

Midland Heart Capital plc

**Directors' Report, Strategic Report
and
Financial Statements**

Year ended 31 March 2024

Company Number: 8159931

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Board of Directors

Name	Appointed	Resigned
Glenn Harris MBE	27/07/2012	
Joe Reeves	01/08/2017	
David Taylor	29/05/2020	
Company Secretary		
Sarah Scott	01/04/2020	

Registered Office: 20 Bath Row, Birmingham, B15 1LZ

VAT Registration Number: 880 9861 74

Auditor: KPMG LLP
20 Station Road
Cambridge
CB1 2JD

Principal Banker: Lloyds TSB Plc
125 Colmore Row
Birmingham
B3 2DS

Treasury Advisor: Savills
33 Margaret Street
London
W1G 0JD

Registered under Companies Act 2006 on 27 July 2012.

Strategic Report

Principal Activities

The principal activity of the Company is to act as the capital markets issuance vehicle for Midland Heart Limited.

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

All of the Company's costs relating to providing funding services are billed to Midland Heart Limited.

Business Review

During the year no further retained bonds were issued. There still are £75m of retained bonds bond available to issue from the original £250m bond to fund Midland Heart Limited's development programme and for general corporate purposes. The bonds continue to benefit from the strong credit rating of Midland Heart Limited being Moody's A1 stable one of the highest in the sector.

The bond is secured by a portfolio of largely social housing properties owned by Midland Heart Limited. Most of the properties are valued at Market Value subject to Tenancies (MV-T) at an asset-coverage ratio of 1.15x.

A valuation based on MV-T is one where the units are capable of being let at a Market Rent and disposed of free from restrictions. The valuation may only be attainable by a Mortgagee in Possession, selling the properties tenanted, outside of the RP sector. The bond issue contains an asset cover ratio of 1.15x meaning that any properties based on a MV-T valuation must cover the loan by 115%. If a property cannot get MV-T it is valued at the lower Existing use social value which has an asset cover of 1.05x. Asset cover is the only covenant on the borrowing.

Midland Heart Limited and its group entities (the Group) achieved a surplus before tax of £41.8m for 2023/24. This is higher than the last year's surplus of £40.7m. The key ingredients of this were the group were able to manage their activities to reduce inefficiencies in a difficult environment of price increases and increased regulation. Customer satisfaction was again high at c.89% during the year. The Group are on track to hit its strategic targets of building 4,000 homes between 19/20 and 24/25. As at 31 March 2024, the Group had c.£303m in cash and immediately available loan facilities.

Financial risk management objectives and policies

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 programme that seeks to limit the adverse effects on the financial performance of the Company by monitoring levels of debt finance and related finance costs.

Credit Risk

All of the Company's capital market financing proceeds are immediately on-lent to Midland Heart Limited, its regulated social housing subsidiary 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 Midland Heart Limited, the overall creditworthiness of the Group, the guarantees that Midland Heart Limited has issued to the Company and the contractual protections in the loan agreement itself. The underlying credit of the group is monitored by the Board.

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 2024 100% of the Company's debt was on fixed rate terms. The Company does not use derivative financial instruments to manage interest rate costs. The underlying cash flow risks of the group are monitored by the Board.

Key Performance Indicators and Capital Management

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. Its capital management focuses on maintaining the relationship between its borrowings and its debtors.

Directors Report

The Directors present their report and the audited financial statements of Midland Heart Capital plc ("The Company") for the year ended 31 March 2024.

Midland Heart Capital plc is a company limited by shares registered under Companies Act 2006 (No. 8159931). The Company is a subsidiary of Midland Heart Limited, and a member of the Midland Heart Group ("The Group").

Directors

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

Glenn Harris MBE
David Taylor
Joe Reeves

As at 31 March 2024 no qualifying third party indemnity provisions were granted to any directors.

Statement as to disclosure of information to auditors

The directors who held office at the date of approval of this Directors' 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 he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information

Auditor

KPMG LLP are auditor to the Group. The auditors' fees for audit and non-audit work are disclosed in note 7 to the financial statements.

Health & Safety

Midland Heart 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.

Long Term Viability

As required by the provisions of the Corporate Governance Code, the Directors have assessed the long term viability of the company for a period of 5 years. To assist in this, the group manage the business with regard to 3 golden rules. These are as follows:

- Interest cover to be at least 150% (covenant minimum 116% - currently 303%);
- Gearing to be below 70% (covenant maximum 75% currently 43%); and
- Liquidity at least 18 months.

This allows the Group to have headroom over its operating, debt and liquidity positions and be comfortable that it can meet all its liabilities as they fall due.

In the short term for the group, we prepare budgets and other key performance indicators so that the Board can note up to date performance including any corrective action that needs to be taken.

As well as this, the Group's thirty-year business plan is subjected to severe stress testing, including varying assumptions as well as multi-variate testing that are designed to break the plan. If these scenarios took place, mitigation strategies are

modelled that would be employed to deal with the adverse scenarios e.g., cutting development, selling low performing assets and reducing management costs.

It is based on this that the Directors have a reasonable expectation that based on known risks they will be able to continue in operation and meet its liabilities to Midland Heart Capital plc as they fall due. It should also be noted that Midland Heart Has a GI/VI and enjoys the leading rating in the sector.

Going Concern

The board, after reviewing the company budgets for 2024/25 and the Group's medium term financial position as detailed in the 30-year business plan is of the opinion that, taking account of severe but plausible downsides, the company have adequate resources to continue in business for at least 12 months from the date of signing these financial statements. The Board therefore continues to adopt the going concern basis in preparing the annual financial statements.

Dividends

The Directors do not recommend the payment of a dividend for the period (2023: Nil).

Political and charitable contributions

The Company made no political or charitable donations or incurred any political expenditure during the period (2023: Nil).

Statement of Directors' responsibilities in respect of the Directors' Report, Strategic Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and 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 are required to prepare the financial statements in accordance with UK accounting standards 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 its profit or loss for that period. In preparing these financial statements, the directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal controls as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and Directors' Report that complies with that law and those regulations.

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

Responsibility statement of the directors in respect of the annual financial report.

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company; and
- the strategic report and directors' report includes a fair review of the development and performance of the business and the position of the issuer, together with a description of the principal risks and uncertainties that they face.

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

Corporate Governance Statement

The Directors of Midland Heart Capital plc are responsible for operating the Company within its Rules. The Company must maintain a minimum of two directors.

The Directors delegate the day-to-day operation of the Company to the Midland Heart Executive Board. The Directors have overall responsibility for ensuring that systems of internal control are established and maintained. Such systems can only provide reasonable assurance against material financial misstatement or loss.

The process adopted by the Directors in reviewing the effectiveness of the system of internal control, together with some of the key elements of the control framework includes:

- Formal policies and procedures are in place. This includes Standing Orders which document the key systems and rules relating to the delegation of authority, which allow the monitoring of controls and prohibit the unauthorised use of assets.
- Experienced and suitably qualified staff take responsibility for important business functions. Annual appraisal procedures are well established to maintain standards of performance.
- Internal audits are carried out on any risk areas within the business to identify and implement corrective actions in relation to any areas of weakness in the control framework.

Audit & Risk Committee Statement

The Audit & Risk Committee is responsible for six key areas, delegated by the Board:

- Monitoring the integrity and effectiveness of financial reporting and external profit;
- Agreeing and monitoring the delivery of the Group's internal audit programme;
- Monitoring the effectiveness of the Group's risk management and internal control systems;
- Overseeing the effective implementation of the Group's health and safety policy;
- Oversight of the compliance with whistle blowing and fraud policies and procedures; and
- Compliance with regulatory standards and NHF code of governance.

In addition to exercising oversight of these areas, the Committee also considers items related to information governance / General Data Protection Regulations (GDPR), resilience and review of the Governance and Control Framework (Midland Heart's Standing Orders).

At the March 2024 meeting of the Committee, the Committee considered the external auditor's (KPMG), audit plan and strategy for the consolidated financial statements of Midland Heart Limited and subsidiaries for the year ending 31 March 2024. The Committee heard the external auditor's assessment of the key audit matter risks relevant to Midland Heart Capital's plc operations, notably the risk of the group's inability to service the debt, as well as other areas of focus, and sought assurances from management as to how these would be addressed during the audit process. Based on review of management information received during the year, the Committee is satisfied that the Group is able to service its debt to Midland Heart Capital plc.

The Committee also assessed the effectiveness of the external audit process at the same meeting by receiving details of the seniority and experience of the engagement team as well as details of the auditor's audit quality framework.

An Enterprise-wide Risk Management Framework has been implemented across the Group under which each functional area of the business (including the Company) reports on its major risks and how these are being managed/eliminated on a quarterly basis to the Committee.

On behalf of the Directors, the Midland Heart Audit and Risk Committee has reviewed the effectiveness of the system of internal controls in existence in the Group for the year ended 31 March 2024. No significant weaknesses were found in the internal controls that resulted in material losses, contingencies, or uncertainties that require disclosure in the financial statements or in the auditor's report on the financial statements.

On the basis of the above, the Committee have received sufficient assurance on the key audit matters raised.

By Order of the Directors



Sarah Scott
Secretary

31 July 2024

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MIDLAND HEART CAPITAL PLC

1 Our opinion is unmodified

We have audited the financial statements of Midland Heart Capital Plc ("the Company") for the year ended 31 March 2024 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 2024 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 first appointed as auditor by the directors on 22 April 2013. The period of total uninterrupted engagement is for the 10 financial years ended 31 March 2024. 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 2023) in arriving at our audit opinion above, together with our key audit procedures to address that 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.

- The only key audit matter identified is the recoverability of long-term debtors;
- Recoverability of these debtors has been assessed as low risk, high value (i.e. no significant risk of material misstatement identified, not a significant source of estimation uncertainty); and
- Accounts are prepared under FRS 102 *and the entity applies Section 11 and 12 of FRS 102 to financial instruments*.

Recoverability of Long-Term Intercompany Debtors (Risk vs 20203: ◀▶)

Debtors (amounts falling due after more than one year) £321m (2023: £321m)

Refer to pages 19 to 21 (accounting policy) and pages 22 to 25 (financial disclosures).

The risk – low risk, high value

The Company's primary activity is to source investor financing by issuing bonds and onward lending this funding to Midland Heart Limited. The Company therefore has significant long term intercompany debtors, and the recoverability of these balances is inherently linked to the forecasted performance of the parent.

The carrying amount of the long-term intercompany debtors balance represents 99.8% (2023: 99.9%) 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.

Our response

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:

- **Tests of detail:** Assessing 100% (2023: 100%) of the total long-term intercompany debtors balance 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.
- **Evaluating ability of the parent to repay the receivable:** critically assessing the Company's assessment of the ability of the parent to meet its obligations to the Company by inspecting the financial statements of the parent. This included evaluating the reasonableness of the key assumptions in those projections against our knowledge of the group and experience of the industry in which it operates.

We found the Company's assessment of the recoverability of the long-term debtor balance to be acceptable (2023 result: acceptable).

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

The Company is part of a Group headed by Midland Heart Limited.

Materiality for the financial statements as a whole was set at £3.24m (2023: £3.0m), determined with reference to a benchmark of total assets, of which it represents 1.0% (2023: 0.93%).

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% (2023: 75%) of materiality for the financial statements as a whole, which equates to £2.43m (2023: £2.25m). 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 and Risk Committee any corrected or uncorrected identified misstatements exceeding £162k (2023: £150k), in addition to other identified misstatements that warranted reporting on qualitative grounds.

The scope of the audit work performed was fully substantive as we did not rely upon the Company's internal control over financial reporting.

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

4 Going concern

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

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 Company's financial resources or ability to continue operations over the going concern period. The risk that we considered most likely to adversely affect the Company's available financial resources over this period was the parent's inability to meet their obligations to the Company during the going concern assessment period, which would result in the inability of the Company to meet its own external debt obligations as they fall due.

Given the purpose of the Company, our procedures in relation to going concern are inherently linked with our key audit matter in relation to the recoverability of the long-term intercompany debtor. Our procedures on going concern also included:

- Inspecting internally provided cash flow projections over the going concern assessment period for the wider group and the level of available financial resources indicated by those financial projections to assess the ability of the parent to make scheduled repayments to the Company.
- Critically assessing the downside scenarios considered by the Directors against our understanding of the wider group and the sector in which it operates.
- Assessing whether those group projections included repayments of loan interest and principal in line with the Company's external debt obligations.

We considered whether the going concern disclosure in note 2 to the financial statements gives a full and accurate description of the directors' assessment of going concern, including the identified risks and related sensitivities. We assessed the completeness of the going concern disclosure.

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 and inspection of policy documentation as to the Company’s high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Company’s channel for “whistleblowing”, 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 there are no revenue transactions.

We did not identify any additional fraud risks.

We performed procedures including identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by seldom users.

Identifying and responding to risks of material misstatement related to 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. Auditing

standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

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

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

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as fraud 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 the directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion 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 that work:

- 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.

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 7, 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.



Mark Dawson (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

1 August 2024

Statement of Comprehensive Income

	Note	2024	2023
		£'000	£'000
Interest receivable		10,496	10,489
Interest payable	6	(10,496)	(10,489)
Operating Surplus		-	-
Other operating income	4	431	431
Other operating expenses	5	(431)	(431)
Surplus before tax	7	-	-
Tax on profit on ordinary activities	8	-	-
Total Comprehensive Income		-	-

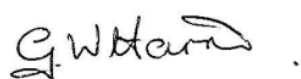
The accompanying notes form part of these financial statements.

Statement of Financial Position

	Note	2024 £'000	2023 £'000
Current Assets			
Debtors - due within one year	9	683	674
Debtors - due after more than one year	9	321,045	320,962
Cash at bank and in hand		13	13
		<hr/>	<hr/>
		321,741	321,649
Creditors: Amounts falling due within one year	10	(683)	(674)
		<hr/>	<hr/>
Net Current Assets		321,058	320,975
Creditors: Amounts falling due after more than one year	11	(321,045)	(320,962)
		<hr/>	<hr/>
Net Assets		13	13
		<hr/>	<hr/>
Shareholders' Funds:			
Share capital	13	13	13
Reserves		-	-
		<hr/>	<hr/>
Equity Shareholders' Funds		13	13
		<hr/>	<hr/>

The accompanying notes form part of these financial statements.

These financial statements were approved at a meeting of the Directors held on 31 July 2024 and signed on its behalf by:



Glenn Harris
Director



Joe Reeves
Director



Sarah Scott
Secretary

Company number: 8159931

Statement of Movement in Equity

	Share Capital £'000	Income and Expenditure Reserves £'000	Total Reserves £'000
As at 1 April 2022	13	-	13
Total Comprehensive Income for the year	-	-	-
As at 1 April 2023	13	-	13
Total Comprehensive Income for the year	-	-	-
At 31 March 2024	13	-	13

Notes to the Financial Statements

1. LEGAL STATUS

Midland Heart Capital plc is a company limited by shares registered in England under the Companies Act 2006 (registration number 8159931). The company is a subsidiary of Midland Heart Limited, and a member of the Midland Heart Group.

2. ACCOUNTING POLICIES

a) Basis of Accounting

The financial statements of the company are prepared in accordance with Financial Reporting Standard 102 – The applicable financial reporting standard in the UK and Republic of Ireland (FRS 102), and the Companies Act 2006.

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

The exemption available to a subsidiary undertaking in relation to the publication of a Cash Flow Statement and related notes given under FRS 102 has been taken in these financial statements. The consolidated financial statements of the Midland Heart Group are available from Midland Heart, 20 Bath Row, Birmingham B15 1LZ.

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

Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

(b) Measurement convention

The financial statements are prepared on the historical cost basis except that financial instruments are measured at amortised cost.

(c) Going concern

The Company is a wholly owned subsidiary of Midland Heart Limited (a company registered in England), and participates in the Midland Heart Group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries.

The Directors have prepared cash flow forecasts covering a period of 30 years from the date of approval of these financial statements which indicate that, taking account of severe but plausible downsides, the Company will have sufficient funds to meet its liabilities as they fall due for that period. In order to settle its own financial obligations and meet the compliance requirements of its external borrowings the Company is dependent on Midland Heart Limited, the parent entity, generating sufficient cashflows to settle the payments of principal and interest on the onward loan of the funding which the Company raised. Those forecasts are dependent on Midland Heart Limited having adequate resources to continue in business for at least 12 months from the date of signing these financial statements.

As well as considering the impact of a number of scenarios on the business plan the Group's Board also adopted a stress testing framework to use four main types of sensitivity testing 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. 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 2023/24 and the group's medium term financial position

as detailed in the 30-year business plan, 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. In order to reach this conclusion, the Board have considered through multi-variant stress testing:

- the property market – budget and business plan scenarios have taken account of delays in handovers, lower numbers of property sales, reductions in 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 £303m which give significant headroom for any 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 Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Cash equivalents comprise term deposits which are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value; of less than one year (other than cash), government securities and investments in money market managed funds.

(e) Turnover

The Company does not generate any trading income. It receives interest from other Group entities.

(f) Interest receivable

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

(g) Expenses

Interest payable

Interest payable is accrued over the term of the related borrowing so as to recognise the total cost evenly over the life of the loan.

Value Added Tax

The Group charges Value Added Tax (VAT) on some of its income and is able to recover part of the VAT it incurs on its expenditure. The financial statements include VAT to the extent that it is suffered by the Group and not recoverable from HM Revenue and Customs. The balance of VAT payable or recoverable at the year-end is included as a current liability or asset as appropriate.

(h) Related Party Transactions

The Association is exempt from the requirement of FRS 102 to disclose transactions between Group undertakings as all companies are controlled and managed by Governing Bodies and an Executive Board appointed by the Board of Management of the Parent Company.

(i) Financial Instruments

The company accounts for its financial instruments under FRS 102.

Financial Instruments which meet the criteria of a basic financial instrument as defined in Section 11 of FRS 102 are accounted for under an amortised cost model.

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Non-basic financial instruments include all non-basic instruments and derivatives such as swaps and are accounted for under section 12 of FRS 102 and measured at fair value through income and expenditure unless hedge accounting is applied.

All financial assets or liabilities at fair value are calculated using measurements based on inputs that are observable for the asset either directly or indirectly from quoted prices. Loans and Bonds are valued at amortised cost and market values for the stand alone swaps are obtained by discounting the cash flows at the prevailing swap curve. All other assets and liabilities are shown at historical book value.

Impairment

Financial assets are assessed at each reporting date to determine whether there is any objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss immediately.

The following financial instruments are assessed individually for impairment:

- (a) All equity instruments regardless of significance; and
- (b) Other financial assets that are individually significant.

Other financial instruments are assessed for impairment either individually or grouped on the basis of similar credit risk characteristics.

3. DIRECTORS' EMOLUMENTS AND EMPLOYEE INFORMATION

None of the directors receive remuneration for their services as a director of Midland Heart Capital plc. Those directors who also serve on the Midland Heart Limited Board are remunerated for their services by Midland Heart Limited.

Midland Heart Capital plc has no direct employees. Those employees who perform duties for Midland Heart Capital plc are remunerated by the parent company, Midland Heart Limited.

4. OTHER OPERATING INCOME

	2024 £'000	2023 £'000
Arrangement fee charges due from Group undertakings	<u>431</u>	<u>431</u>

5. OTHER OPERATING EXPENSES

	2024 £'000	2023 £'000
Arrangement fees due to external bodies	<u>431</u>	<u>431</u>

6. INTEREST AND FINANCING COSTS

All interest payable relates to interest paid on loans.

7. SURPLUS BEFORE TAX

	2024 £'000	2023 £'000
Surplus before tax is stated after charging:		
Auditors' remuneration:		
As auditors	<u>-</u>	<u>-</u>

The audit fee is borne by the parent company, Midland Heart Limited.

The Group accounts of the parent, Midland Heart Limited, disclose the non-audit fees paid to the Group's auditors.

8. TAX ON SURPLUS

	2024 £'000	2023 £'000
Charge for the year	-	-

Factors affecting tax charge:

Surplus for the year	-	-
Tax payable at 25% (2023 – 19%) thereon	-	-

As at 31 March 24 there is no liability for deferred taxation (2023: nil).

9. DEBTORS

	2024 £'000	2023 £'000
Due within one year		
Amounts owed by Group undertakings	683	674

Assets measured at amortised cost

Due after more than one year

Amounts owed by Group undertakings	325,000	325,000
Premium on bond issues	6,954	7,302
Discount on bond issues	(9,024)	(9,371)
less: Deferred loan arrangement fees	(1,885)	(1,969)
	321,045	320,962

10. CREDITORS: Amounts falling due within one year

	2024 £'000	2023 £'000
Accruals and deferred income	683	674
	683	674

11. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2024 £'000	2023 £'000
Liabilities measured at Amortised cost		
Bonds	325,000	325,000
Premium on bond issues	6,954	7,302
Discount on bond issues	(9,024)	(9,371)
less: Deferred loan arrangement fees	(1,885)	(1,969)
	321,045	320,962

12. FINANCIAL INSTRUMENTS

Financial risk management

Risk management objectives and policies

The Treasury team is responsible for the management of funds and control of associated risks. Its activities are governed by the Group Board and the Board of Midland Heart Limited, which is responsible for treasury issues in all Midland Heart legal entities, which include this Company.

Credit risk

All of the Company's capital market financing proceeds are immediately on-lent to Midland Heart 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 Midland Heart Limited, the overall creditworthiness of the Group, the guarantees that Midland Heart Limited has issued to the Company and the contractual protections in the loan agreement itself.

Liquidity risk

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 20 years and 26 years.

The debt is repayable as follows:

	2024 £'000	2023 £'000
Lump Sum Repayments:		
In five years or more	325,000	325,000
	325,000	325,000

FINANCIAL INSTRUMENTS (CONTINUED)

Bond Issue 1 of £150m is repayable as a lump sum in September 2044. Interest is charged at a fixed rate of 5.09%

Bond Issue 2 of £175m is repayable as a lump sum in August 2050. Interest is charged at a fixed rate of 1.83%

The loans are secured upon 7,183 housing properties at a valuation of c.£645m owned by the Company's parent, Midland Heart Limited.

Interest rate risk

The Company currently borrows on a fixed rate basis from the capital market and then on-lends these funds to Midland Heart 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 Midland Heart Limited, as discussed above.

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

The interest rate on £150m of borrowings is fixed at 5.09% until 2044, and £175m is fixed at 1.83% until 2050.

Fair Values of Financial Instruments

The fair values of financial assets and liabilities by class together with their carrying values are as follows:

	2024	2024	2023	2023
	£'000	£'000	£'000	£'000
Financial Assets:	Carrying Value	Fair Value	Carrying Value	Fair Value
Other loans and receivables	325,000	236,709	325,000	242,947
Financial Liabilities measured at amortised cost:	325,000	236,709	325,000	242,947
Other interest bearing loans and borrowings				

The fair value of both the financial assets and the financial liabilities is estimated as the present value of future cash flows, discounted at the market rate of interest at the date of the Statement of Financial Position if the effect is material. Midland Heart 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.

13. CALLED UP SHARE CAPITAL

	2024 £'000	2023 £'000
50,000 allotted, issued and partly paid ordinary shares of £1 each on incorporation and at 31 March 2024	13	13

14. CONTINGENT LIABILITIES

There are no contingent liabilities at 31 March 2024 (31 March 2023: nil).

15. DISCLOSURE OF GROUP ACTIVITY

The Company is a wholly owned subsidiary of Midland Heart Limited, and has taken advantage of the exemption contained within FRS 102 and therefore not disclosed transactions or balances with entities which form part of the Group.

The ultimate parent of Midland Heart Capital plc is Midland Heart Limited.

The Group accounts of Midland Heart Limited for the year ended 31 March 2024 can be obtained from the registered office at: 20 Bath Row, Birmingham, B15 1LZ.