bank and in hand of £1.6m (2021 - £0.9m).

In preparing the cash flow forecast to support the going concern assessment, the directors prepared a going concern assessment covering 12 months from the date of the approval of the financial statements. The directors have also assessed whether the Company will be able to comply with all financial loan covenants during this period.

Heylo Housing Secured Bond Plc

Notes to the Financial Statements For the Year Ended 30 September 2022

2. Accounting policies (continued)

2.2 Going concern (continued)

In light of the Covid 19 pandemic and subsequent 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 reassessed the operational performance of its property portfolio as well as its cash flow position, including stress testing for adverse plausible impacts. The Company reaffirms that the operational performance of its rental portfolio continues to be strong against the expected revenue and the Covid 19 pandemic has, to date, only had a limited impact on the Company's cashflow. Since September 2021, collection rates continue to be at 99%, 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. In the property valuation, gross rent receivable percentage of 96% has been used on a prudent basis. Based on its traditional, tried and tested approach to arrears collection, and given Government imposed limitations on legal action through possession and eviction, throughout 2020, 2021, 2022 and into 2023, the Company has continued to mitigate the financial impacts of Covid 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.

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. The directors have performed a detailed sensitivity analysis in connection with house price inflation to date, retail price inflation, staircasing, gross rent receivable and discount rate assumptions affecting the Company's property valuation and are confident that the scale of a negative movement in these key assumptions required to breach the Asset Cover Ratio is unlikely; particularly given the current cash position, terms of the underlying leases as well as the valuation methodology. Therefore, the directors consider it appropriate to prepare the Company's financial statements on a going concern basis.

The Company has continued access to the resources, advice and services from its parent, HHGL via a shareholder support letter. HHGL will provide financial and other support to the Company in the form of funds appropriate for covenant purposes should it be required, to effect the company's ability to meet its financial covenants. 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. Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Heylo Housing Secured Bond Plc

Notes to the Financial Statements For the Year Ended 30 September 2022

2. Accounting policies (continued)

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.

New standards, interpretations and amendments that are mandatorily effective for periods beginning on or after 1 January 2021:

- Covid-19-related rent concessions beyond 30 June 2021 (amendments to IFRS 16)

New standards, interpretations and amendments not yet effective

The following amendments are effect for periods beginning on or after 1 January 2022:

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);
- Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41); and
- References to Conceptual Framework (Amendments to IFRS 3)

The following amendments are effect for periods beginning on or after 1 January 2023:

- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2);
- Definition of Accounting Estimates (Amendments to IAS 8); and
- Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12); and
- IFRS 17 Insurance Contracts (effective 1 January 2023) - In June 2020, the IASB issued amendments to IFRS 17, including a deferral of its effective date to 1 January 2023.

In January 2020, the IASB issued amendments to IAS 1, which clarify the criteria used to determine whether liabilities are classified as current or non-current. These amendments clarify that current or non-current classification is based on whether an entity has a right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. The amendments also clarify that 'settlement' includes the transfer of cash, goods, services, or equity instruments unless the obligation to transfer equity instruments arises from a conversion feature classified as an equity instrument separately from the liability component of a compound financial instrument. The amendments were originally effective for annual reporting periods beginning on or after 1 January 2022. However, in May 2020, the effective date was deferred to annual reporting periods beginning on or after 1 January 2023.

Heylo Housing Secured Bond Plc

Notes to the Financial Statements For the Year Ended 30 September 2022

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 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.

Heylo Housing Secured Bond Plc

Notes to the Financial Statements For the Year Ended 30 September 2022

2. Accounting policies (continued)

2.7 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.

Heylo Housing Secured Bond Plc

Notes to the Financial Statements For the Year Ended 30 September 2022

2. Accounting policies (continued)

2.8 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.

2.9 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.

2.10 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.

Heylo Housing Secured Bond Plc

Notes to the Financial Statements For the Year Ended 30 September 2022

2. Accounting policies (continued)

2.11 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.

2.12 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

Notes to the Financial Statements For the Year Ended 30 September 2022

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 its 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

	2022	2021
	£000	£000
Gross rental income	490	429
First tranche property sales	624	552
	1,114	981

Heylo Housing Secured Bond Plc

Notes to the Financial Statements For the Year Ended 30 September 2022

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:

	2022	2021
	£000	£000
1 year	484	451
2 year	487	453
3 year	489	456
4 year	492	458
5 year	494	461
6 years and onwards	83,200	78,400
	<u>85,646</u>	<u>80,679</u>

6. Operating costs

	2022	2021
	£000	£000
Property expenses (see note 23)	111	99
First tranche cost of sales	571	482
	<u>682</u>	<u>581</u>

7. Gain/(loss) on disposal of investment properties

	2022	2021
	£000	£000
Gain/(loss) on disposal of investment properties	23	(50)

8. Auditor's remuneration

	2022	2021
	£000	£000
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	52	40

Audit fees payable are exclusive of VAT. A total expense of £136,750 was accounted through administrative expenses in the current financial year (a total of £84,750 to EY for 2021 audit, which includes overruns not originally accrued for, and £52,000 to KPMG for 2022 audit).

Heylo Housing Secured Bond Plc

Notes to the Financial Statements For the Year Ended 30 September 2022

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

	2022 £000	2021 £000
Bond interest cash payable (see note 16)	282	222
Bond interest indexation payable (see note 16)	1,281	264
Finance expenses and amortisation of bond issue costs	224	79
	<u>1,787</u>	<u>565</u>

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

	2022 £000	2021 £000
Total current tax	<u>-</u>	<u>-</u>
Deferred tax		
Deferred tax on revaluation of investment properties	99	195
Adjustments in respect of prior periods	17	-
Effect of tax rate change	32	462
Total deferred tax	<u>148</u>	<u>657</u>
Taxation	<u>148</u>	<u>657</u>

Heylo Housing Secured Bond Plc

Notes to the Financial Statements For the Year Ended 30 September 2022

11. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2021 - higher than) the standard rate of corporation tax in the UK of 19% (2021 - 19%). The differences are explained below:

	2022	2021
	£000	£000
Profit/(loss) before tax	(751)	366
Profit/(loss) multiplied by standard rate of corporation tax in the UK of 19% (2021 - 19%)	(143)	69
Effects of:		
Fixed asset differences	(14)	(4)
Expenses not deductible for tax purposes	338	115
Income not taxable	(181)	(180)
Chargeable gains	113	180
Adjustments to tax charge in respect of previous periods - deferred tax	17	-
Effect of tax rate change on opening balance	31	462
Tax losses/gains not recognised	(13)	15
Total tax charge for the year	148	657

£162,500 of deferred tax assets have not been recognised at the balance sheet date as they are not assessed as being sufficiently probable that HHSB will recover them.

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 £463,699 (2021 - £256,538) 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. The rate was substantively enacted on 24 May 2021 and as such the 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 such, the deferred tax assets and liabilities have been calculated using a 25% (2021 - 19%, 25% or a blended rate) as appropriate.

Heylo Housing Secured Bond Plc

Notes to the Financial Statements For the Year Ended 30 September 2022

12. Investment property

	Investment property 2022 £000	Investment property 2021 £000
Valuation		
At 1 October	19,791	17,192
Additions at cost	1,098	3,103
Disposals	(1,582)	(1,450)
Surplus on revaluation	956	946
	20,263	19,791
At 30 September	20,263	19,791

Included within investment property is leasehold property of £2,910,000 (2021 - £2,344,000) and freehold property of £17,353,000 (2021 - £17,447,000).

The gain from changes in fair value of investment properties in the Statement of Comprehensive Income is shown net of government grant expense of £93,635 (2021 - £62,941) and government grant income of £Nil (2021 - £Nil).

During the year there were £17,538 (2021 - £845) repairs and maintenance costs included in administrative expenses that did not generate rental income during the period. During the year there were £111k (2021 - £99k) property expenses arising from the management of investment property that generated rental income during the year.

As at 30 September 2022, the Company had acquired 102 (2021 - 99) new build properties from housebuilders, and 6 (2021 - 7) 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.

Heylo Housing Secured Bond Plc

Notes to the Financial Statements For the Year Ended 30 September 2022

12. Investment property (continued)

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

	2022	2021
Discount rates	5.25% - 6.75%	4.75% - 6.25%
HPI - house price index	3.75%	3.75%
RPI - retail price index	3.5%	3.0%
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 FY22, 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 2022 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 £2.0 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 £1.1 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 £62k 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 2022, the Company had not entered into any contractual commitments with developers to complete any property purchases.

Heylo Housing Secured Bond Plc

Notes to the Financial Statements For the Year Ended 30 September 2022

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:

	2022	2021
	£000	£000
Gross historic cost	14,149	14,451

13. Inventory

	2022	2021
	£000	£000
Shared ownership properties	66	145

An expense of £571,128 (2021 - £481,894) has been charged to the income statement in the period on first tranche sales. There were no write downs (2021 - £Nil) or reversal of prior period inventory write downs (2021 - Nil). No inventories are carried at below cost or net realisable value (2021 - £Nil).

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

	2022	2021
	£000	£000
Trade debtors	13	8
Amounts owed by group undertakings	310	462
Amounts owed by related parties	-	300
Other debtors	82	78
Prepayments and accrued income	11	-
	416	848

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 (2021 - £152,092) in relation to grant income receivable from a fellow subsidiary within the Group.

Heylo Housing Secured Bond Plc

Notes to the Financial Statements For the Year Ended 30 September 2022

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

	2022 £000	2021 £000
Trade creditors	10	5
Amounts owed to group undertakings	5	37
Other creditors	19	20
Government grant liabilities	117	63
Accruals	52	40
	203	165

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

	2022 £000	2021 £000
Secured 1.625% inflation linked 10 year Sterling Bond	17,621	16,340
Less: issue costs	(412)	(477)
	17,209	15,863

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 £1,281,212 (2021 - £221,880) and the interest payable was £281,724 (2021 - £263,757), giving a total expense in the period of £1,562,936 (2021 - £485,637) shown as interest costs in the Company's Statement of Comprehensive Income.

Only the £281,724 (2021 - £263,757) interest was payable and included in the calculation of the debt service cover ratio. The £1,281,212 (2021 - £221,880) increase due to the LPI Index was added to the opening balance £16,339,576 (2021 - £16,117,696) to give the closing balance of £17,620,788 (2021 - £16,339,576) and this figure was tested against the £20,263,057 (2021 - £19,791,119) property valuation in the calculation of the asset cover ratio.

As at 30 September 2022, the fair value of the Secured 1.625% inflation linked 10 year Sterling Bond was £17,514,406 (2021 - £16,524,160). The fair value has been calculated with reference to its published price quotation on the London Stock Exchange where the bonds were trading at 113.55 pence (2021 - 107.1 pence). The fair value is determined in accordance with Level 1 of the fair value hierarchy outlined in IFRS 13 Fair Value Measurement.

Heylo Housing Secured Bond Plc

Notes to the Financial Statements For the Year Ended 30 September 2022

17. Financial instruments

	2022 £000	2021 £000
Financial assets		
Financial assets measured at amortised cost	<u>2,012</u>	<u>1,772</u>
Financial liabilities		
Financial liabilities measured at amortised cost	<u>(17,412)</u>	<u>(16,028)</u>

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	Total £000
Period						
Current year	280	302	325	1,578	17,620	20,105
Prior year	275	279	283	1,172	16,340	18,349

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.

Heylo Housing Secured Bond Plc

Notes to the Financial Statements For the Year Ended 30 September 2022

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.

(g) 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.

Heylo Housing Secured Bond Plc

Notes to the Financial Statements For the Year Ended 30 September 2022

17. Financial instruments (continued)

(h) Covid 19

Following the macroeconomic challenges of COVID 19 shutdown in 2020 and the return of COVID 19 restrictions at the beginning of 2021, the UK residential market has maintained and experiences strong growth. As per the market research, annual house price growth for the 2022 calendar year was 9.5% in September 2022, decreasing slightly from 10% in August. Prices were unchanged over the month from August, after taking account of seasonal effects. This is the first month not to record a sequential rise since July 2021. The company and its customers is exposed to financial risk from economic volatility experienced following COVID 19 such as mortgage costs increasing together with higher inflation, higher energy bills, 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 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.

(i) 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 2022, but we have identified the climate transition as an emerging risk due to its intensifying importance to all stakeholders.

(j) 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 in areas such as risk management and governance.

(k) 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.

Heylo Housing Secured Bond Plc

Notes to the Financial Statements For the Year Ended 30 September 2022

18. Deferred tax liability

	2022 £000	2021 £000
At beginning of year	1,991	1,334
Charged to profit or loss	148	657
At end of year	2,139	1,991

The provision for deferred taxation is made up as follows:

	2022 £000	2021 £000
Capital gains	2,139	1,991

19. Share capital

	2022 £000	2021 £000
Allotted, called up and fully paid shares classified as equity		
12,500 (2021 - 12,500) Ordinary shares of £1.00 each	13	13
Allotted and called up shares classified as equity		
37,500 (2021 - 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.

Heylo Housing Secured Bond Plc

Notes to the Financial Statements For the Year Ended 30 September 2022

21. Analysis of net debt

	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)
	At 1 October 2020 £000	Cash flows £000	Interest on bonds £000	Amortisation of capitalised issue costs £000	At 30 September 2021 £000
Cash at bank and in hand	3,510	(2,586)	-	-	924
Debt due after 1 year	(15,562)	264	(486)	(78)	(15,862)
	(12,052)	(2,322)	(486)	(78)	(14,938)

22. Contingent liabilities and commitments

The Company has received government grant funding of £2.6 million (2021 - £2.6 million) from Homes England to support the delivery of shared ownership homes. No government grant funding has been received in the current year and no government grant funding is receivable as well. 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, £117,006 (2021 - £62,941) of liabilities were recognised within other creditors in note 15.

Heylo Housing Secured Bond Plc

Notes to the Financial Statements For the Year Ended 30 September 2022

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 2022 management fees included within operating costs amounting to £110,992 (2021 - £99,172) were paid by the Company. Property acquisition costs of £1,800 (2021 - £34,431) were charged by ResiManagement Limited in the year and capitalised in the financial statements of the Company. Short term working loan was provided of £Nil (2021 - £300,000) to ResiManagement which has been subsequently settled post year-end.

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 2022, Company's gross rental income passes through the HHRP amounting to £368,194 (2021 - £337,000).

Amounts paid to Outra Limited for advertising and reporting maintenance total £29,944 (2021 - £18,214) and amounts paid to PXS 3 Limited for sales progressions total £Nil (2021 - £8,700). Outra Limited and PXS 3 Limited are considered related parties as they have a majority shareholder in common.

As disclosed in note 14 amounts owed by parent undertakings amount to £37,500 (2021 - £37,500) and amounts owed by a fellow subsidiary within the Group amounts to £272,894 (2021 - £424,986). Amounts owed to the parent company total £5,006 (2021 - £1,930) and £Nil (2021 - £34,544) is owed to fellow subsidiaries as disclosed in note 15.

24. Events after balance sheet date

During the year, Heylo Housing Registered Provider Limited (HHRP) was first placed on the Gradings Under Review list, and shortly before Christmas on 21st December 2022, received the Regulatory Judgement that rated HHRP as G3/V3. Whilst HHRP was disappointed with this outcome, it is committed to working alongside the Regulator to address their concerns and bring HHRP back to compliance as soon as possible. An assessment was performed as to the implications to the Company and leases held through HHRP and the Directors reached the conclusion that there was no impact on the going concern status of the Company. The Company has sufficient resources to continue to trade and options are being actively pursued to restructure the Group in order that HHRP can comply with governance and viability standards.

25. 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 Heylo Housing Group Limited are available to the public from its registered office, 6 Wellington Place, Fourth Floor, Leeds, England, LS1 4AP.