
E&J GROUND RENTS NO5 LLP

FINANCIAL STATEMENTS
INFORMATION FOR FILING WITH THE REGISTRAR
FOR THE PERIOD ENDED 30 JUNE 2019

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E&J GROUND RENTS NO5 LLP
REGISTERED NUMBER: OC377976

BALANCE SHEET
AS AT 30 JUNE 2019

	Note	30 June 2019 £	31 March 2018 £
Fixed assets			
Investments	6	2	2
Investment property	7	32,903,907	28,166,400
		<u>32,903,909</u>	<u>28,166,402</u>
Current assets			
Debtors: amounts falling due within one year	8	4,117,460	4,414,864
		<u>4,117,460</u>	<u>4,414,864</u>
Creditors: Amounts Falling Due Within One Year	9	(23,978,537)	(26,506,583)
Net current liabilities		<u>(19,861,077)</u>	<u>(22,091,719)</u>
Total assets less current liabilities		<u>13,042,832</u>	<u>6,074,683</u>
Net assets		<u><u>13,042,832</u></u>	<u><u>6,074,683</u></u>
Represented by:			
Loans and other debts due to members within one year			
Other amounts	10	11,894,127	4,925,978
		<u>11,894,127</u>	<u>4,925,978</u>
Members' other interests			
Other reserves classified as equity		1,148,705	1,148,705
		<u>1,148,705</u>	<u>1,148,705</u>
		<u><u>13,042,832</u></u>	<u><u>6,074,683</u></u>
Total members' interests			
Loans and other debts due to members	10	11,894,127	4,925,978
Members' other interests		1,148,705	1,148,705
		<u>13,042,832</u>	<u>6,074,683</u>
		<u><u>13,042,832</u></u>	<u><u>6,074,683</u></u>

E&J GROUND RENTS NO5 LLP
REGISTERED NUMBER: OC377976

BALANCE SHEET (CONTINUED)
AS AT 30 JUNE 2019

The financial statements have been prepared in accordance with the provisions applicable to entities subject to the small LLPs regime.

The financial statements have been delivered in accordance with the provisions applicable to LLPs subject to the small LLPs regime.

The entity has opted not to file the statement of comprehensive income in accordance with the provisions applicable to entities subject to the small LLPs regime.

The financial statements were approved and authorised for issue by the members and were signed on their behalf on 28 February 2020.


J E Tuttiatt for and on behalf of SF Member No.1 Limited
Designated member

The notes on pages 3 to 9 form part of these financial statements.

E&J GROUND RENTS NO5 LLP

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

1. General information

E&J Ground Rents No5 LLP is a limited liability partnership, incorporated in England & Wales (registered number OC377976). Its registered office and principal place of business is Prospect Place, Moorside Road, Winchester, England, SO23 7RX. The financial statements are presented in Sterling, which is the functional currency of the LLP. The principal activity of the LLP during the period was that of property investment.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Section 1A of Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006 and the requirements of the Statement of Recommended Practice "Accounting by Limited Liability Partnerships".

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the LLP's accounting policies (see note 3).

The following principal accounting policies have been applied:

2.2 Going concern

These accounts have been prepared on the going concern basis on the understanding that the intermediate parent company, SF Funding Limited, will continue to financially support the LLP. At the period end creditors total £23,978,537 (2018: £26,506,583), of which £23,066,020 (2018: £24,753,266) is payable to SF Funding Limited.

2.3 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the LLP and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Rendering of services

Revenue from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the LLP will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

E&J GROUND RENTS NO5 LLP

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

2. Accounting policies (continued)

2.4 Taxation

Taxation on all the LLP's profits is solely the personal liability of individual members and is not dealt with in these financial statements.

2.5 Exceptional items

Exceptional items are transactions that fall within the ordinary activities of the LLP but are presented separately due to their size or incidence.

2.6 Investment property

The LLP's holding of investment property is comprised of freehold reversionary interests and these are initially measured at cost and subsequently measured at fair value whilst a reliable measure of fair value is available without undue cost or effort. Changes in fair value are recognised in the Statement of Comprehensive Income.

These assets, as their name implies, represent interests held in the freehold land on which third party developers have built and sold long leasehold properties. As such these assets are more akin to financial investments, as they generate income in the form of annual ground rents along with other ancillary income streams.

Recognising the unusual nature of these investment properties and the lack of a regular market for significant portfolios of such assets, which are in distinct contrast with the more regular "bricks and mortar" investment properties, the members are of the opinion that the best approximation to fair value for these properties is provided by a discounted cashflow valuation of the income streams generated by these assets. The valuation of the entire freehold reversionary interest portfolio is undertaken by independent valuers.

The members also recognise, given the unusual nature and lack of a regular market for significant portfolios of such assets, that these carrying values may not be realised should the LLP seek to dispose of any or all of the investment properties.

Further details are given in note 7.

2.7 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

2.8 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

2.9 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

E&J GROUND RENTS NO5 LLP

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

3. Judgments in applying accounting policies and key sources of estimation uncertainty

In the application of the LLP's accounting policies, which are described in note 2, management is required to make judgments, estimates and assumptions about the carrying values of assets and the liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revisions affect only that period, or in the period of the revisions and future periods if the revision affects both current and future periods.

The key sources of estimation uncertainty that have a significant effect on the amounts recognised in the financial statements are described below.

Valuation of investment properties

A key accounting estimate in preparing these financial statements relates to the carrying value of the investment property which is stated at fair value, as valued by the independent valuers. However, the valuation of the group's investment property is inherently subjective, as it is made on the basis of valuation assumptions which may in future not prove to be accurate, the risk of which is heightened due to the potential legislative changes noted below.

In December 2017 the Department for Communities and Local Government, now known as the Ministry for Housing, Communities and Local Government (MHCLG) published the outcome of the 'Tackling unfair practices in the leasehold market' consultation it had conducted during the year.

Since this date the Government, through the MHCLG, is undertaking a series of further consultations on the residential property market with a focus on the legal framework surrounding the freehold and leasehold classes of property interests. Interim proposals have been put forward that, if implemented, may, over time, lead to a material reduction in the level of ground rent generated by the portfolio. In addition, the MHCLG has asked the Law Commission to advise on potential changes to the existing law with the purpose of making enfranchisement and lease extensions easier and cheaper for leaseholders. The Law Commission presented options for reform to the Government on 9 January 2020. The implementation of any such changes could also materially reduce the level of income generated by the portfolio. Such changes, if implemented, would be a significant threat to the group.

The LLP is of the view that the proposed changes (as currently formulated) would be very damaging to the residential property market and against the interests of consumers and other property owners. The members have engaged actively in the consultations and with other stakeholders and interested parties in order to convey the group's opposition to the current proposals. Recent public announcements by government and in symposiums held by the Law Commission, both have recognised that the proposals to make wholesale reforms retrospectively poses real problems with respect to the contravention of human rights legislation and the suggestion has been made that the reforms will affect future leases and not those already in existence. The members are confident that the proposals in their current form are unlikely to be passed into law.

An intrinsic element of the long-term forecasts is the continuing rental income and lease extension premiums generated by the property assets held by these subsidiaries. The potential legislative changes raised above may affect these forecasts to the extent that the underlying assumption is no longer valid.

However, the likelihood of the changes, as proposed in their current form, coming in to effect is believed to be low and the financial consequences of any changes are too uncertain to enable the members to reasonably estimate the impact of such changes on those forecasts and it is assumed that the current

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2019**

3. Judgments in applying accounting policies (continued)

methodology continues to represent a fair value of these assets.

Details of the principal assumptions applied in the valuation of the investment properties are set out in note 7.

4. Employees

The entity has no employees.

5. Information in relation to members

	30 June 2019 Number	31 March 2018 Number
The average number of members during the year was	<u><u>2</u></u>	<u><u>2</u></u>

6. Fixed asset investments

	Investments in subsidiary companies £
Cost or valuation	
At 1 April 2018	<u>2</u>
At 30 June 2019	<u><u>2</u></u>

The subsidiary's equity and profit/loss are disclosed within the intermediate parent company's financial statements.

E&J GROUND RENTS NO5 LLP

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

7. Investment properties

	Freehold investment properties £
Valuation	
At 1 April 2018	28,166,400
Disposals	(26,684)
Surplus on revaluation	4,764,191
At 30 June 2019	32,903,907

The investment properties represent a portfolio of freehold reversionary interests that generate ground rents as the principal income stream.

The basis of the valuation of the investment properties was to project and discount the income streams generated by the portfolio over no more than 50 years. The principal assumptions used in these valuations were:

- Reference gilt rates, provided with reference to directly observable data.
- Funding margins, provided with reference to comparable transactions.
- Taxation - no allowance has been made for taxation in projecting the future revenue flow.
- Projected RPI (Retail Price Index) rate, provided with reference to implied rate from observable data.
- HPI (Household Price Index) or MRR (Market Rent Review) projected rate, provided with reference to historical data using conservative assumptions which are found to be acceptable to lenders in this sector.
- PSEI (Private Sector Earnings Index), this has been set at 0% as a conservative assumption.
- Leases with "10-year doubling" rental uplift clauses - all such leases have been rebased to uplift clauses linked to the RPI. Expected deed of variation fee receipts will offset reduced rental income.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2019**

7. Investment properties (continued)

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

	30 June 2019 £	31 March 2018 £
Historic cost	14,761,575	14,773,678
	14,761,575	14,773,678

8. Debtors

	30 June 2019 £	31 March 2018 £
Trade debtors	212,801	449,443
Other debtors	150	9,304
Prepayments and accrued income	3,904,509	3,956,117
	4,117,460	4,414,864

9. Creditors: Amounts falling due within one year

	30 June 2019 £	31 March 2018 £
Trade creditors	62,737	533,664
Amounts owed to group undertakings	23,066,020	24,753,266
Other creditors	2	2
Accruals and deferred income	849,778	1,219,651
	23,978,537	26,506,583

E&J GROUND RENTS NO5 LLP

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2019**

10. Loans and other debts due to members

	30 June 2019 £	31 March 2018 £
Amounts due to members	11,894,127	4,925,978
	<u>11,894,127</u>	<u>4,925,978</u>

Loans and other debts due to members may be further analysed as follows:

	30 June 2019 £	31 March 2018 £
Amounts due within 1 year	11,894,127	4,925,978
	<u>11,894,127</u>	<u>4,925,978</u>

Loans and other debts due to members rank equally with debts due to ordinary creditors in the event of a winding up.

11. Related party transactions

FRS 102 does not require disclosure of transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

12. Controlling party

The smallest group to consolidate these financial statements is SF Funding Limited. The registered office and principal place of business of SF Funding Limited is Prospect Place, Moorside Road, Winchester, England, SO23 7RX.

13. Disclosure under section 444(5B) of the Companies Act 2006

The auditors' report on the financial statements for the period ended 30 June 2019 was unqualified.

The audit report was signed on 28 February 2020 by Daniel Walters (Senior statutory auditor) on behalf of Harris & Trotter LLP.