Heylo Housing Secured Bond Plc

Annual Report and Financial Statements

Year Ended

30 September 2021

Company Number 11222614

Heylo Housing Secured Bond Plc

Company Information

Directors	G P C Mackay J P Conway A W Geczy
Company secretary	Squire Patton Boggs Secretarial Services Limited
Registered number	11222614
Registered office	6 Wellington Place Fourth Floor Leeds England LS1 4AP
Independent auditor	Ernst & Young LLP 1 More London Place London United Kingdom 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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Heylo Housing Secured Bond Plc

Strategic Report
For the Year Ended 30 September 2021

Introduction

The Directors present their Strategic Report of Heylo Housing Secured Bond Plc ("the Company" or "HHSB") for the year ended 30 September 2021.

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 to 2021" ("SOAHP"). As at 30 September 2021, the Company had acquired 99 (2020 - 93) new build properties from housebuilders, and 7 (2020 - 7) with its Your Home product and spread across 35 (2020 - 35) sites, with associated grant received of £2.6 million (2020 - £2.6 million).

HHRP, is a registered provider of social housing with the Regulator of Social Housing (registration number 4668). In the current year, the Company has acquired 9 properties and disposed three properties following tenants fully staircasing.

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.

Principal risks and uncertainties (continued)

(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) Inflation risk

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

(g) Contract risk

The performance of the Company's property investment portfolio is dependent upon each property's tenant meeting its contractual obligations. The Company is exposed to the risk that a number of its counterparties do not comply with the terms of the contract/leases and related obligations. The Company's mitigates this default risk by virtue of having a highly diversified portfolio in excess of 106 separately and independently tenanted properties - no single property or group of properties is material to the overall profitability of the Company or to its liquidity forecasts.

(h) Covid 19

Despite the macroeconomic challenges of COVID 19 in 2020 and the return of COVID 19 restrictions at the beginning of 2021, the UK residential market experienced strong growth. As per the market research, annual house price growth for the 2021 calendar year was 10% in September, and in month-on-month terms, house prices rose marginally by 0.1%. House prices remain around 13% higher than before the pandemic began in early 2020. The September 2021 RICS UK Residential Survey shows a steadier trend in buyer demand coming through, despite a brief pull-back in the wake of the activity seen before the phasing out of the stamp duty holiday ending.

Principal risks and uncertainties (continued)

(i) Climate change

We have identified the potential physical and transitional risks and opportunities presented by rising temperatures and climate change for our business and have also considered the scale of this risk to the Company. Climate change is not a principal risk for the Company for the year ended 30 September 2021, but we have identified the climate transition as an emerging risk due to its intensifying importance to all stakeholders.

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

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.

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

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

- Are working households (and less likely to be benefit dependent or vulnerable) who are seeking a performance, Value for Money and hence transactional rather than protective relationship with their landlord.
- Have been able to exercise a reasonable level of choice in the housing tenure and property offered to them.
- Have been able to exercise a reasonable level of choice in which housing provider has offered them shared ownership accommodation.
- Exercise a reasonable level of choice over who they buy key services from, given the HHRP and Heylo Housing Group model does not 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.

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.

This report was approved by the board on 6/22/2022 and signed on its behalf.

J P Conway
Director

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Jonathan Conway
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Heylo Housing Secured Bond Plc

Directors' Report
For the Year Ended 30 September 2021

The directors present their report together with the audited financial statements for the year ended 30 September 2021.

Results and dividends

The loss for the year, after taxation, amounted to £291k (2020 as restated – loss of £1,090k).

The directors do not recommend the payment of a dividend (2020 - 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
A W Geczy
I G Laing (resigned 13 November 2020)

Future developments

The business strategy of the Company remains to be investing 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.

Going concern

The financial statements have been prepared on a going concern basis which assumes that the Company will be able to meet its liabilities as and when they fall due for the foreseeable future. As at the balance sheet date, the Company has net current assets of £1.8m (2020: £3.7m) and net assets of £3.7m (2020 as restated: £4.0m). The Company has cash at bank and in hand of £0.9m (2020: £3.5m).

In preparing the cash flow forecast to support the going concern assessment, the directors prepared a going concern assessment from the date of approval of the financial statement to 30 June 2023. 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 to be strong against the expected revenue and the Covid 19 pandemic has, to date, had only had a limited impact on the Company's cashflow. Since September 2021, collection rates continue to be at 99%, although the number of people moving into and out of arrears or onto an off-repayment plan has increased along with the intensity of arrears management work. Based on its traditional, tried and tested approach to arrears collection, and given Government imposed limitations on legal action through possession and eviction, throughout 2020, 2021 and into 2022, 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 Directors acknowledge that the Company's property valuation is dependent upon various assumptions made by the external valuer when a property valuation is performed for covenant compliance purposes. The Asset Cover Ratio is a sensitive ratio and will continue to be tested on a six monthly basis during 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.

Whilst there is current headroom in respect of the Asset Cover Ratio, the Directors remain aware that, assuming net debt remains the same, a downward movement of £1.4m or 6.8% from the 30 September 2021 valuation of the Company's property portfolio, may lead to a breach of this covenant during the going concern period. Directors also note that the property valuation is performed by external valuers and is not within management's control. If a breach did occur under a plausible downside scenario, 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 financial statements do not include adjustments that would result if the Company was unable to continue as a going concern.

Heylo Housing Secured Bond Plc

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.

This report was approved by the board on 6/22/2022 and signed on its behalf.

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Jonathan Conway
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J P Conway
Director

Directors' Responsibilities Statement
For the Year Ended 30 September 2021

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable United Kingdom 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 Accounting Standards in conformity with the requirements of 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 and accounting estimates that are reasonable and prudent;
- 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 2021 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 Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 30 September 2021 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. 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 public interest 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 which indicates a material uncertainty in relation to the Company's ability to comply with specific financial loan covenants during the going concern period to 30 June 2023. This specifically relates to 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 auditing the financial statements, we have concluded that the director's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining 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.

- Obtaining the base case cash flow and liquidity forecasts covering the going concern period and the additional scenarios prepared by management including plausible downside scenarios.
- Testing the mathematical accuracy of the models.
- Challenging 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.
- Performing procedures to test 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.
- Obtaining evidence of the agreements with lenders setting out terms and conditions of lending including covenant compliance.
- Reading minutes of board meetings with a view to identifying any matters which may impact the going concern assessment.
- Reading 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.

We observed that the Company's asset cover covenant was highly sensitive to the valuation of the investment properties and has a lower headroom. A downward movement of £1.4m or 6.8% from the 30 September 2021 property valuation could result in the breach of the covenant. We note that Company's ability to remedy such a breach is limited. We concluded that this gives rise to a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Overview of our audit approach

Key audit matters	• Valuation of the investment properties 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 £217k, which represents 1% of total assets.

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.

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.

Risk	Our responses to the risk	Key observations communicated to Management
Valuation of the investment property portfolio (£19,791k, 2020: £17,192k) Accounting policies (page 29); 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.	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	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 2021. We concluded that the value assigned to the property portfolio (£19.8m) was within a reasonable range of values (£16.6-20.1m), albeit at the upper end of this range.

Risk	**Our responses to the risk**	**Key observations communicated to Management**
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 significant risk.	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 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-1 9 outbreak. The Chartered Surveyors on our audit team reviewed and challenged the valuation approach and assumptions applied by Montagu Evans. Our	

Risk	**Our responses to the risk**	**Key observations communicated to Management**
	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	Our audit procedures over revenue recognition included:	We audited the timing of rental income recognition, disposal of shared ownership properties

Risk	**Our responses to the risk**	**Key observations communicated to Management**
and disposal of shared ownership properties Rental income: £429k (2020: £467k) Revenue from sale of shared ownership property: £552k (2020: £2,100k) Accounting policies (page 27); and Note 5 of the Financial Statements (page 31-32). 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.	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 and tested a sample of cash receipts 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	and assessed the risk of management override. Based upon the audit procedures performed, we have concluded that rental income and revenue from the sale of shared ownership have been recognised on an appropriate basis in the year.

Risk	Our responses to the risk	Key observations communicated to Management
	testing, which included particular focus on journal entries which impact revenue. ***Disposal of shared ownership properties*** We performed testing over sample of disposals, testing each to completion statement and cash 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.	

In the prior year, our auditor's report included a key audit matter in relation to the accounting principles followed by the Company not being aligned to the specialist operations of the entity. In the current year, this has been removed as the Company has followed accounting policies appropriately, and they are in line with industry practice and the accounting framework.

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 £217k (2020: £208k), which is 1% (2020: 1%) of total assets. We believe that 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 91% of the entity's total assets (2020: 81%) 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% (2020: 50%) of our planning materiality, namely £109k (2020: £104k). We have set performance materiality at the same level as at in the prior year, due to the expectations 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 £11k (2020: £10k), 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 contained within the annual report.

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.

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 course of 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 themselves. 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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- 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 in conformity with the requirements of 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 four years, covering the years ending 30 September 2018 to 30 September 2021.

- 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.

Ernst & Young LLP

David Wilson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
22 June 2022

Heylo Housing Secured Bond Plc

Statement of Comprehensive Income
For the Year Ended 30 September 2021

	Note	2021 £000	As restated* 2020 £000
Revenue	5	**981**	2,567
Operating costs	7	**(581)**	(2,213)
Gross profit		**400**	354
Administrative expenses		**(302)**	(353)
Loss on disposal of investment properties	6	**(50)**	(1,038)
Gain from changes in fair value of investment properties		**883**	872
Operating profit/(loss)		**931**	(165)
Interest payable and similar expenses	10	**(565)**	(818)
Profit/(loss) before tax		**366**	(983)
Taxation	11	**(657)**	(107)
Profit/(loss) and total comprehensive income/(expense) for the financial year		**(291)**	(1,090)

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

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

The notes on pages 24 to 44 form part of these financial statements.

Heylo Housing Secured Bond Plc
Registered number:11222614

Statement of Financial Position
As at 30 September 2021

	Note	2021 £000	2021 £000	As restated* 2020 £000	As restated* 2020 £000
Non-current assets					
Investment property	12		**19,791**		17,192
Current assets					
Inventory	13	**145**		169	
Trade and other receivables	14	**848**		258	
Cash at bank and in hand		**924**		3,510	
		1,917		3,937	
Current liabilities					
Trade and other payables	15	**(165)**		(253)	
Net current assets			**1,752**		3,684
Total assets less current liabilities			**21,543**		20,876
Non-current liabilities					
Trade and other payables	16		**(15,863)**		(15,562)
Deferred tax liability	18		**(1,991)**		(1,334)
Net assets			**3,689**		3,980
Issued capital and reserves attributable to owners of the Company					
Share capital	19		**50**		50
Non-distributable reserves	20		**3,350**		3,060
Retained earnings	20		**289**		870
Total equity			**3,689**		3,980

*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 6/22/2022

DocuSigned by:

Jonathan Conway

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J P Conway
Director

The notes on pages 24 to 44 form part of these financial statements.

Heylo Housing Secured Bond Plc

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

	Called up share capital	Non-distributable reserves	Retained earnings	Total equity
	£000	£000	£000	£000
At 1 October 2020 (as previously stated)	50	3,060	455	3,565
Prior year adjustment (see note 2.4)	-	-	415	415
At 1 October 2020 (as restated)	50	3,060	870	3,980
Comprehensive income for the year				
Loss for the year	-	-	(291)	(291)
Total comprehensive income for the year	-	-	(291)	(291)
Transfer between reserves	-	290	(290)	-
At 30 September 2021	50	3,350	289	3,689

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

	Called up share capital	Non-distributable reserves	Retained earnings	Total equity
	£000	£000	£000	£000
At 1 October 2019	50	3,884	1,136	5,070
Comprehensive income for the year				
Loss for the year (as restated - see note 2.4)	-	-	(1,090)	(1,090)
Total comprehensive income for the year	-	-	(1,090)	(1,090)
Transfer between reserves	-	(824)	824	-
At 30 September 2020 (as restated - see note 2.4)	50	3,060	870	3,980

The notes on pages 24 to 44 form part of these financial statements.

Heylo Housing Secured Bond Plc

Statement of Cash Flows
For the Year Ended 30 September 2021

	2021 £000	As restated 2020 £000
Cash flows from operating activities		
Profit/(loss) for the financial year	**(291)**	(1,090)
Adjustments for:		
Loss on disposal of investment property	**50**	1,038
Interest payable and similar expenses	**565**	818
Taxation	**657**	107
Decrease in inventory	**24**	2,009
Increase in trade and other receivables	**(290)**	(10)
(Decrease)/increase in trade and other payables	**(88)**	45
Gain from changes in fair value of investment properties	**(946)**	(872)
Net cash (used in)/from operating activities	**(319)**	2,045
Cash flows from investing activities		
Purchase of investment properties	**(3,103)**	(1,768)
Sale of investment properties	**1,400**	2,998
Short term financing	**(300)**	-
Net cash (used in)/from investing activities	**(2,003)**	1,230
Cash flows from financing activities		
Interest paid	**(264)**	(262)
Net cash used in financing activities	**(264)**	(262)
Net (decrease)/increase in cash and cash equivalents	**(2,586)**	3,013
Cash and cash equivalents at beginning of year	**3,510**	497
Cash and cash equivalents at the end of year	**924**	3,510
Cash and cash equivalents at the end of year comprise:		
Cash and cash equivalents	**924**	3,510

The notes on pages 24 to 44 form part of these financial statements.

1. General information

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

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 ('IFRS').

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

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

In preparing the financial statements, the Directors have considered the impact of the physical and transition risks of climate change and identified this as a principal risk as set out on page 1 and 2, but have concluded that it does not have a material impact on the carrying values of investments, and the recognition and measurement of the assets and liabilities in these financial statements as at 30 September 2021.

The following principal accounting policies have been applied:

2.2 Going concern

The financial statements have been prepared on a going concern basis which assumes that the Company will be able to meet its liabilities as and when they fall due for the foreseeable future. As at the balance sheet date, the Company has net current assets of £1.8m (2020: £3.7m) and net assets of £3.7m (2020 as restated: £4.0m). The Company has cash at bank and in hand of £0.9m (2020: £3.5m).

In preparing the cash flow forecast to support the going concern assessment, the directors prepared a going concern assessment from the date of approval of the financial statement to 30 June 2023. The Directors have also assessed whether the Company will be able to comply with all financial loan covenants during this period.

2. Accounting policies (continued)

2.2 Going concern (continued)

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 to be strong against the expected revenue and the Covid 19 pandemic has, to date, had only had a limited impact on the Company's cashflow. Since September 2021, collection rates continue to be at 99%, although the number of people moving into and out of arrears or onto an off-repayment plan has increased along with the intensity of arrears management work. Based on its traditional, tried and tested approach to arrears collection, and given Government imposed limitations on legal action through possession and eviction, throughout 2020, 2021 and into 2022, 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 Directors acknowledge that the Company's property valuation is dependent upon various assumptions made by the external valuer when a property valuation is performed for covenant compliance purposes. The Asset Cover Ratio is a sensitive ratio and will continue to be tested on a six monthly basis during 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.

Whilst there is current headroom in respect of the Asset Cover Ratio, the Directors remain aware that, assuming net debt remains the same, a downward movement of £1.4m or 6.8% from the 30 September 2021 valuation of the Company's property portfolio, may lead to a breach of this covenant during the going concern period. Directors also note that the property valuation is performed by external valuers and is not within management's control. If a breach did occur under a plausible downside scenario, 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 financial statements do not include adjustments that would result if the Company was unable to continue as a going concern.

2. Accounting policies (continued)

2.3 Impact of new international reporting standards, amendments and interpretations

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

2.4 Prior year adjustments

The Company recognises a deferred tax liability based on the difference between the market value and the deemed consideration of their properties. In the previous year, due to an error in determining the deemed consideration which led to an error in the tax charge and the deferred tax liability. The prior period has been restated in accordance with requirements in IAS 8 to correct both the tax charge and the deferred tax liability.

The 2020 net profit increased by £415,000 and the deferred tax liability decreased by £415,000 due to the reversal of tax charge. There is no impact on prior year's cash flow statement

Statement of Comprehensive Income

	As previously reported 2020	Restatement 2020	As restated 2020
Loss before tax	**(983)**	**-**	**(983)**
Taxation	(522)	415	(107)
Loss and total comprehensive loss	**(1,505)**	**415**	**(1,090)**

2. Accounting policies (continued)

2.4 Prior year adjustments (continued)

Statement of Financial Position

	As previously reported 2020	Restatement 2020	As restated 2020
Total assets less current liabilities	**20,876**	-	**20,876**
Non-current liabilities			
Trade and other payables	(15,562)	-	(15,562)
Deferred tax liability	(1,749)	415	(1,334)
Net assets	**3,565**	**415**	**3,980**
Issues capital and reserves attributable to owners of the Company			
Share capital	50	-	50
Non-distributable reserves	3,060	-	3,060
Retained earnings	455	415	870
Total equity	**3,565**	**415**	**3,980**

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. Accounting policies (continued)

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 financial 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.

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

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

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

2. Accounting policies (continued)

2.9 Investment property

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

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

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

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

Shared ownership

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

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

2.10 Inventories

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

2.11 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.

2. Accounting policies (continued)

2.11 Financial instruments

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 adjusted from revaluation gains or loss reported in the Statement of Comprehensive Income. Prior to satisfying any performance obligations related to grant (which includes acquisition of investment property, application for government funding and compliance of capital funding guide), such grants are held as a liability (deferred income) on the Statement of Financial Position.

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

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 part independent valuers and worked with them to refine assumptions throughout the valuation exercise. Management also reviewed the principal iterations of the valuation models prior to agreeing the fair value of investment properties presented in the financial statements (Note 12).

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

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

	2021	**2020**
	£000	**£000**
Gross rental income	**429**	467
First tranche property sales	**552**	2,100
	981	2,567

5. Revenue (continued)

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

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

	2021 £000	2020 £000
1 year	**451**	400
2 year	**453**	402
3 year	**456**	404
4 year	**458**	406
5 year	**461**	409
5 years and onwards	**78,400**	69,694
	80,679	71,715

6. Loss on disposal of investment properties

	2021 £000	2020 £000
Loss on disposal of investment properties	**50**	1,038

7. Operating costs

	2021 £000	2020 £000
Property expenses (see note 23)	**99**	113
First tranche cost of sales	**482**	2,100
	581	2,213

8. Auditor's remuneration

	2021 £000	2020 £000
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	**40**	34

Heylo Housing Secured Bond Plc

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

	2021 £000	2020 £000
Bond interest payable (see note 16)	**486**	682
Finance expenses and amortisation of bond issue costs	**79**	136
	565	818

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

11. Taxation

	2021 £000	As restated 2020 £000
Total current tax	**-**	-
Deferred tax		
Deferred tax on revaluation of investment properties	**195**	(34)
Effect of tax rate change	**462**	141
Total deferred tax	**657**	107
Taxation	**657**	107

11. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2020 - higher than) the standard rate of corporation tax in the UK of 19% (2020 - 19%). The differences are explained below:

	2021 £000	As restated 2020 £000
Profit/(loss) before tax	**366**	(983)
Profit/(loss) multiplied by standard rate of corporation tax in the UK of 19% (2020 - 19%)	**69**	(187)
Effects of:		
Fixed asset differences	**(4)**	197
Expenses not deductible for tax purposes	**115**	135
Income not taxable	**(180)**	(166)
Chargeable gains/(losses)	**180**	(37)
Effect of tax rate change on opening balance	**462**	141
Tax losses not recognised	**15**	24
Total tax charge for the year	**657**	107

Factors that may affect future tax charges

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

The Company has tax losses of £256,538 (2020 - £617,000) 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.

In the Spring Budget 2021, the UK Government announced an increase in the corporation tax rate from 19% to 25% from 1 April 2023. The rate was substantively enacted on 24 May 2021 and as such the deferred tax balances have been calculated in full on temporary differences under the liability method using the rate expected to apply at the time of the reversal of the balance. As such, the deferred tax assets and liabilities have been calculated using a 19%, a 25% or a blended rate (2020 - 19%) as appropriate.

12. Investment property

	Investment property 2021 £000	Investment property 2020 £000
Valuation		
At 1 October	**17,192**	18,609
Additions at cost	**3,103**	1,929
Disposals	**(1,450)**	(4,036)
Surplus on revaluation	**946**	690
At 30 September	**19,791**	17,192

Included within investment property is leasehold property of £2,344,000 (2020 - £1,176,000) and freehold property of £17,447,000 (2020 - £16,016,000).

The gain from changes in fair value of investment properties in the Statement of Comprehensive Income is shown net of government grant expense of £62,941 (2020 - £Nil) and government grant income of £Nil (2020 - £182,000).

The Company's investment properties comprise of 99 (2020 - 93) new build and 7 (2020 - 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 main inputs and assumptions used relating to the valuation ranged as follows:

	2021	2020
Discount rates	**4.75% - 6.25%**	4.75% - 6.25%
HPI - house price index	**3.75%**	3.75%
RPI - retail price index	**3.0%**	2.5%
Staircasing rate	**1.5% - 1.8%**	1.0% - 1.5%

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 2021 by flexing HPI, staircasing and discount rates on both the new and second-hand parts of the Company's portfolio.

Significant increases/(decreases) in HPI would result in a significantly higher/(lower) fair value of the Company's investment portfolio. As an example, a 0.5% upward change in HPI to 4.25% would lead to a £1.2m million increase in the fair value of the portfolio.

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

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

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

As at 30th September 2021, 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:

	2021 £000	2020 £000
Gross historic cost	**14,451**	12,798

13. Inventory

	2021 £000	2020 £000
Shared ownership properties	**145**	169

An expense of £481,894 (2020 - £2,008,805) has been charged to the income statement in the period on first tranche sales. There were no write downs (2020 - £Nil) or reversal of prior period inventory write downs (2020 - Nil). No inventories are carried at net realisable value (2020 - £Nil).

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

	2021 £000	2020 £000
Trade debtors	**8**	3
Amounts owed by group undertakings	**462**	194
Amounts owed by related parties	**300**	-
Other debtors	**78**	61
	848	258

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

Amounts owed by group undertakings are expected to be realised within 12 months after the reporting period. Amounts owed by group undertakings are interest free and repayable on demand. Included in amounts owed by group undertakings is an amount of £152,092 (2020 - £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

	2021 £000	2020 £000
Trade creditors	**5**	2
Amounts owed to group undertakings	**37**	42
Other creditors	**20**	170
Government grant liabilities	**63**	-
Accruals	**40**	39
	165	253

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

	2021 £000	2020 £000
Secured 1.625% inflation linked 50 year Sterling Bond	**16,340**	16,118
Less: issue costs	**(477)**	(556)
	15,863	15,562

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 £221,880 (2020 - £419,970) and the interest payable was £263,757 (2020 - £262,215), giving a total expense in the period of £485,637 (2020 - £682,185) shown as interest costs in the Company's income statement.

Only the £263,757 (2020 - £262,215) interest was payable and included in the calculation of the debt service cover ratio. The £221,880 (2020 - £419,970) increase due to the LPI Index was added to the opening balance £16,117,696 (2020 - £15,697,726) to give the closing balance of £16,339,576 (2020 - £16,117,696) and this figure was tested against the £19,791,119 (2020 - £17,192,219) property valuation in the calculation of the asset cover ratio.

As at 30 September 2021, the fair value of the Secured 1.625% inflation linked 10 year Sterling Bond was £16,524,160 (2020 - £15,131,336). The fair value has been calculated with reference to its published price quotation on the London Stock Exchange where the bonds were trading at 107.1 pence (2020 - 98.1 pence). The fair value is determined in accordance with Level 1 of the fair value hierarchy outlined in IFRS 13 Fair Value Measurement.

17. Financial instruments

	2021 £000	2020 £000
Financial assets		
Financial assets measure at amortised cost	**1,772**	3,769
Financial liabilities		
Financial liabilities measured at amortised cost	**(16,028)**	(15,815)

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

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

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

	1 year £000	2-3 years £000	4-5 years £000	5 years and onwards £000	Maturity £000	Total £000
Period						
Current year	275	279	283	1,172	16,340	**18,349**
Prior year	267	275	282	1,528	16,118	**18,470**

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

(a) Credit risk

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

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

17. Financial instruments (continued)

(b) Interest rate cash flow risk

interest rate cash flow risk is the risk that 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) Inflation risk

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

(g) Contract risk

The performance of the Company's property investment portfolio is dependent upon each property's tenant meeting its contractual obligations. The Company is exposed to the risk that a number of its counterparties do not comply with the terms of the contract/leases and related obligations. The Company's mitigates this default risk by virtue of having a highly diversified portfolio in excess of 106 separately and independently tenanted properties - no single property or group of properties is material to the overall profitability of the Company or to its liquidity forecasts.

17. Financial instruments (continued)

(h) Covid 19

Despite the macroeconomic challenges of COVID 19 in 2020 and the return of COVID 19 restrictions at the beginning of 2021, the UK residential market experienced strong growth. As per the market research, annual house price growth for the 2021 calendar year was 10% in September, and in month-on-month terms, house prices rose marginally by 0.1%. House prices remain around 13% higher than before the pandemic began in early 2020. The September 2021 RICS UK Residential Survey shows a steadier trend in buyer demand coming through, despite a brief pull-back in the wake of the activity seen before the phasing out of the stamp duty holiday ending.

(i) Climate change

We have identified the potential physical and transitional risks and opportunities presented by rising temperatures and climate change for our business and have also considered the scale of this risk to the Company. Climate change is not a principal risk for the Company for the year ended 30 September 2021, but we have identified the climate transition as an emerging risk due to its intensifying importance to all stakeholders.

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

18. Deferred tax liability

	2021 £000	As restated 2020 £000
At beginning of year	**1,334**	1,227
Charged to profit or loss	**657**	107
At end of year	**1,991**	1,334

The provision for deferred taxation is made up as follows:

	2021 £000	As restated 2020 £000
Capital gains	**1,991**	1,334

19. Share capital

	2021 £000	2020 £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 £1.00 each.

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

20. Reserves

The Company's capital and reserves are as follows:

Called up share capital

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

Retained earnings

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

Non distributable reserves

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

	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)

22. Contingent liabilities and commitments

The Company has received government grant funding of £2.6 million (2020: £2.6 million) from Homes England to support the delivery of shared ownership homes. No government grant funding has been received in the current year and no government grant funding is receivable as well. All government grant funding received previously have been utilised to purchase properties.

In some circumstances, typically when a Shared Owner staircases, there arises an obligation to repay the grant to the relevant government body. This is treated as a contingent liability until the conditions for repayment are expected to apply, in which case the amount repayable is recognised as a liability on the Statement of Financial Position and deducted from the measurement of any gain on the staircase transaction. As at the year-end date, £62,941 (2020 - £Nil) of liabilities were recognised within other creditors in note 15.

23. Related party transactions

The Company has entered into a long term management agreement with ResiManagement Limited, a company with common shareholders and directors to the Company's parent, Heylo Housing Group Limited. Under the management agreement the Company pays fees to ResiManagement Limited for the provision of asset sourcing and management services to the Company. During the year ended 30 September 2021 management fees included within operating costs amounting to £99,172 (2020 - £113,487) were paid by the Company. Property acquisition costs of £34,431 (2020 - £36,958) were charged by ResiManagement Limited in the year and capitalised in the financial statements of the Company. Short term working loan was provided of £300,000 (2020 - £Nil) to ResiManagement which has been subsequently settled post year-end.

Heylo Housing Registered Provider Limited ("HHRP") is a related party of the Company. The Company owns the investment properties within its portfolio. It leases them to HHRP, another wholly owned subsidiary of Heylo Housing Group Limited, which will in turn onward lease the properties to customers. The agreements with HHRP stipulate that all rent and sales receipts from those properties will be directly attributable to the Company. HHRP is a registered provider regulated by the RSH (Regulator of Social Housing). During the year ended 30 September 2021, Company's gross rental income passes through the HHRP amounting to £337,000 (2020 - £283,000).

Amounts paid to Outra Limited for advertising and reporting maintenance total £18,214 (2020 - £46,603) and amounts paid to PXS 3 Limited for sales progressions total £8,700 (2020 - £24,200). Outra Limited and PXS 3 Limited are considered related parties as they have a majority shareholder in common.

As disclosed in note 14 amounts owed by parent undertakings amount to £37,500 (2020 - £41,441) and amounts owed by a fellow subsidiary within the Group amounts to £424,986 (2020 - £152,092). Amounts owed to the parent company total £1,930 (2020 - £7,459) and £34,544 (2020 - £34,544) 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. G P C Mackay is the ultimate controlling party.

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, 6 Wellington Place, Fourth Floor, Leeds, England, LS1 4AP.

Subsequent to the year end, on 27 April 2022, a group reorganisation took place and Manifesto Technologies Limited became the ultimate parent undertaking of the Company.