Heylo Housing Secured Bond Plc

Annual Report and Financial Statements

Year Ended

30 September 2020

Company Number 11222614

Heylo Housing Secured Bond Plc

Company Information

Directors	J P Conway A W Geczy G P C Mackay
Company secretary	Gravitas Company Secretarial Services Limited
Registered number	11222614
Registered office	5th Floor One New Change London United Kingdom EC4M 9AF
Independent auditor	Ernst & Young LLP 1 More London Place London EC4M 9AF
Bankers	HSBC UK 69 Pall Mall London SW1Y 5EY
Solicitors	Pinsent Masons LLP 30 Crown Place London EC2A 4ES

Heylo Housing Secured Bond Plc

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Strategic Report
For the Year Ended 30 September 2020

Introduction

The Directors present their Strategic Report of Heylo Housing Secured Bond Plc ("the Company" or "HHSB") for the year ended 30 September 2020.

Business review

The Company is wholly owned by Heylo Housing Group Limited ("The Group"), the ultimate parent company of the Heylo Group companies.

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 was established in 2018 and was awarded Investment Partner status by Homes England to participate in the Shared Ownership and Affordable Homes Programme 2016-2021 ("SOAHP"). As at 30 September 2020, the company had acquired 93 new build properties from housebuilders, with associated grant received of £2.6 million. In addition, it acquired 7 second-hand properties via the Your Home product.

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

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. In addition, and as further mitigation, rental income would not be impacted by a fall in the Retail Price Index (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) Covid-19

Despite the macroeconomic challenges of COVID-19 in 2020 the UK residential market experienced strong growth. According to Nationwide, annual house price growth for the 2020 calendar year was 7.3%, the highest since 2014 with new build growth showing a 13.8% increase for 2020. The potential end of the stamp duty holiday and rising unemployment is likely to temper the market in 2021 indicated by the Nationwide annual house price growth slowing to 6.4% in January 2021.

Whilst the full consequences of the pandemic and its effects on the portfolio cannot yet be known, the Company believes that its liquidity position, its business model, diversified portfolio and its focus on risk mitigation combined with operational cash and funding reserves, offer a significant degree of protection to the business.

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

Engagement with key stakeholders

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

Customers
Communications

Heylo communicates with customers in the following ways:

- Direct staff contact via email, direct dial and a customer call centre to manage routine enquiries ranging from sales through to post sale lease and property enquiries.
- Welcome and induction materials for new customers.
- Website FAQs and info email addresses to route more complex enquiries to relevantly skilled team members.
- Customer feedback and satisfaction via an annual 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.
- In 2021 Heylo will be setting up and working with a customer focus group to help improve the business and responsiveness to customer needs and aspirations.

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 and 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.

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

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

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

Shareholders
The Company has only one Shareholder.

Employees
The Company has no employees.

Key Board decisions and considerations

The Company entered into sale agreements in respect of the disposal of 16 shared ownership properties owned by the Company to interested purchasers. The commercial rationale for the sale and transfer was to rebalance portfolio by product type. The price paid by the purchasers of the properties reflected the open market value of the properties as at August 2020 together with an additional amount reflecting rental income. The total amount to be received by the Company will be re-invested in the purchase of new shared ownership properties to ensure that the Company can continue to meet its obligations to its noteholders.

This report was approved by the board on 18TH MAY 2021. and signed on its behalf.

J P Conway
Director

Directors' Report (continued)
For the Year Ended 30 September 2020

The directors present their report and the audited financial statements for the year ended 30 September 2020.

Results and dividends

The loss for the year, after taxation, amounted to £1.5m (2019 restated - profit of £5.0m).

The directors do not recommend the payment of a dividend (2019: 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.

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 (Appointed 3 July 2020)
A W Geczy (Appointed 13 November 2020)

I G Laing (Appointed 3 July 2020, Resigned 13 November 2020)
C A Hewitt (Resigned 3 July 2020)
B G Lochead (Resigned 3 July 2020)

Future developments

The business strategy of the Company is to invest in residential properties provided on a part buy – part rent basis.

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.

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.

Going concern and events after the reporting date

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 £3.7m (2019: £2.7m) and net assets of £3.6m (2019: £5.1m). The Company has cash at bank and in hand of £3.5m (2019: £0.5m).

In preparing the cash flow forecast to support the going concern assessment, the directors prepared a going concern assessment for the 12 month period to 31 May 2022. 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, 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 within 5-10% of expected revenue and the Covid-19 pandemic has, to date, had only had a limited impact on the Company's cashflow. Since September 2020, 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 and into 2021, 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.

With respect to the financial covenants, the Directors have identified the following material uncertainty with respect to the Company's going concern assessment:

The Asset Cover Ratio will continue to be tested on a six monthly basis during the going concern period. 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. Whilst there is current headroom in respect of the Asset Cover Ratio, the Directors remain aware that a decrease in the value by £1.4m or 8.6% of the Company's property portfolio may lead to a breach of this covenant during the going concern period. If a breach did occur, the Directors have the right to cure a breach, however the Company's ability to remedy a potential breach is limited.

This condition represents a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. Nevertheless, the Directors are confident in their ability to effectively manage the rental income produced by the property portfolio and minimise tenant defaults throughout the going concern period. The Directors have performed a detailed sensitivity analysis in connection with house price inflation to date, retail price inflation, staircasing 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 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 financial statements do not include adjustments that would result if the Company was unable to continue as a going concern.

This report was approved by the board on 18TH MAY 2021 and signed on its behalf.

J P Conway
Director

Directors' Responsibilities Statement
For the Year Ended 30 September 2020

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards in conformity with the Companies Act 2006 ('IFRS'). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- present fairly the financial position, financial performance and cash flows of the Company;
- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements that are reasonable;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance;
- state whether the Company financial statements have been prepared in accordance with IFRS, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Opinion

We have audited the financial statements of Heylo Housing Secured Bond Plc for the year ended 30 September 2020 which comprise the statement of Comprehensive Income, the Statement of Financial Position, Statement of cash flows, the Statement of changes in equity and the related notes 1 to 24, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 30 September 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006; 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 under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 2.2 in the financial statements that discloses a material uncertainty in connection with the Company's ability to continue as going concern. The material uncertainty focuses upon the Company's ability to comply with specific financial loan covenants during the going concern period to 31 May 2022, specifically the Asset Cover Ratio which is dependent upon various assumptions made by the external valuer when a property valuation is performed for covenant compliance purposes.

As stated in note 2.2, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as going concern. Our opinion is not modified in respect of this matter.

In response to this material uncertainty our audit approach responded with the following procedures:

- We obtained an understanding of the process followed by management to prepare the Company's going concern assessment, including identifying and assessing the impact of Covid-19.
- We obtained the base case cash flow and liquidity forecasts covering the going concern period and the additional scenarios prepared by management including the extreme downside scenario. We tested the mathematical accuracy of the models.

- We challenged the appropriateness of those forecasts by assessing historical forecasting accuracy, challenging management's consideration of downside sensitivity analysis and applying further sensitivities where appropriate to stress test the impact on liquidity.

- We performed testing to evaluate whether the covenant requirements of the debt facilities would be breached under either the base case or the stress scenarios. We performed additional reverse stress testing on key assumptions and considered the likelihood of outcomes including controllable mitigating actions over and above the scenarios modelled. We engaged our own internal Chartered Surveyors to assist our considerations.

- We obtained evidence of the agreements with lenders setting out terms and conditions of lending including covenant compliance.

- We read minutes of board meetings with a view to identifying any matters which may impact the going concern assessment.

- We read the disclosures in the financial statements in relation to going concern and the related material uncertainty with a view to confirming that they adequately disclose the risk, the impact on the Company's operations and results and potential mitigation actions.

Overview of our audit approach

Key audit matters	• Valuation of the investment property portfolio • Improper revenue recognition, including the timing of revenue recognition for rental income and the disposal of shared ownership properties • The accounting principles followed by the company are not aligned to the specialist operations of the entity
Materiality	• Overall materiality of £208k, which represents 1% of total assets.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included 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. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report. In 2020 the risks remain consistent with those disclosed in 2019 with the exception of the revenue recognition risk which has been updated to combine the revenue recognition risk associated with rental revenue and revenue from the sale of shared ownership properties into one key audit matter.

Risk	Our response to the risk	Key observations communicated to Management
Valuation of the investment property portfolio (£17,192k, 2019: £18,609k) *Accounting policies (page 30); and Note 12 of the Financial Statements (page 35 - 36).* The valuation of investment property requires significant estimation and judgement by management and its external valuers. Any input inaccuracies or unreasonable bases used in these judgements (such as in respect of house price growth and the rate of expected staircasing) could result in a material misstatement of the income statement and balance sheet. There is also a risk that management may influence the significant judgements and estimates in respect of investment property valuations to achieve performance targets. Given the sensitivity to change in inputs to the fair value of Investment property, this risk was considered a significant risk.	Our audit procedures around the valuation of investment property included: We evaluated the Company's controls over data used in the valuation of the investment property portfolio and management's review of the valuations. We read the valuation report prepared by the Company's external valuer, Montagu Evans and agreed that the valuation approach used was consistent with the requirements of International Accounting Standards. We evaluated the competence of Montagu Evans, which included consideration of their qualifications and expertise. We also read their terms of engagement with the Company, determining that there were no matters that affected their independence and objectivity or imposed scope limitations upon them. For a sample of properties, we tested the lease documentation provided by the Company to Montagu Evans for valuation purposes. This included agreeing underlying lease data, such as current rent and lease term, to executed lease agreements. We also performed testing over a sample of properties to validate the properties existed by agreeing back to title deeds. Together with the Chartered Surveyors on the audit team, we met with Montagu Evans to discuss their valuation approach and the judgements they made in assessing the investment property valuation. Key judgements included assumptions in respect of the Retail Price Index (RPI) affecting rental growth, the rate of	We have tested the inputs, assumptions and methodology used by Montagu Evans. We have concluded that the methodology applied is reasonable and that the external valuations are an appropriate assessment of the market value of the investment property portfolio at 30 September 2020. We concluded that the value assigned to the property portfolio (£17.1m) was within a reasonable range of values (£14.3-17.3m), albeit at the upper end of this range. We consider that management provided an appropriate level of review and challenge over the valuations, and we did not identify evidence of undue management influence.

	staircasing, discount rate and House Price Inflation (HPI) and other assumptions that all impacted the valuation. We also discussed any adjustment to the assumptions that were made to take into consideration the impact of the Covid-19 outbreak. The Chartered Surveyors on our audit team reviewed and challenged the valuation approach and assumptions applied by Montagu Evans. Our Chartered Surveyors also assessed the above-mentioned key judgement assumptions for every property in the investment portfolio; comparing each assumption applied to available market data. Our Chartered Surveyors also understood asset specific factors and obtained market transactional evidence. They also considered whether the other assumption relating to deductions for non-recoverable costs as applied by Montagu Evans, was supported by available data. In addition, we also independently challenged the valuation by forming our own expectations in respect of the key judgement described above. For these assumptions we independently obtained data to determine our own expectations, including any contradictory evidence. Where variances occurred, we investigated further by discussing with management, our Chartered Surveyors and Montagu Evans and, where appropriate, obtained further evidence. We assessed the adequacy of the additional disclosures of estimates in note 3 and valuation assumptions in note 12 that were made in accordance with IFRS 13 – Fair Value Measurement.	

Improper revenue recognition, including the timing of revenue recognition for rental income and disposal of shared ownership properties Rental income: £467k (2019: £191k) Revenue from sale of shared ownership property: £2,100k (2019: £1,750k) *Accounting policies (page 29); and Note 5 of the Financial Statements (page 32).* Management are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. This may result in the overstatement or deferral of revenues to assist in meeting current or future targets or expectations.	Our audit procedures over revenue recognition included: We evaluated the Company's controls over revenue recognition which have been designed by the Company to prevent and detect fraud and errors in revenue recognition. *Rental income* We selected a sample of lease agreements and agreed the terms per the lease agreements to the data input into the property management system. Detailed analytical procedures were performed using data analytics tools on the recognition of revenue to assess whether revenue had been recognised in the appropriate accounting period. We performed a three-way correlation analysis to obtain substantive evidence over the occurrence and measurement of revenue testing 100% of rental income. We recalculated the rental income for a sample of the investment property portfolio, including agreeing back to lease agreements. We assessed whether the revenue recognition policies adopted complied with International Accounting Standards. We performed audit procedures specifically designed to address the risk of management override of controls including journal entry testing, which included particular focus on journal entries which impact revenue. *Disposal of shared ownership properties* We performed testing over a sample of disposals, testing each to completion statement and cash	We audited the timing of revenue recognition, disposal of shared ownership properties and assessed the risk of management override. Based upon the audit procedures performed, we have concluded that revenue and profit and loss on sale of shared ownership have been recognised on an appropriate basis in the year.

	receipt, ensuring the sale was recognised in the correct period. We assessed whether the accounting policies adopted complied with International Accounting Standards. We performed audit procedures specifically designed to address the risk of management override of controls including journal entry testing, which included particular focus on journal entries which impact sales of shared ownership properties.	

Risk	Our response to the risk	Key observations communicated to Management
The accounting principles followed by the company are not aligned to the specialist operations of the entity. *Accounting policies (page 23); and Note 2.4 of the Financial Statements (page 24 - 29).* Due to the specialist nature of the Company in the real estate sector there is a risk that the accounting principles followed by the company are not aligned to the operations of the entity. This has resulted in a prior year adjustment, as disclosed in note 2.4.	Our audit procedures around the accounting policies adopted included: We read and understood the accounting principles adopted by the Company. We assessed the appropriateness of the policies adopted by the Company against the requirements of International Accounting Standards. We challenged the accounting for investment property, inventory and government grants, involving our technical accounting specialists and considering the entity's specialist nature in the real estate sector. We benchmarked the policies adopted to industry practice.	We concluded that, as a result of our procedures performed, a prior year adjustment was required in the financial statements as disclosed in note 2.4.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the company to be £208k (2019: £168k), which is 1% (2019: 1%) of total assets. We believe that the total assets benchmark provides us with the most appropriate basis for determining overall materiality given that the entity's investment property balance accounts for around 81% of the entity's total assets (2019: 87%) and the fact that key users of the financial statements are primarily focused on the valuation of the investment property portfolio. This provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

During the course of our audit, we reassessed initial materiality and confirmed that our final materiality was consistent with the materiality we calculated initially.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the company's overall control environment, our judgement was that performance materiality was 50% (2019: 75%) of our planning materiality, namely £104k (2019: £126k). We considered that a decrease in performance materiality was necessary due to a higher expectation of errors arising during the audit process.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Board of Directors that we would report to them all uncorrected audit differences in excess of £10k (2019: £8k), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 1-8, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for 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 the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (International Accounting Standards and the Companies Act 2006) and the relevant tax regulations in the United Kingdom.
- We understood how Heylo Housing Secured Bond Plc is complying with those frameworks through enquiry with management, and by identifying the company's policies and procedures regarding compliance with laws and regulations. We also identified those members of management who have the primary responsibility for ensuring compliance with laws and regulations, and for reporting any known instances of non-compliance to those charged with governance.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by enquiry with management during the planning and execution phases of our audit.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved the following:
    - Inquiry of senior management, and when appropriate, those charged with governance regarding their knowledge of any non-compliance or potential non-compliance with laws and regulations that could affect the financial statements.
    - Reading minutes of meetings of those charged with governance.
    - Obtaining and reading correspondence from legal and regulatory bodies.
    - Enquiry of entity staff in tax and compliance functions to identify any instances of non-compliance with laws and regulations, including communications with regulators and tax authorities.
    - Auditing the risk of management override of controls, including through testing journal entries and other adjustments for appropriateness. Challenging judgements made by management. This included corroborating the inputs and considering contradictory evidence.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed by the company on 22 January 2019 to audit the financial statements for the year ending 30 September 2018.

  The period of total uninterrupted engagement including previous renewals and reappointments is three years, covering the years ending 30 September 2018 to 30 September 2020.

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting the audit.

- The audit opinion is consistent with our additional report to the Board of Directors.

Use of our report

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.

E.Y. LLP

David Wilson (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
London
United Kingdom
18 May 2021

Heylo Housing Secured Bond Plc

Company Number 11222614

Statement of Comprehensive Income
For the Year Ended 30 September 2020

	Note	2020 £000	As restated* 2019 £000
Revenue	4,5	**2,567**	1,941
Operating costs	7	**(2,213)**	(2,047)
Gross profit/(loss)		**354**	(106)
Administrative expenses		**(353)**	(203)
Loss on disposal of investment properties	6	**(1,038)**	-
Gain from changes in fair value of investment properties	12	**872**	7,134
Operating (loss)/profit		**(165)**	6,825
Interest payable and similar expenses	10	**(818)**	(578)
(Loss)/profit before tax		**(983)**	6,247
Taxation	11	**(522)**	(1,227)
(Loss)/profit for the financial year		**(1,505)**	5,020
Total comprehensive (loss)/income for the year		**(1,505)**	5,020

All profit and total comprehensive income are attributable to the owners of the company.

*Details of the prior year restatement are included in note 2.4.

The notes on pages 23 to 43 form part of these financial statements.

Heylo Housing Secured Bond Plc
Registered number:11222614

Statement of Financial Position
As at 30 September 2020

	Note	2020 £000	As restated* 2019 £000
Non- current assets			
Investment property	12	**17,192**	18,609
		17,192	18,609
Current assets			
Inventory	13	**169**	2,178
Trade and other receivables	14	**258**	69
Cash at bank and in hand		**3,510**	497
		3,937	2,744
Current liabilities			
Trade and other payables	15	**(253)**	(49)
Net current assets		**3,684**	2,695
Total assets less current liabilities		**20,876**	21,304
Non-current liabilities			
Trade and other payables	16	**(15,562)**	(15,007)
Deferred tax liability	18	**(1,749)**	(1,227)
Net assets		**3,565**	5,070
Issued capital and reserves attributable to owners of the Company			
Share capital	19	**50**	50
Non-distributable reserves	20	**3,060**	3,884
Retained earnings	20	**455**	1,136
Total equity		**3,565**	5,070

*Details of the prior year restatement are included in note 2.4.

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

J P Conway
Director

18TH MAY 2021.

The notes on pages 23 to 43 form part of these financial statements.

Heylo Housing Secured Bond Plc

Statement of Changes in Equity
For the Year Ended 30 September 2020

	Called up share capital £000	Non-distributable reserves £000	Retained earnings £000	Total equity £000
At 30 September 2019 (as restated - see note 2.4)	**50**	**3,884**	**1,136**	**5,070**
Comprehensive income for the year				
Loss for the year	**-**	**-**	**(1,505)**	**(1,505)**
Total comprehensive income for the year	**-**	**-**	**(1,505)**	**(1,505)**
Transfer between reserves	**-**	**(824)**	**824**	**-**
At 30 September 2020	**50**	**3,060**	**455**	**3,565**

Statement of Changes in Equity
For the Year Ended 30 September 2019

	Called up share capital £000	Non-distributable reserves £000	Retained earnings £000	Total equity £000
At 1 October 2018	50	-	-	50
Comprehensive income for the year				
Profit for the year (as restated - see note 2.4)	-	-	5,020	5,020
Total comprehensive income for the year	-	-	5,020	5,020
Transfer between reserves (as restated - see note 2.4)	-	3,884	(3,884)	-
At 30 September 2019 (as restated – see note 2.4)	50	3,884	1,136	5,070

The notes on pages 23 to 43 form part of these financial statements.

Heylo Housing Secured Bond Plc

Statement of Cash Flows
For the Year Ended 30 September 2020

	Note	2020 £000	As restated* 2019 £000
Cash flows from operating activities			
(Loss)/profit for the financial year		**(1,505)**	5,020
Adjustments for:			
Loss on disposal of investment property	6	**1,038**	-
Interest payable and similar expenses	10	**818**	578
Taxation	11	**522**	1,227
Decrease/(increase) in inventory	13	**2,009**	(2,178)
Increase in trade and other receivables		**(10)**	(32)
Increase in trade and other payables		**45**	49
Gain from changes in fair value of investment properties	12	**(872)**	(7,134)
Net cash used in operating activities		**2,045**	(2,470)
Cash flows from investing activities			
Purchase of investment properties		**(1,768)**	(13,914)
Sale of investment properties		**2,998**	-
Government grants received re investment properties		**-**	2,439
Net cash generated from/(used in) investing activities		**1,230**	(11,475)
Cash flows from financing activities			
Net borrowings issued	16	**-**	15,425
Debt issue costs incurred	16	**-**	(762)
Interest paid	16	**(262)**	(234)
Net cash generated (used in)/generated from financing activities		**(262)**	14,429
Net increase in cash and cash equivalents		**3,013**	484
Cash and cash equivalents at beginning of year		**497**	13
Cash and cash equivalents at the end of year		**3,510**	497
Cash and cash equivalents at the end of year comprise:			
Cash at bank and in hand		**3,510**	497
		3,510	497

*Details of the prior year restatement are included in note 2.4.

The notes on pages 23 to 43 form part of these financial statements.

1. General information

Heylo Housing Secured Bond Plc ("the Company") is a public company, limited by shares, incorporated in England and Wales under the Companies Act 2006. The address of the registered office is 5th Floor, One New Change, London EC4M 9AF given on the Company Information page 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 International Financial Reporting Standards in conformity with the Companies Act 2006 ('IFRS').

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

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

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 £3.7m (2019: £2.7m) and net assets of £3.6m (2019: £5.1m). The Company has cash at bank and in hand of £3.5m (2019: £0.5m).

In preparing the cash flow forecast to support the going concern assessment, the directors prepared a going concern assessment for the 12 month period to 31 May 2022. 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, 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 within 5-10% of expected revenue and the Covid-19 pandemic has, to date, had only had a limited impact on the Company's cashflow. Since September 2020, 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 and into 2021, 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.

With respect to the financial covenants, the Directors have identified the following material uncertainty with respect to the Company's going concern assessment:

2. Accounting policies (continued)

2.2 Going concern (continued)

The Asset Cover Ratio will continue to be tested on a six monthly basis during the going concern period. 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. Whilst there is current headroom in respect of the Asset Cover Ratio, the Directors remain aware that a decrease in the value by £1.4m or 8.6% of the Company's property portfolio may lead to a breach of this covenant during the going concern period. If a breach did occur, the Directors have the right to cure a breach, however the Company's ability to remedy a potential breach is limited.

This condition represents a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. Nevertheless, the Directors are confident in their ability to effectively manage the rental income produced by the property portfolio and minimise tenant defaults throughout the going concern period. The Directors have performed a detailed sensitivity analysis in connection with house price inflation to date, retail price inflation, staircasing 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 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 financial statements do not include adjustments that would result if the Company was unable to continue as a going concern.

2.3 Impact of new international reporting standards, amendments and interpretations

The company has adopted the new accounting standard IFRS 16 Leases. This standard has had no significant impact on the financial statements.

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

2.4 Prior year adjustments

<u>Government grants</u>
In the previous periods government grants were erroneously shown as a long-term liability on the statement of financial position on the basis that they are repayable at some future date once a tenant has staircased in part or in full. This potential obligation to repay is now regarded as a contingent liability until the conditions for repayment of grant are met. In the current year, government grants are recognised immediately as income and offset against the valuation loss arising when a property is let at below-market terms. When a tenant staircases a liability is recorded in the statement of financial position to reflect the obligation to repay the required portion of the grant to the relevant government body. The prior period has been restated to reflect this treatment, resulting in a net increase of £2,024,000 to net assets with a corresponding increase in 2019 net profit.

The net profit in 2019 increased by £2,024,000 due to the release of £2,439,000 government grant liability (which increased the carrying value of investment property) but partially offset by £415,000 recognition of deferred tax liability.

2. Accounting policies (continued)

2.4 Prior year adjustments (continued)

Inventory

In certain situations, the Company acquires full vacant possession of a property before a tenant is in place. Where a property is acquired vacant, a long lease on a property under a shared ownership agreement is granted through a sale of a portion of the property to the occupier in return for an initial payment (the First Tranche).

In previous periods, first tranche portion of properties under shared ownership agreements were erroneously included within investment properties on the balance sheet as the Company holds the assets for long term rental income under IAS 40 Investment Property. These first tranche portions are now regarded as inventories held at the lower of cost and net realisable value. Similarly, the proceeds from first tranche sales have previously been presented net within loss on disposal of investment properties. A first tranche sale of inventory is now regarded as revenue, with an associated cost of sale and presented gross on the income statement. The prior period has been restated to reflect this treatment, resulting in a net increase of £1,234,000 to net assets, and a corresponding increase to 2019 net profit.

The net profit in 2019 increased by £1,234,000 due to recognition of £2,177,000 of inventory at cost (net of a £181,000 write-down) but partially offset by £653,000 reversal of valuation gains related to the inventory portion previously included in investment property, and recognition of deferred tax liabilities of £290,000.

The 2019 statement of comprehensive income was also restated to gross up revenue (£1,750,000) and cost of sales (£1,825,000) for the £75,000 net loss relating to first tranche sales previously reported as net loss on disposal of properties.

Other reclassification

The comparative statement of comprehensive income was restated to conform with the current year's presentation. Accordingly, £42,000 of property management fees previously included within administrative expenses are now included within operating costs. The reclassification did not have impact on net results or net assets.

Under paragraph 10(f) of IAS 1 Presentation of Financial Statements, the restatements described above would ordinarily require the presentation of a third statement of financial position as at 1 October 2018. However, as these restatements do not affect the statement of financial position at that date (i.e. there were no properties owned, grant received or management fees before 1 October 2018, the Directors do not consider that this would provide useful additional information and, in consequence, have not presented a third statement of financial position.

2. **Accounting policies (continued)**

2.4 Prior year adjustments (continued)

Statement of Comprehensive Income

	2019 As reported £000	Adjustment £000	2019 As restated £000
Revenue	191	1,750	1,941
Operating costs	-	(2,047)	(2,047)
Gross profit/(loss)	191	(297)	(106)
Administrative expenses	(245)	42	(203)
Loss on disposal of investment properties	(75)	75	-
Gain from changes in fair value of investment properties	2,990	4,144	7,134
Operating profit	2,861	3,964	6,825
Interest payable and similar expenses	(578)	-	(578)
Profit before tax	2,283	3,964	6,247
Taxation	(508)	(719)	(1,227)
Profit for the financial year	1,775	3,245	5,020
Total comprehensive income for the year	1,775	3,245	5,020

2. Accounting policies (continued)

2.4 Prior year adjustments (continued)

Statement of Financial Position (extract)

	30 September 2019 As reported £000	Adjustment £000	30 September 2019 As restated £000
Non-current assets			
Investment property	19,262	(653)	18,609
Current assets			
Inventory	-	2,178	2,178
Net current assets	517	2,178	2,695
Total assets less current liabilities	19,779	1,525	21,304
Non-current liabilities			
Trade and other payables	(17,446)	2,439	(15,007)
Deferred tax liability	(508)	(719)	(1,227)
Net assets	1,825	3,245	5,070
Capital and reserves			
Share capital	50	-	50
Non-distributable reserves	2,482	1,402	3,884
Retained earnings	(707)	1,843	1,136
Total equity	1,825	3,245	5,070

2. **Accounting policies (continued)**

2.4 Prior year adjustments (continued)

Statement of Cash Flows

	30 September 2019 As reported £000	Adjustment £000	30 September 2019 As restated £000
Cash flows from operating activities			
(Loss)/profit for the financial year	1,775	3,245	5,020
Adjustments for:			
Loss on disposal of investment property	75	(75)	-
Interest payable and similar expenses	506	72	578
Taxation	508	719	1,227
Decrease/(increase) in inventory	-	(2,178)	(2,178)
Increase in trade and other receivables	(32)	-	(32)
Increase in trade and other payables	49	-	49
Gain from changes in fair value of investment properties	(2,990)	(4,144)	(7,134)
Net cash used in operating activities	(109)	(2,361)	(2,470)
Cash flows from investing activities			
Purchase of investment properties	(18,096)	4,182	(13,914)
Sale of investment properties	1,750	(1,750)	-
Government grants received re investment properties	2,439	-	2,439
Net cash generated from/(used in) investing activities	(13,907)	2,432	(11,475)
Cash flows from financing activities			
Net borrowings issued	15,425	-	15,425
Debt issue costs incurred	(691)	(71)	(762)
Interest paid	(234)	-	(234)
Net cash generated (used in)/generated from financing activities	14,500	(71)	14,429
Net increase in cash and cash equivalents	484	-	484
Cash and cash equivalents at beginning of year	13	-	13
Cash and cash equivalents at the end of year	497	-	497

2. Accounting policies (continued)

2.4 Prior year adjustments (continued)

The comparative cash flow statement was also restated. Accordingly, a net cash outflow of £2,361,000 previously included within investing activities are now reported as part of operating activities. This net cash outflow relates to the portion of property acquisition costs allocated for inventories (£4,182,000), partially offset by the proceeds from first tranche sales in 2019 (£1,750,000). In addition, £71,000 payment of loan issue costs previously included in operating activities in error is now included within financing activities. Accordingly, net cash flows used in operating activities in 2019 of £109,000 was increased by £2,361,000.

2.5 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.

2.6 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.

2.7 Finance costs

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

2.8 Current and deferred taxation

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

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

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

2. Accounting policies (continued)

2.8 Current and deferred taxation (continued)

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

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

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

2.9 Investment property

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

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

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

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

Shared ownership

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

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

2.10 Inventories

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

2. 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. No significant impairment was deemed necessary in the current accounting period as the significant trade receivables balance consists of amounts owed by group undertakings (Note 14).

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.

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 deducted 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.

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 properties 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, local demand for shared ownership properties, demand for shared ownership properties, and the Company's general experience to date of first tranche shared ownership sales. In general, the average first tranche sales percentage assumed for vacant shared ownership properties is 25%. If there is a change in percentage used, this will affect the proportion of inventory and investment property recognised with a higher inventory value and lower investment property value. As at 30 September 2020 there were only two properties in inventory both of which were valued based on the actual first tranche sales percentages, 25% and 30% respectively. Both first tranche sales occurred shortly after the year end.

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

	2020 £000	As restated 2019 £000
Gross rental income	**467**	191
First tranche property sales	**2,100**	1,750
	2,567	1,941

6. Loss on disposal of investment properties

	2020 £000	As restated 2019 £000
Loss on disposal of investment properties	**(1,038)**	-

7. Operating costs

	2020 £000	As restated 2019 £000
Property expenses (see note 23)	**113**	42
First tranche cost of sales	**2,100**	2,005
	2,213	2,047

8. Auditor's remuneration

	2020 £000	2019 £000
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	**34**	30

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.

10. Interest payable and similar expenses

	2020 £000	2019 £000
Bond interest payable (see note 16)	**682**	507
Finance expenses and amortisation of bond issue costs	**136**	71
	818	578

Bond interest payable includes interest capitalised as part of principal amounts in accordance with the terms of the bonds.

11. Taxation

	2020 £000	As restated 2019 £000
Deferred tax		
Deferred tax on revaluation of properties	**522**	1,227
Taxation charge	**522**	1,227

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2019 - higher than) the standard rate of corporation tax in the UK of 19% (2019 - 19%). The differences are explained below:

	2020 £000	As restated 2019 £000
(Loss)/profit before tax	**(983)**	6,247
Profit multiplied by standard rate of corporation tax in the UK of 19% (2019 - 19%)	**(187)**	1,187
Effects of:		
Fixed asset differences	**575**	1,046
Expenses not deductible	**135**	81
Income not taxable	**(166)**	(1,032)
Difference in tax base versus accounting cost of properties disposed	**-**	14
Differences arising from tax changes	**141**	(104)
Tax losses not recognised	**24**	35
Total tax charge for the year	**522**	1,227

Factors that may affect future tax charges

The Company has tax losses of £617,000 (2019 restated - £280,000) 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.

There were no other factors that may affect future tax charges.

12. Investment property

	Investment property 2020 £000	As restated Investment property 2019 £000
Valuation		
At 1 October	**18,609**	-
Additions at cost	**1,929**	13,914
Disposals	**(4,036)**	-
Surplus on revaluation	**690**	4,695
At 30 September	**17,192**	18,609

Included within investment property is leasehold property of £1,176k (2019 restated: £1,072k) and freehold property of £16,016k (2019 restated: £17,537k).

The gain from changes in fair value of investment properties in the Statement of Comprehensive Income is shown net of a release of government grants of £182,000 (2019 restated: £2,439,000).

The Company's investment properties comprise 93 new build and 7 second-hand homes primarily located in the North of England and East Anglia.

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

12. Investment property (continued)

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

	2020	2019
Discount rates	**4.75 - 6.25%**	5.0 - 6.5%
HPI - house price index	**3.75%**	3.75%
RPI - retail price index	**2.5%**	2.7%
Staircasing rate	**1.0 - 1.5%**	0.6 - 1.2%

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 investment properties are held for the long term as our customers enter into a 125 year shared ownership lease. 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 2020 by flexing HPI and staircasing 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 £1.1 million increase in the fair value of the portfolio.

Significant increases/(decreases) in the 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 1.5-2.0% would lead to a £0.9 million decrease in the fair value of the same portfolio.

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

As at date of signing the accounts, the Company had not entered into any contractual commitments with developers to complete any property purchases.

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

	2020 £000	As restated 2019 £000
Gross historic cost	**12,798**	13,914

13. Inventory

	2020 £000	As restated 2019 £000
Shared ownership properties	**169**	2,178

An expense of £2,008,805 (2019 restated: £1,824,615) has been charged to the income statement in the year on first tranche sales. There were no write-downs (2019 restated: £181,000) or reversal of prior period inventory write-downs (2019: Nil). No inventories are carried at net realisable value (2019 restated: £2,008,805).

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

	2020 £000	2019 £000
Trade debtors	**3**	-
Amounts owed by group undertakings	**194**	37
Other debtors	**61**	32
	258	69

Amounts owed by group undertakings are interest free and repayable on demand. Included in amounts owed by group undertakings is an amount of £152,092 in relation to grant income receivable from a fellow subsidiary within the Group.

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

	2020 £000	2019 £000
Trade creditors	**2**	8
Amounts owed to group undertakings	**42**	-
Other creditors	**170**	32
Accruals	**39**	9
	253	49

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

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

	2020 £000	As restated 2019 £000
Secured 1.625% inflation linked 50-year Sterling Bond	**16,118**	15,698
Less: issue costs	**(556)**	(691)
	15,562	15,007

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 £419,970 (2019 - £273,012) and the interest payable was £262,215 (2019 - £234,451), giving a total expense in the period of £682,185 (2019 - £507,463) shown as interest costs in the Company's income statement.

Only the £262,215 (2019 - £234,451) interest was payable and included in the calculation of the debt service cover ratio. The £419,970 (2019 - £273,012) increase due to the LPI Index was added to the opening balance £15,697,726 (2019 - £15,424,400) to give the closing balance of £16,117,696 (2019 - £15,697,412) and this figure was tested against the £17,192,219 (2019 restated - £18,609,000) property valuation in the calculation of the asset cover ratio.

As at 30 September 2020, the fair value of the Secured 1.625% inflation linked 10 year Sterling Bond was £15,131,336 (2019 - £15,478,000). The fair value has been calculated with reference to its published price quotation on the London Stock Exchange where the bonds were trading at 98.1 pence (2019 - 98.6 pence). The fair value is determined in accordance with Level 1 of the fair value hierarchy outlined in IFRS 13 Fair Value Measurement.

Details of the restatement are given in note 2.4.

17. Financial instruments

	2020 £000	As restated 2019 £000
Financial assets		
Financial assets measured at amortised cost	**3,769**	566
Financial liabilities		
Financial liabilities measured at amortised cost	**(15,815)**	(15,056)

Financial assets that are debt instruments measured at amortised cost comprise cash, trade and other receivables and amounts owed by parent undertakings.

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.

Details of the restatement are given in note 2.4.

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

	1 year £000	2-3 years £000	4-5 years £000	5 years and onwards £000	Maturity £000
Period					
Current year	**267**	**275**	**282**	**1,528**	**16,118**
Prior year	**262**	**267**	**275**	**1,810**	**15,697**

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:

	2020 £000	2019 £000
1 year	**400**	461
2 – 5 years	**1,621**	1,875
5 years and onwards	**69,694**	83,798
	71,715	86,134

17. Financial instruments (continued)

The Company is exposed to credit risk, market (interest) risk and liquidity risk. The Company's senior management oversees the management of these risks. The Board of Directors reviews and agrees policies to manage each of these risks 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.

(b) Interest rate cash flow risk

Interest rate cash flow risk is the risk that future cash flows from 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. In addition, and as further mitigation, rental income would not be impacted by a fall in the Retail Price Index (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) Covid-19

Despite the macroeconomic challenges of COVID-19 in 2020 the UK residential market experienced strong growth. According to Nationwide, annual house price growth for the 2020 calendar year was 7.3%, the highest since 2014 with new build growth showing a 13.8% increase for 2020. The potential end of the stamp duty holiday and rising unemployment is likely to temper the market in 2021 indicated by the Nationwide annual house price growth slowing to 6.4% in January 2021.

Whilst the full consequences of the pandemic and its effects on the portfolio cannot yet be known, the Company believes that its liquidity position, its business model, diversified portfolio and its focus on risk mitigation combined with operational cash and funding reserves, offer a significant degree of protection to the business.

18. Deferred taxation

	2020 £000	As restated 2019 £000
At beginning of year	**1,227**	-
Charged to profit or loss	**522**	1,227
At end of year	**1,749**	1,227

The provision for deferred taxation is made up as follows:

	2020 £000	As restated 2019 £000
Capital gains	**1,749**	1,227

19. Share capital

	2020 £000	2019 £000
Allotted , called up and fully paid shares classified as equity		
12,500 Ordinary shares of £1.00 each	**13**	13
Allotted and called up shares classified as equity		
37,500 Ordinary shares of £1.00 each	**37**	37
	50	50

Authorised share capital: 50,000 ordinary shares of £1 each.

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

20. Reserves

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 cumulative profit or loss which is not distributable. This relates to investment property revaluations and the associated deferred tax.

21. Analysis of net debt

	At 1 October 2019 £000	Cash flows £000	Interest on bonds £000	Amortisation of capitalised issue costs £000	At 30 September 2020 £000
Cash at bank and in hand	497	3,013	-	-	3,510
Debt due after 1 year	(15,007)	263	(682)	(136)	(15,562)
	(14,510)	3,276	(682)	(136)	(12,052)

	At 1 October 2018 £000	Restated cash flows £000	Interest on bonds £000	Amortisation of capitalised issue costs £000	At 30 September 2019 £000
Cash at bank and in hand	13	484	-	-	497
Debt due after 1 year	-	(14,429)	(507)	(71)	(15,007)
	13	(13,945)	(507)	(71)	(14,510)

22. Contingent liabilities and commitments

The Company has received government grant funding of £2.6 million from Homes England to support the delivery of shared ownership homes.

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 no liabilities were recognised on the Statement of Financial Position.

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 2020 management fees included within operating costs amounting to £113,487 (2019 - £42,220) were paid by the Company. Property acquisition costs of £36,958 (2019 - £299,547) were charged by ResiManagement Limited in the year and capitalised in the financial statements of the Company.

The Company sold 6 properties to HH No. 2 Limited and 10 properties to HH No. 5 Limited, the Company's fellow subsidiary undertakings. Total consideration paid by HH No. 2 Limited amounted to £747,621 and the total consideration paid by HH No. 5 Limited amounted to £2,250,256. The price paid by the purchasers reflected open market value of the properties as at August 2020 together with an additional amount reflecting rental income.

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).

Amounts paid to Outra Limited for advertising and reporting maintenance total £46,603 (2019 - £Nil) and amounts paid to PXS 3 Limited for sales progressions total £24,200 (2019 - £Nil). 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 £41,441 (2019 - £37,500) and amounts owed by a fellow subsidiary within the Group amounts to £152,092 (2019 - £Nil) in relation to grant income receivable. Amounts owed to the parent company total £7,459 (2019 - £Nil) and £34,544 (2019 - £Nil) is owed to fellow subsidiaries as disclosed in note 15.

24. Controlling party

The Company's immediate and ultimate parent undertaking is Heylo Housing Group Limited. The directors consider that the ultimate controlling party of Heylo Housing Group Limited is the majority shareholder.

The largest and smallest group in which the Company is consolidated is that headed by Heylo Housing Group Limited, a company incorporated and registered in the United Kingdom. The consolidated accounts of Heylo Housing Group Limited are available to the public from its registered office, 5th Floor, One New Change, London EC4M 9AF.