Financial Statements

For the year ended March 2021

Company Name: Herefordshire Capital PLC
Company Number: 9279170

Connexus

Contents

Advisors and Banker

Company registration number	9279170 Registered as a Public Limited Company	
Current Directors	Richard Woolley Andrew Taylor John Barker Andrew Cooke	(Appointed December 2018) (Appointed September 2019) (Appointed September 2019) (Appointed October 2019)
Secretary	Nicola Griffiths	(Appointed March 2019)
Registered office	Herefordshire Capital Plc C/O Connexus Housing Limited The Gateway The Auction Yard Craven Arms Shropshire SY7 9BW	
Independent Auditor	KPMG LLP One Snowhill Snow Hill Queensway Birmingham B4 6GH	
Solicitor	Anthony Collins 134 Edmund Street Birmingham B3 2ES	
Banker	Barclays Bank Plc P O Box 3333 One Snowhill Snow Hill Queensway Birmingham B3 2WN	

Strategic Report

Principal Activities

The principal activity of the Company is to act as the capital markets issuance vehicle for Connexus Housing Two Ltd. It also undertakes investment activity on behalf of Connexus Housing Two Limited.

Herefordshire Capital plc on-lends all of its proceeds from capital market transactions to Connexus Housing Two Limited under a guarantee and security trust basis. The underlying assets of the issuance belong to Connexus Housing Two Limited through a Security Trust arrangement with Prudential Trustee Company Limited.

Parent Company

Herefordshire Capital plc. is a subsidiary of Connexus Housing Two Limited which is a not-for-profit private company limited by guarantee and is registered with the Homes and Communities Agency as a social housing Registered Provider. Connexus Housing Two Limited was registered as a charity on 16th September 2004. Connexus Housing Two Limited became a subsidiary of Connexus Housing Limited following the merger of both Herefordshire and Shropshire Housing Groups.

Business Review

In November 2016 the £35m retained bond was sold generating a bond premium of £5.065m. The proceeds were drawn in 5 tranches with an initial £5m received immediately and the remaining £30m being deferred drawn in 4 tranches over 2 years, The way the retained bond structure was agreed enabled us to mitigate the cost of carry on excess funds whilst locking in the favourable gilt rates in the market. The final tranche was drawn down in November 2018.

This provides the business with a comfortable level of cash and undrawn available facilities, covering more than 18 months planned expenditure.

Herefordshire Capital plc.is rated A3 by Moody's Investor Services, having secured an upgrade from Baa1 following the latest ratings review as a result of the solid financial performance and greater certainty about the level of support from central government for the housing sector as a whole. This is a positive result given the continued uncertainty arising from Brexit.

The funds raised by the original bond-issue and subsequent retained bond sale have been on lent to Connexus Housing Two Ltd to fund its development programme and for general corporate purposes.

The bond is secured by a portfolio of social housing properties owned by CH2L. The properties are valued at Existing Use Value – Social Housing (EUV-SH).

The bond issue requires the following covenants to be met:

- Asset Cover of 105% of EUV-SH and 115% of Market Value subject to Tenancies (MV-T)

- Portfolio interest cover: Net Annual Income in respect of the properties secured against the loan will not be less than 100 per cent of the amount of interest.

Connexus Housing Two Limited has outperformed its forecast operating targets for 2020-21 (before pension adjustments), having benefited from tight cost controls, property disposals in the form of Right to Buy (RTB) sales, shared ownership sales, land disposals and lower bad debts. Overall, its financial performance for the period was supported by a strong operating margin at 26.3% of revenue and robust cashflows.

Connexus Housing Two Limited has a healthy level of available uncharged security. A full market valuation was undertaken at the year end by Savills Valuers. Whilst the valuation is subject to a material uncertainty clause due to the Covid environment at the time of valuation, subsequent funder valuations give assurance about the appropriateness of its use.

There are circa 1,276 uncharged dwellings and 1,943 uncharged garages available for security which have an estimated valuation of £77.7 million, against which further funding can be secured, if the average cost included in our full valuation by Savills Ltd is applied. These pools are being managed in line with future funding plans, funder security covenant requirements and market changes to the extent they effect security valuations.

Financial risk management

The Company's operations expose it to a variety of financial risks that include the effects of cash flow risk, credit risk and liquidity risk. The Group has in a place a risk management process that seeks to limit the adverse effects on the financial performance of the Company by monitoring levels of debt finance and related finance costs.

The main risk facing Herefordshire Capital plc is that it is unable to make interest or principal payments when they fall due. This risk is mitigated as Herefordshire Capital plc on lends funds under secured loan agreements which are backed by the housing assets of the borrower.

Credit risk

The credit risk is mitigated through a number of factors, including the housing asset security that stands behind the loan to CH2L, the overall credit worthiness of the Group, the guarantees that CH2L has issued to the Company and the contractual protections in the loan agreement itself.

Liquidity risk

The Company actively lends the full amount of the loans it has itself borrowed, thus the entity has assets to fully offset its liabilities and interest receivable to offset its interest payable.

Cash flow risk

In order to ensure the stability of cash outflows and hence manage interest rate risk, the Company has a policy of matching interest payable on its borrowing to the interest receivable on its loan debtors. At 31 March 2021 100% of the Company's debt was on fixed rate terms. The company does not use derivative financial instruments to manage interest rate costs.

Key Performance Indicators

The company operates as a Group funding vehicle and as such has no specific key performance indicators. The entity is monitored against the original performance model and is thus expected to break even.

Post Balance Sheet Events

The Parent company, Connexus Housing Two, on 1 April 2021 was amalgamated with the other Group Registered Providers through a transfer of engagements to become Connexus Homes Limited

Director's Report

The Directors present their report and the audited financial statements for the period ended 31 March 2021.

Registration Details

Herefordshire Capital plc is a company limited by shares registered under Companies Act 2006 (No. 9279170). The Company is a subsidiary of Connexus Housing Two Limited, and a member of the Connexus Housing Group (The "Group").

Directors

The directors who held office during the period were as follows:

Richard Woolley (Appointed December 2018)

John Barker (Appointed September 2019)

Andrew Taylor (Appointed September 2019)

Andrew Cooke (Appointed October 2019)

Company Secretary

The company secretary who held office during the period was as follows:

Nicola Griffiths (Appointed March 2019)

Directors and Directors' Indemnities

The directors of the Company who were in office during the period and up to the date of signing the financial statements are set out above. As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third-party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the financial period and is currently in force. The Company also purchased and maintained throughout the period directors' and officers' liability insurance in respect of itself and its directors. As at 31 March 2021 no qualifying third party indemnity provisions were granted to any directors.

Disclosure of information to auditors

The directors who held office at the date of approval of this Director's Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all steps that they ought to have taken as a board member to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

KPMG LLP are the company's current external auditors. A resolution for the re-appointment of KPMG LLP as Auditors of Herefordshire Capital plc will not be proposed at the forthcoming Annual General Meeting due to the requirement to carry out a competitive tender of external audit services.

Health and Safety

Connexus Housing Two Limited ensures, as ultimate parent, that the responsibilities of the Company under Health and Safety legislation are met and ensures regular inspections and reviews as part of its compliance procedures.

Corporate Governance Statement

The company's internal control and risk management system in relation to financial reporting processes about share capital structures are described at on page 27.

Dividends

The directors do not recommend the payment of a dividend for the period.

Political and charitable contributions

The Company made no political or charitable donations or incurred any political expenditure during the period.

John Barker

John Barker

Board Member
3 August 2021

Statement of the Director's responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements; and
- assess the association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless it either intends to liquidate the association or to cease operations, or has no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Corporate Governance Statement

The Directors of Herefordshire Capital plc are responsible for operating the Company in accordance with its rules. The Company must maintain a minimum of 2 directors.

The Board is responsible for the Group's strategic direction. Day to day management and implementation is delegated to the Connexus Housing Executive Board. The Directors have overall responsibility for ensuring that systems of internal control are established and maintained.
The Board is ultimately responsible for ensuring that the Company maintains a system of internal control that is appropriate to the business environments in which it operates.

Internal control systems are designed to meet the particular needs of the Company and the risks to which it is exposed. The Board recognises that no system of internal control can provide absolute assurance against material misstatement or loss or eliminate risk of failure to achieve business objectives.

The system of internal control is designed to manage key risks to provide reasonable assurance that planned business objectives and outcomes are achieved. It also exists to give reasonable assurance with respect to:

- the reliability of financial and operational information and;
- safeguarding of the Company's assets and interests.

In meeting its responsibilities, the Board has adopted a risk-based approach to internal controls which are embedded within the normal management and governance process. This approach includes the regular evaluation of the nature and extent of risks to which the Company is exposed, internally through the wider management team and externally through independent internal and external audit.

Regular management reporting on control issues provides assurance to successive levels of management and to the Board, with overview and structured feedback through the Board's Risk & Resources Committee. The arrangements include a rigorous procedure, monitored by the Risk & Resources Committee, for ensuring that corrective action is taken in relation to any significant control issues. Financial governance is monitored by the Finance & Investment Committee.

The key elements of the internal control framework include:

- The Board being directly responsible for strategic risk management
- Delegation of authority to the Finance and Risk Committee to monitor internal control
- The Leadership team compiling and monitoring the key business risks
- Monthly management accounts aligned to the needs of the business providing reliable, relevant and up to date financial information with significant variances from budgets being investigated
- Significant new initiatives being evaluated and approved in accordance with the Standing Orders and Financial Regulations of the Company.
- HR policies and procedures designed to ensure that all colleagues are aware of their roles and responsibilities in terms of the internal control framework.

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Independent auditor’s report to the members of Herefordshire Capital Plc

1 Our opinion is unmodified

We have audited the financial statements of Herefordshire Capital Plc (“the Company”) for the year ended 31 March 2021 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Movements in Equity, and the related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the Company’s affairs as at 31 March 2021 and of its result for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (“ISAs (UK)”) and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the directors on 05 October 2015. The period of total uninterrupted engagement is for the 6 financial years ended 31 March 2021. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

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

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matter (unchanged from 2020) in arriving at our audit opinion above, together with our key audit procedures to address this matter and, as required for public interest entities, our results from those procedures. This matter were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on this matter.

Recoverability of Long Term Debtors
Long Term Debtors (amounts falling due in more than one year) £119m (2020: £119m)
Refer to pages 19 to 21 (accounting policy) and pages 22 to 28 (financial disclosures)
<u>The risk – low risk high value</u>
The Company’s primary activity is to issue bonds, source investor financing and on-lend to the Parent. It therefore has long term liabilities which relate to the bonds issued and long term intercompany debtors which relate to the loans provided to the Parent.

The carrying amount of the long term intercompany debtor balance represents 99.3% of the Company’s total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the Company financial statements, this is considered to be the area that had the greatest effect on our overall Company audit.

Whilst financial income and financial expense are recognised during the loan period, the risk mainly stems from the expectation of the ability of the Parent to repay the loan in 28 years.

<u>Our response</u>

We performed the tests below rather than seeking to rely on any of the Company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

Our procedures included:

i. Tests of detail: Assessing 100% of intercompany long term debtors owed by the Parent (2020: 100%) to identify, with reference to the Parent's financial draft balance sheet, whether they have a positive net asset value and therefore coverage of the debt owed.
ii. Assessment of operating Associations: Assessing the work performed by the Group audit team, and considering the results of that work, on those net assets. This included assessment of the fair value headroom available on those net assets, and therefore the ability of the Parent to fund repayment of the receivable. We critically assessed the directors' going concern assessment, including the reasonableness of the key assumptions used by the Group in its cash flow forecasts and the level of downside sensitivities applied using our knowledge of Covid-19 scenarios being applied by other entities. forecasts and the level of downside sensitivities applied using our knowledge of Covid-19 scenarios being applied by other entities.

<u>Our results</u>

We found the Company's assessment of the recoverability of the long-term debtor balance to be acceptable (2020 result: acceptable).

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

Materiality for the financial statements as a whole was set at £700k (2020: £624k), determined with reference to a benchmark of total assets, of which it represents 0.5% (2020: 0.4%).

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

Performance materiality was set at 75% (2020: 75%) of materiality for the financial statements as a whole which equates to £525k (2020: £470k).

We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £35k (2020: £30k), in addition to other identified misstatements that warranted reporting on qualitative grounds.

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

4 Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Company's available financial resources over this period were:

- Recoverability of long term debtors

We considered whether this risk could plausibly affect liquidity in the going concern period by assessing the directors' sensitivities over the level of available financial resources and covenant thresholds indicated by the Company's financial forecasts taking account of severe, but plausible adverse effects that could arise from these risks individually and collectively.

Our procedures are also inherently linked with our key audit matter in relation to the recoverability of the long term debtor; as the Parent's inability to meet their obligation to the Company would result in the inability of the Company to meet its own obligations as they fall due. Consequently, our considerations noted above took into account the financial forecasts of the Group.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in note 2 to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

5 Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, internal audit and legal as to the Company's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes.
- Using analytical procedures to identify any usual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because the company has no revenue. Interest receivable is a balance with minimal judgement involved in its calculation, and so lacking in opportunities for fraudulent recognition.

We did not identify any additional fraud risks.

- We performed procedures including the identification of journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included journals posted to unusual and seldom used accounts**.**

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

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the directors and other management (as required by auditing standards) and from inspection of the Company's regulatory and legal correspondence; and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

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

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

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

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

Whilst the Company is subject to many other laws and regulations, we did not identify any others where the consequences of non-compliance alone could have a material effect on amounts or disclosures in the financial statements.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6 We have nothing to report on the strategic report and directors' report

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

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge.

Based solely on our work on that work:

- we have not identified material misstatements in those reports;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

7 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

8 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 9 the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at **www.frc.org.uk/auditorsresponsibilities.**

9 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

SBrown

Sarah Brown (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill, Snow Hill Queensway
Birmingham, B4 6GH

26 August 2021

Statement of Comprehensive Income

	Note	2021 £'000	2020 £'000
Turnover	4	84	99
Operating expenditure	5	(15)	(15)
Operating profit on ordinary activities		**69**	**84**
Interest receivable	6	5,041	5,213
Interest and financing costs	7	(5,003)	(5,194)
Total profit for the year before taxation		**107**	**103**
Tax on profit on ordinary activities	9	-	-
Total comprehensive income for the year		**107**	**103**

There were no other recognised profits or losses other than those reported above, and therefore no Statement of Changes in Reserves has been prepared.

The results for the period are in respect of continuing operations.

Statement of financial position

	Note	2021 £'000	2020 £'000
Debtors: amounts falling due after more than one year	10	**119,250**	**119,235**
Current assets			
Debtors	10	(16)	(9)
Short term investments		26,599	25,093
Cash and cash equivalents		3,069	170
		29,652	**25,254**
Creditors: amounts falling due within one year	11	(25,024)	(20,518)
Net current assets		**4,628**	**4,736**
Creditors: amounts falling due after more than one year	12	**(123,865)**	**(123,958)**
Total net assets		**13**	**13**
Capital and reserves			
Called up share capital	15	13	13
Income and expenditure account		-	-
Net assets and equity shareholders' funds	16	**13**	**13**

These financial statements on pages 17 to 28 were approved by the Board of Directors and were signed on its behalf by:

John Barker
Board Member

Nikki Griffiths
Company Secretary

3 August 2021

Notes to the financial statements

1. Legal status

Herefordshire Capital is a public limited company, incorporated on 24 October 2014.

2. Accounting policies

The following accounting policies have been adopted as being appropriate to the Company's circumstances with regard to giving a true and fair view and have been applied consistently in dealing with items which are considered to be material in relation to the Company's financial statements.

a. Cash flow

The Company is exempt from producing a cash flow statement in accordance with FRS102

b. Basis of accounting

The financial statements have been prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP) including Financial Reporting Standard 102 (FRS102), the Companies Act 2006. They have been prepared under the historical cost, and on an accruals and going concern basis.

As the Company is a wholly owned subsidiary of Connexus Housing Two Limited, the Company has taken advantage of the exemption contained in FRS102 and has therefore not disclosed transactions or balances with wholly owned subsidiaries which form part of the Group.

The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

c. Going concern

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the Business Review section of the Strategic Report on page 4.

The Company is expected to continue to generate positive cashflows on its own account for a period of 12 months from the date of approval of these financial statements (the going concern assessment period). The Company participates in the Group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries.

The Directors, having assessed the responses of the directors of the Company's parent, Connexus Housing Two Limited to their enquiries and have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of Connexus Housing Group to continue as a going concern or its ability to continue with the current banking arrangements for the following reason.

The Group prepares a 30 year business plan which is updated and approved on an annual basis. The most recent business plan was approved in May 2021 by the Board. As well as considering the impact of a number of scenarios on the business plan the Board also adopted a stress testing framework against the base plan. The stress testing impacts were measured against loan covenants and peak borrowing levels compared to agreed facilities, with potential mitigating actions identified to reduce expenditure. Following the outbreak of Covid-19 the

Group has undertaken a series of further scenario testing including severe but plausible downsides in the worst case assessment.

The board, after reviewing the group and company budgets for 2021/22 and the group's medium term financial position as detailed in the 30-year business plan including changes arising from the Covid-19 pandemic, is of the opinion that, taking account of severe but plausible downsides, the group and company have adequate resources to continue in business for the foreseeable future beyond the 12 month going concern assessment period. In order to reach this conclusion, the Board have considered:

- The property market – budget and business plan scenarios have taken account of delays in handovers, lower numbers of shared ownership property sales, reductions in shared ownership sales values and potential conversion of market sale to social homes;

- Maintenance costs – budget and business plan scenarios have been modelled to take account of cost increases and delays in maintenance expenditure, with major works being phased into future years;

- Rent and service charge receivable – arrears and bad debts have been increased to allow for customer difficulties in making payments and budget and business plan scenarios to take account of potential future reductions in rents;

- Liquidity – current available cash and unutilised loan facilities of £7.332m held in CH2L with a further £25.263m held in Herefordshire Capital plc, which gives significant headroom for committed spend and other forecast cash flows that arise;

- The group's ability to withstand other adverse scenarios such as higher interest rates and number of void properties.

The board believe the group and company has sufficient funding in place and expect the group to be in compliance with its debt covenants even in severe but plausible downside scenarios.

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

On the basis of their assessment of the Company's financial position and of the enquiries made of the directors of Connexus Housing Two Limited and its parent, Connexus Housing Limited, the Company's directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

d. **Financial instruments**

The Company has adopted FRS102 in its disclosure of Financial instruments.

e. **Financial assets**

Financial assets are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are recognized at amortised cost. Following initial recognition, all financial assets have been classified as loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Intercompany debtors are classified as loans and receivables. Loans and receivables are measured subsequent to initial recognition at amortised cost discounted at a rate equal to the original effective rate, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognized in the Statement of Comprehensive Income.

f. **Financial liabilities**

Financial Liabilities are obligations to pay cash or other financial assets and are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial liabilities are recorded initially at fair value, net of direct interest costs.

The only financial liabilities held are classified as other liabilities, and consequently are initially recorded at fair value, and subsequently at amortised cost.

Financial liabilities are derecognized only when obligation is extinguished, that is when the obligation is discharged, cancelled or expires.

With the exception of the Company's borrowings (Note 12), there is no difference between the carrying value and fair value of the Company's financial assets and liabilities.

g. **Cash and liquid resources**

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise term deposits of less than one year (other than cash), government securities and investments in money market managed funds.

h. **Turnover**

The Company did not generate any income during the period. It received interest from other Group entities.

i. **Interest payable or receivable**

Interest payable or receivable is accrued over the term of the related borrowings/loan so as to recognise the total income/cost evenly over the life of the loan or deposit.

j. **Corporation tax**

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit and loss, and is the expected tax payable or receivable on the taxable income or loss for the period, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

3. Directors' emoluments and employee remuneration

None of the director's receive remuneration for their services as a director of Herefordshire Capital plc. Those directors who also serve on the Connexus Housing Two Limited Board are remunerated for their services by the Group Parent, Connexus Housing Limited.

Herefordshire Capital plc has no direct employees. Those employees who perform duties for Herefordshire Capital plc are remunerated by the parent company, Connexus Housing Two Limited (CH2L).

4. Turnover

The Company's turnover is derived from recharges to Connexus Housing Two Limited in order to recover any administrative expenses (e.g. Audit fees, loan amortisation charges) incurred in providing services on behalf of the group.

5. Operating expenditure

Operating expenditure includes arrangement fees due to external bodies, audit fees and loan amortisation charges incurred in providing services on behalf of the group.

6. Interest receivable

	2021	**2020**
	£'000	**£'000**
Interest receivable from deposits and investments	8	180
Interest receivable from on-lending of Bond	5,033	5,033
	5,041	**5,213**

Interest receivable is derived from the interest payable by Connexus Housing Two Limited for the funding it has received from Herefordshire Capital (£5 million) and the interest received from investments (£8,000 made on behalf of Connexus Housing Two Limited).

7. Interest and financing costs

	2021 £'000	2020 £'000
Interest payable in respect of the bond	5,033	5,033
Interest payable to Connexus Housing Two from investing activities	8	180
Other charges	53	69
	5,094	**5,282**
Loan amortisation	16	15
Bond premium amortisation	(107)	(103)
	5,003	**5,194**

Interest payable is derived from the amount payable in respect of the bond (£5 million) and £0.008m of interest payable to CH2L from the investing activities.

8. Operating profit

	2021 £'000	2020 £'000
Operating profit is arrived after charging:		
- Auditors' remuneration for external audit services	7	7

9. Tax on profit on ordinary activities

	2021 £'000	2020 £'000
Current tax		
UK corporation tax on surplus for the year	-	-
Total current tax	-	-
Total tax reconciliation		
Profit on ordinary activities before tax	107	103
Theoretical tax at UK corporation tax rate 19% (2020: 19%)	20	20
Tax credit on gift aid	(20)	(20)
Total tax expense included in profit or loss	-	-

Corporation tax liability in 2021 and 2020 was nil due to full gift aid
As at 31 March 2021 there is no liability for deferred taxation.

10. Trade and other debtors

	2021 £'000	2020 £'000
Due within one year:		
Trade and other debtors	-	7
Amounts owed by group undertakings	-	-
less: deferred loan arrangement fees	(16)	(16)
	(16)	**(9)**
Due after one year:		
Amounts owed by group undertakings	120,000	120,000
Less: deferred loan arrangement fees	(750)	(765)
	119,250	**119,235**
	119,234	**119,226**

11. Creditors: amounts falling due within one year

	2021 £'000	2020 £'000
Accruals and deferred income	1,714	1,735
less: deferred loan arrangement fees	(16)	(16)
Deferred bond premium	110	107
Amounts owed to group undertakings	23,066	18,559
Amounts owed to ultimate parent undertaking	150	133
Trade creditors	-	-
	25,024	**20,518**

12. Creditors: amounts falling after more than one year

	2021 £'000	2020 £'000
Bonds	120,000	120,000
Less: deferred loan arrangement fees	(750)	(765)
Deferred bond premium	4,615	4,723
	123,865	**123,958**

13. Financial instruments

Fair values of Financial instruments

The fair values of all financial assets and liabilities by class together with their carrying amounts are shown in the balance sheet as follows:

	Carrying Amount £'000	Fair Value 2021 £'000	Fair Value 2020 £'000
Financial assets			
Other loans and receivables	(120,000)	(147,879)	(161,427)
Financial liabilities measured at amortised costs			
Other interest-bearing loans and borrowings	(120,000)	(119,234)	(119,219)

The fair value of trade and other receivables is estimated as the present value of future cashflows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Herefordshire Capital plc has no financial instruments measured at fair value, so fair value hierarchy disclosure requirements do not apply.

All financial assets held by the Company (Loans and Receivables) qualify to be held at amortised cost, therefore the requirement to disclose the effect of changing the inputs in calculation of fair values is not considered applicable.

At 31 March 2021, the fair value of the Company's long term debt was £147.879m

The fair value of financial liabilities is estimated as the present value of future cashflows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Financial risk management

Risk management
The Corporate Finance team is responsible for the management of funds and control associated risks. Its activities are governed by the Group Board who are responsible for treasury issues in all Connexus Housing Two Limited legal entities which include this Company.

Credit risk
All of the Company's capital market financing proceeds are immediately on-lent to Connexus Housing Two Limited which represents the only credit risk to the Company.

The credit risk is mitigated through a number of factors, including the housing asset security that stands behind the loan to CH2L, the overall credit worthiness of the Group, the guarantees that CH2L has issued to the Company and the contractual protections in the loan agreement itself.

The aging of trade receivables at the balance sheet was not past due. The full amount is believed to be recoverable.

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.
The Company actively lends the full amount of the loans it has itself borrowed, thus the entity has assets to fully offset its liabilities and interest receivable to offset its interest payable.

The contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements are in 30 years.

The debt is repayable as follows:

	2021	**2020**
	£'000	**£'000**
Lump sum repayments:		
In five years or more	(120,000)	(120,000)
	(120,000)	**(120,000)**

Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their Outstanding Principal Amount in ten equal instalments on the Interest Payment Dates falling on, and including, 28th May 2045 to, and including, 28th November 2049 (each an Instalment Redemption Date and the latter being the Maturity Date).

Interest rate risk
The Company currently borrows on a fixed rate basis from the capital market and then on-lends these funds to Connexus Housing Two Limited on a similar fixed rate basis. As such the Company does not bear any interest rate risk, apart from the underlying credit risk to Connexus Housing Two Limited, as discussed above.

The Company does not have any hedging activities and it does not have any derivatives.

The interest rate on all borrowings is fixed at 4.193% until 2049.

14. Analysis of changes in net debt

	At beginning of the year 1 April 2020 £'000	Cashflow £'000	At end of the year 31 March 2021 £'000
Cash at bank and in hand	170	2,899	3,069
Short term investments	25,093	1,506	26,599
Debt due after one year	(120,000)	-	(120,000)
Bond arrangement fees	850	-	850
Bond premium	(5,066)	-	(5,066)
Total	**(98,953)**	**4,405**	**(94,548)**

15. Called up share capital

	2021 Number	2020 Number
Allotted, issued and quarter paid shares of £1 each on incorporation/Number of members?	50,000	50,000
Shares issued during the financial year	-	-
Returned shares	-	-
Number of shares At 31 March	**50,000**	**50,000**

16. Reconciliation of movements in shareholders' funds

	2021 £'000	2020 £'000
Share capital at the beginning and end of the year	13	13
Profit for the financial year	107	103
Distribution to shareholders in the form of gift aid	(107)	(103)
Closing shareholders' funds	**13**	**13**

17. Contingent assets / liabilities

There are no contingent assets or liabilities at 31 March 2021.

18. Post balance sheet events

The Parent company, Connexus Housing Two, on 1 April 2021 was amalgamated with the other Group Registered Providers through a transfer of engagements to become Connexus Homes Limited

19. Ultimate parent undertaking and controlling party

The Company is a wholly owned subsidiary of Connexus Housing Two Limited, which itself is a subsidiary of Connexus Housing Limited, and has taken advantage of the exemption contained within FRS102 and therefore not disclosed transactions or balances with entities which form part of the Group.

The Company's parent undertaking Connexus Housing Two Limited, which is a wholly owned subsidiary of the Company's ultimate parent undertaking Connexus Housing Limited, both are companies incorporated in Great Britain.

The consolidated financial statements of Connexus Housing Limited are available from the Company Secretary, Connexus Housing Limited, The Gateway, Craven Arms, SY7 9BW.