

# Herefordshire Capital plc

## Annual Report & Financial Statements

For the year ended  
31 March 2018



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## Company Information

Company registration number 9279170  
Registered as a Public Limited Company

### Executive Directors

Ruth Cooke (Appointed November 2014)  
Michael Parkes (Appointed November 2014, Resigned July 2017)  
Peter Brown (Appointed November 2014, Resigned September 2018)  
Richard Woolley (Appointed November 2014, Resigned July 2017)  
Jacob Berriman (Appointed July 2017, Resigned September 2018)  
James Williamson (Appointed July 2017)

Registered office Legion Way,  
Hereford,  
Herefordshire,  
HR1 1LN

Auditors	External Auditor:	Internal Auditor:
	KPMG LLP One Snowhill Snow Hill Queensway Birmingham B4 6GH	Beevers & Stuthers St Philips Point Temple Row Birmingham B2 5AF

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

## Herefordshire Capital

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### Strategic Report

#### Principal Activities

The principal activity of the Company is to act as the capital markets issuance vehicle for Herefordshire Housing Limited (HHL). It also undertakes investment activity on behalf of Herefordshire Housing Limited.

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

#### Parent Company

Herefordshire Capital plc. Is a subsidiary of Herefordshire Housing 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. Herefordshire Housing Limited was registered as a charity on 16th September 2004. Herefordshire Housing Limited became a subsidiary of Connexus Housing Limited following the merger of both Herefordshire and Shropshire Housing Groups.

#### Viability Statement

In November 2016 the £35m retained bond was sold generating a bond premium of £5.065 million. The proceeds are being drawn in 5 tranches with an initial £5 million received immediately and the remaining £30 million being deferred drawn in 4 tranches 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.

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 Baa1 by Moody's Investor Services, initially downgraded from its former Aa2 rating following the merger with Shropshire Housing Group and subsequent UK credit rating downgrade due to uncertainty arising from Brexit

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

The bond is secured by a portfolio of social housing properties owned by HHL. 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)

## Herefordshire Capital

### Report and financial statements for the period ended 31 March 2018

- 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.

Herefordshire Housing Limited outperformed its forecast targets for 2017-18, having benefited from tight cost controls, property disposals in the form of Right To Buy (RTB) sales, shared ownership first tranche sales, land disposals and lower bad debts. Overall its financial performance for the period was supported by a strong operating margin at 37% of revenue, robust cashflows and relatively low debt at 1.60 x revenue.

Herefordshire Housing has a healthy level of available uncharged security. Our £15 million of undrawn facilities are all fully secured. We have circa 1,000 units of uncharged security with an estimated valuation of £37.25 million against which further funding can be secured. Together with our as yet uncharged security, 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 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 HHL, the overall credit worthiness of the Group, the guarantees that HHL 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 2017 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.

# Herefordshire Capital

## Report and financial statements for the period ended 31 March 2018

### Director's Report

The Directors present their report and the audited financial statements for the period ended 31 March 2016.

#### Registration Details

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

#### 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 on page 3.

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 2016 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 were appointed as the Company's first auditors during the period. A resolution for the re-appointment of KPMG LLP as Auditors of Herefordshire Capital plc is to be proposed at the forthcoming Annual General Meeting.

#### Health and Safety

Herefordshire Housing 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.

#### Dividends

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

## Herefordshire Capital

### Report and financial statements for the period ended 31 March 2018

#### Political and charitable contributions

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



**James Williamson**

Board Member

27 September 2018

## 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 have been followed, 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 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



## Herefordshire Capital

### Report and financial statements for the period ended 31 March 2018

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 Audit 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.

## 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 2018 which comprise the Statement of Comprehensive Income, Statement of Financial Position, 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 2018 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 board on 24 November 2015. The period of total uninterrupted engagement is for the three financial years ended 31 March 2018. 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 judgment, 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 2017), 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 was 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.

## Herefordshire Capital

Report and financial statements for the period ended 31 March 2018

### Independent auditor's report to the members of Herefordshire Capital Plc (continued)

#### Recoverability of Long Term Debtors

Long Term Debtors (amounts falling due in more than one year) £115 million (2017: £90 million).

#### The risk – low risk high value

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 100% 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 there are small amounts of financial income and financial expense during the loan period, the risk mainly stems from the expectation of the ability of the Parent to repay the loan in 31 years.

#### Our response

Our procedures included:

- i. **Tests of detail:** Assessing 100% of intercompany long term debtors owed by the Parent (2017: 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 Parent:** 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.

#### Our results

We found the Company's assessment of the recoverability of the Long term debtor balance to be acceptable (2017 result: acceptable).

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

Herefordshire Capital Plc is part of a Group headed by Connexus Housing Limited. Materiality of £0.85m (2017: £0.85m), as communicated by the Group audit team, has been applied to the audit of the Company.

## Herefordshire Capital

### Report and financial statements for the period ended 31 March 2018

#### Independent auditor's report to the members of Herefordshire Capital Plc (continued)

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £42.5k, 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 all performed at the Company's head office at Legion Way, Hereford.

#### **4 We have nothing to report on going concern**

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

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

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

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

Based solely on our work on the other information:

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

#### **6 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.

Independent auditor's report to the members of Herefordshire Capital Plc (continued)

7 Respective responsibilities

**Directors' responsibilities**

As explained more fully in their statement set out on page 8, 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, other irregularities (see below), 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, other irregularities 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](http://www.frc.org.uk/auditorsresponsibilities).

*Irregularities – ability to detect*

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience, and through discussion with the directors and other management (as required by auditing standards).

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

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

As with any audit, there remained a higher risk of non-detection of non-compliance with relevant laws and regulations (irregularities), as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

Herefordshire Capital

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Independent auditor's report to the members of Herefordshire Capital Plc (continued)

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

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



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

Date: 27 September 2018

## Statement of Comprehensive Income

For the period ended March 2018

		2018	Restated 2017
	Notes	£'000	£'000
Turnover	4	103	85
Operating expenditure	5	(45)	(45)
<b>Operating profit / (loss) on ordinary activities before taxation</b>		<b>58</b>	<b>40</b>
Interest receivable	6	4,228	3,666
Interest and financing costs	7	(4,241)	(3,700)
<b>Total profit / (loss) for the year before taxation</b>		<b>45</b>	<b>6</b>
Tax on profit on ordinary activities	9	-	-
<b>Total comprehensive income for the year</b>		<b>45</b>	<b>6</b>

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.

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Statement of Financial Position

As at 31 March 2018

	Notes	2018 £'000	2017 £'000
<b>Current assets</b>			
Trade and other debtors	10	104,188	89,163
Short term investments		21,998	17,000
Cash and cash equivalents		37	950
		<b>126,223</b>	<b>107,113</b>
Creditors: amounts falling due within one year	11	(19,035)	(17,118)
<b>Net current assets</b>		<b>107,188</b>	<b>89,995</b>
Creditors: amounts falling due after more than one year	12	(107,175)	(89,982)
<b>Total current assets / (liabilities)</b>		<b>13</b>	<b>13</b>
<b>Capital and reserves</b>			
Called-up share capital	15	13	13
Income and expenditure account		-	-
<b>Shareholders' funds</b>	16	<b>13</b>	<b>13</b>

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



James Williamson  
Board Member  
27 September 2018



Richard Woolley  
Secretary



## 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 Herefordshire Housing 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.

#### 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 the foreseeable future. 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, Herefordshire Housing Limited to their enquiries and have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of Herefordshire Housing Group to continue as a going concern or its ability to continue with the current banking arrangements.

On the basis of their assessment of the Company's financial position and of the enquiries made of the directors of Herefordshire Housing 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.

## Herefordshire Capital

### Report and financial statements for the year ended 31 March 2018

#### 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.

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### Report and financial statements for the year ended 31 March 2018

#### 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 Herefordshire Housing 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, Herefordshire Housing Limited.

### 4. Turnover

The Company's turnover is derived from recharges to Herefordshire Housing Limited in order to recover any administrative expenses (eg. Audit fees, loan amortization 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

Interest receivable is derived from the interest payable by Herefordshire Housing for the funding it has received from Herefordshire Capital (£4.2 million) and the interest received from investments (£33,000 made on behalf of Herefordshire Housing Limited).

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Report and financial statements for the year ended 31 March 2018

7. Interest Payable

Interest payable is derived from the amount payable in respect of the bond (£4.2 million) and (£33,000) of interest payable to HHL from the investing activities.

8. Profit On Ordinary Activities Before Tax

	2018 £'000	2017 £'000
Operating profit / (loss) is arrived after charging:		
Auditors' remuneration for external audit services	6	5

The Group accounts of the parent (Herefordshire Housing Limited, disclose the non-audit fees paid to the Group auditors.

9. Tax on profit on Ordinary Activities

	2018 £'000	2017 £'000
Profit on ordinary activities before tax	45	6
Profit on ordinary activities at the standard rate of corporation tax in the UK of 20%	-	-
<b>Total tax expense included in profit or loss</b>	-	-

As at 31 March 2018 there is no liability for deferred taxation.

10. Trade and other debtors

	2018 £'000	2017 £'000
<b>Due within one year:</b>		
Trade and other debtors	7	-
Amounts owed by Group undertakings	-	-
less: Deferred loan arrangement fees	(15)	(14)
	(8)	(14)
<b>Due after one year:</b>		
Amounts owed by Group undertakings	105,000	90,000
less: Deferred loan arrangement fees	(804)	(823)
	104,196	89,177
	<b>104,188</b>	<b>89,163</b>

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Report and financial statements for the year ended 31 March 2018

11. Creditors: amounts falling due within one year

	2018	2017
	£'000	£'000
<b>Due within one year:</b>		
Accruals and deferred income	1,546	1,336
less: Deferred loan arrangement fees	(15)	(14)
Deferred Bond Premium	60	15
Amounts owed to parent undertaking	17,399	15,781
Amounts owed to ultimate parent undertaking	45	-
	<b>19,035</b>	<b>17,118</b>

12. Creditors: amounts falling after more than one year

	2018	2017
	£'000	£'000
Bonds	105,000	90,000
less: Deferred loan arrangement fees	(804)	(823)
Deferred Bond Premium	2,979	805
	<b>107,175</b>	<b>89,982</b>

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	Fair Value
	£'000	£'000
<b>Financial assets</b>		
Other loans and receivables	(105,000)	(125,944)
<b>Financial liabilities measured at amortised costs</b>		
Other interest-bearing loans and borrowings	(105,000)	(125,944)

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.

# Herefordshire Capital

## Report and financial statements for the year ended 31 March 2018

### 13. Financial Instruments (continued)

At 31 March 2018, the fair value of the Company's long term debt was £125.944 million.

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 Herefordshire Housing legal entities which include this Company.

##### Credit Risk

All of the Company's capital market financing proceeds are immediately on-lent to Herefordshire Housing 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 HHL, the overall credit worthiness of the Group, the guarantees that HHL 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 31 years.

The debt is repayable as follows:

	2018	2017
	£'000	£'000
Lump Sum Repayments:		
In five years or more	(105,000)	90,000
	<b>(105,000)</b>	<b>85,000</b>

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).

## Herefordshire Capital

### Report and financial statements for the year ended 31 March 2018

#### 13. Financial Instruments (continued)

##### Interest rate risk

The Company currently borrows on a fixed rate basis from the capital market and then on-lends these funds to Herefordshire Housing 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 Herefordshire Housing 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 period 1 April 2017 £'000	Cashflow £'000	At end of the period 31 March 2018 £'000
Cash at bank and in hand	950	(913)	37
<b>Cash</b>	<b>950</b>	<b>(913)</b>	<b>37</b>
Short term investments	17,000	4,998	21,998
Debt due after one year	(90,000)	(15,000)	(105,000)
Bond arrangement fees	861	(3)	858
Bond premium	(826)	(2,264)	(3,090)
<b>Total</b>	<b>(72,015)</b>	<b>(13,182)</b>	<b>(85,197)</b>

#### 15. Called Up Share Capital

	2018 Number	2017 Number
Allotted, issued and fully paid shares of £1 each on incorporation	13	13
Returned shares	-	-
Shares issued during the financial period	-	-
<b>Number of shares at 31 March</b>	<b>13</b>	<b>13</b>

#### 16. Reconciliation of movements in shareholders' funds

	2018 £'000	2017 £'000
Share capital at the beginning and end of the year	13	13
Profit for the financial period	45	6
Distribution to shareholders in the form of Gift Aid	(45)	(6)
Tax credit on gift aid	-	-
<b>Closing shareholders' funds</b>	<b>13</b>	<b>13</b>

**Herefordshire Capital**  
**Report and financial statements for the year ended 31 March 2018**

**17. Contingent Liabilities**

There are no contingent liabilities at 31 March 2018.

**18. Post balance sheet events**

There are no significant post balance sheet events requiring adjustment to, or disclosure in, the financial statements.

**19. Ultimate parent undertaking and controlling party**

The Company is a wholly owned subsidiary of Herefordshire Housing 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 Herefordshire Housing, 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.