Swan Housing Association Limited
Annual Report and Financial Statements

2022/23

Registered Society 28496R

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Board Members, Executive Directors, Advisors and Bankers

Board	Arvinda Gohil (Chair) (appointed 8 February 2023) Hilary Gardner (appointed 8 February 2023) Simon Clark (appointed 8 February 2023) Nathan Warren (appointed 8 February 2023) David Soothill (appointed 8 February 2023)
Resigning Members	Pat Billingham (resigned 8 February 2023)) Joy Baggaley (resigned 8 February 2023) Matthew Bailes (resigned 8 February 2023) Devan Bala (resigned 8 February 2023) Jane Bristow (resigned 8 February 2023) Mike Johnson (resigned 8 February 2023) Paul Phillips Board Co-optee (resigned 8 February 2023)) Elizabeth Sipiere (resigned 8 February 2023)
Executive Directors	
Chief Executive	Susan Hickey (Resigned 8 February 2023)
Managing Director	David Soothill (8 February 2023 – 30 September 2023)
Group Finance Director	Paul Bloomfield (Development; from 1/10/22, resigned 13/07/23) Tim Jennings (Corporate Resigned 2/3/23)
Executive Director, Customer Experience	Pete Morley-Watts
Executive Director, Corporate Services	Malcolm O'Brien (resigned 30/09/23)
Executive Director, Governance & Compliance	Susan McBride (resigned 8 April 2023)
Former Executive Directors	Jeremy Vickers (Resigned 30/9/22)
Secretary	Nicole Seymour (appointed 8 February 2023)
Registered Office	Chamber Court Castle Street Worcester England WR1 3ZQ
Registered Number	Co-operative & Community Benefit Societies Act 2014 Registration Number: 28496R Registered by the Regulator of Social Housing Number: L4145
External Auditor	Grant Thornton UK LLP 30 Finsbury Square London, EC2A 1AG
Internal Auditor	Pricewaterhouse Coopers LLP One Chamberlain Square Birmingham B3 3AX
Solicitor	Devonshires Solicitors LLP 30 Finsbury Circus London, EC2M 7DT
Banker	Royal Bank of Scotland Plc 29 East Walk Basildon Essex, SS14 1HD

Chair's Statement

I was appointed as Chair of Swan Housing Association's Board on 8 February 2023, when Swan Housing Association became a subsidiary of Sanctuary.

I would like to thank the previous Chair, Pat Billingham, for her commitment and leadership during what was a challenging year for Swan, as well as to offer my sincere thanks to the former Board Members for their guidance and contribution to Swan during their tenures. I would also like to thank all the Swan staff who have remained committed to our customers during this difficult time.

It has been a challenging period for Swan and financial difficulties meant that the organisation needed to find a rescue partner with the financial strength and leadership to stabilise Swan and protect its services to residents and communities.

After almost eight months of discussions and due diligence, it was agreed that Swan's proposed partnership with Orbit Group would not proceed. At this point, Swan entered discussions with Sanctuary about a potential business combination, which culminated in Swan becoming a subsidiary of Sanctuary in February. Sanctuary is one of the leading and largest not-for-profit housing and care providers in the country, managing more than 116,000 homes.

While Swan's priority for the year was completing a merger, the organisation also had a responsibility to continue to deliver and improve services for its customers. This was particularly challenging given the issues that the sector faced.

Cost-of-living increases made a significant impact on social housing tenants. Swan therefore concentrated its efforts on offering financial support to its customers through its dedicated Welfare Benefits team, which ensures customers are receiving the benefits they are entitled to. Swan also partnered with local authorities to take practical action such as opening subsidised food stores in two of its London estates.

Following the death of Awaab Ishak in a home provided by Rochdale Boroughwide Housing Association, like housing providers across the country, Swan also reviewed its processes for managing customers safety concerns. It set up a dedicated task force that has made changes to enhance how it addresses reports of damp and mould to ensure the safety of its residents.

As part of Sanctuary, Swan will continue to focus on putting its customers first by providing affordable homes and sustainable communities where people choose to live. We will work collaboratively, sharing ideas and best practice that will support the delivery of high-quality services to all of our customers.

I look forward to leading Swan's new Board over the coming year as we work to fully integrate Swan into Sanctuary.

DocuSigned by:

Arvinda Gohil

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Arvinda Gohil, Chair

Principal Activities

Swan Housing Association Limited ("Swan Housing Association", "the Association") is a registered provider of social housing operating in Essex and East London. Swan Housing Association has grown since the initial stock transfer of 2,000 homes in Basildon from the Commission for New Towns in 1994, to owning and managing nearly 11,000 homes with more than 22,500 residents.

We provide general needs housing services, services to leaseholders, NHS keyworker accommodation, supported housing accommodation and care services. We also manage properties on behalf of other housing providers including a Private Finance Initiative scheme with the London Borough of Newham.

On 8th February 2023, Swan Housing Association was acquired by Sanctuary Housing Association. The Association and its subsidiaries ("Swan Group") are now members of the "Sanctuary Group" as a result of this acquisition, with Sanctuary Housing Association as 'Ultimate Parent'.

Sanctuary Housing Association includes the Association in its consolidated financial statements. The consolidated financial statements of Sanctuary Housing Association are prepared in accordance with UK-adopted international accounting standards (IFRS).

The Association has applied the exemption from preparing consolidated accounts. This annual report and financial statements relate only to the Association as an individual entity. Where there may be references to the wider Swan group, this is to aid understanding of the Association's performance.

The Accounting Direction for private registered providers of social housing allows for narrative reporting exemptions within Housing Associations if those metrics are reported at a higher Group level. On this basis, Value for Money reporting requirements for the Association are reported within the consolidated Sanctuary Group annual report.

Business & Financial Review

Operating environment and future direction

The Association has continued to encounter significant financial challenges during the past year, brought about by investment decisions made in previous years in the commercial arms of the greater Swan Group implemented by the previous management of the business. Steps were taken to alleviate the financial position, including postponing some development projects and the decision in March 2022 to restructure £150 million of debt owing to the Association from Swan New Homes Limited and Swan Commercial Services Limited.

The decision had already been taken in October 2021 that the interests of the Association, and those of its tenants, would be best served by effecting a merger with another registered provider of social housing with charitable status. It was subsequently agreed that the Association would pursue a merger with the Orbit Group. The merger was announced by both parties on 10 December 2021. However, following lengthy discussions and a detailed due diligence process, both the Association and the Orbit Group decided in late September 2022 that the merger should not proceed due to several different factors.

As a consequence, discussions were initiated with the Sanctuary Group, which resulted in a business combination being successfully concluded on 8 February 2023, with the Association becoming a subsidiary of Sanctuary Housing Association. As part of the combination Sanctuary Group advanced Swan Housing Association a £50 million secured loan, which in part was used to repay the £40 million loan advanced by Orbit Group while in merger discussions.

As a result of the debt restructure, the amount of debt in the Association has increased, requiring the successful post year end re-negotiation of year end loan covenants with the Lloyds Banking Group and NatWest, which has now happened (note 19).

Prior to the merger in February, Sanctuary Group put in place management agreements, including the management of the development programme. While a stringent process of cost control is now in place, cost overruns earlier in the year have resulted in specific impairment write downs at the following development sites:

- £2.3 million impairment on the Essex Cordage scheme in Waltham Forest,
- £0.7 million impairment on the Queensway scheme in Southend,
- £0.2 million impairment at Purfleet,
- £3.5 million impairment at Beechwood in Basildon.

A full review has been carried out of the viability of the development programme which will see the completion of the schemes in Beechwood in Basildon, Blackwall in London and the shared ownership scheme in Purfleet.
The next year will see a number of changes as the integration with the Sanctuary Group gathers pace, including systems integration expected before the end of March 2024. The process of integrating management lines has

already commenced with a number of areas, including development and supported housing now reporting directly to Sanctuary Group.

In November 2021, the Regulator of Social Housing placed its gradings of the Association under review and subsequently, on 10 December 2021, published a non-compliant rating of G3 for Governance and V3 for Viability. This rating has now been removed and Swan is incorporated into Sanctuary Group's G1/V2 rating. In May 2022 the Regulator of Social Housing issued a regulatory notice against the Association relating to a breach of the Home Standard due to outstanding compliance matters. Significant improvements have been made to ensure the safety of the Association's customers. Positive discussions are ongoing with the Regulator of Social Housing regarding the steps required to remove the notice.

Despite the uncertainties of the year, performance in many areas remains positive, with arrears at 1.76% (2022: 1.96%) and housing voids of 0.53% (2022: 0.57%).

Credit ratings

The Association is rated by Standard and Poor's. The rating on both the Association and the £250 million bond issue (issued by Swan Housing Capital PLC) was downgraded to BB- (Creditwatch Developing) on 7 October 2022 following the end of merger discussions with the Orbit Group.

The credit rating for the Association was subsequently upgraded to BB- (CreditWatch Positive) on 1 December 2022 as the business combination with Sanctuary progressed. This was upgraded again to BBB+ on 8 February 2023 following completion of the merger and at the same time raised the rating to BBB+ on its long-term issue credit rating on the £250 million 3.625% senior secured bond due 2048 issued by Swan Housing Capital PLC. At the same time Standard and Poor's removed the issuer and issue credit ratings from credit watch.

Standard and Poor's credit rating upgrade reflects recognition of the Association's strategic position within the Sanctuary Group. The credit rating could rise further in the future once the Association is fully integrated into the Sanctuary Group. The combination with the Sanctuary Group has not had an adverse impact on the credit profile of the latter. Both Standard and Poor's and Moody's maintained their pre-acquisition ratings of Sanctuary Housing Association; Standard and Poor's reaffirmed their A rating on 8th February 2023; and Moody's maintained their A2 rating on the 1st March 2023.

In November 2022, Sanctuary Affordable Housing Limited provided a new £50m facility of which £40 million was used to fully repay the loan from Orbit Group Limited. This facility had an initial term of 12 months to November 2023, with an option to extend the final repayment date for a further 12 months.

Swan Housing Association Financial Performance

Key Financial Metrics	2023	2022 as restated
Operating (deficit)/surplus [1]	(£50.8m)	(£14.7m)
Deficit before taxation [1, 4]	(£86.3m)	(£171.0m)
Total Comprehensive loss [1, 4]	(£83.8m)	(£167.3m)
Operating surplus from social housing lettings (note 3)	£19.0m	£22.7m
Turnover	£80.3m	£73.7m
Reserves [4]	£14.9m	£98.7m
Net Debt Per Unit [2]	£62.2k	£56.0k
Interest Cover [3, 4]	29.1%	134%
Void Turnaround	16.8 days	12.4 days
Current Tenant Arrears	1.76% (target 2.60%)	1.96% (target 2.60%)

The Board is reporting an operating deficit of £50.8m (2022: £14.7m). This includes the surplus on sale of fixed assets of £0.9m (2022: £11.3m). There was £6.8m of impairment recognised by the Association in the year for development sites at Essex Cordage, Beechwood, Purfleet and Queensway (2022: £36.9m) as well a £1.5m impairment of software (2022: £nil) used in the factories following the decision to close the factories taken in

[1] Includes £6.8m of impairment for development schemes (2022: £36.9m), £1.5m of impairment for software (2022: £nil) and cladding and fire safety provisions recognised totalling £39.9m (2022: £6.9m).

[2] Calculated as net debt in the Association (excluding financial instrument fair value and PFI loans) of £531m divided by 8,527 owned social housing units (2022: net debt £474m divided by 8,506 units).

[3] Discussions took place with lenders prior to the finalisation of the merger with Sanctuary Group. This resulted in a revised set of interest cover and net debt covenants. Prior year interest cover is calculated on the previous covenant requirements.

[4] Restated figures include Deficit before taxation, Total Comprehensive loss and Reserves in relation to a prior period adjustment affecting interest payable and repayable grants (see note 29). As a result of this adjustment Interest Cover is restated from 146% to 134%.

December 2022. Following the merger with the Sanctuary Group, a complete review was undertaken regarding potential liabilities in relation to building safety, which has resulted in additional provisions made for cladding and fire safety works totalling £39.9m (2022: £6.9m).

Turnover has increased by £6.6m to £80.3m (2022: £73.7m). Development first tranche sales were £1.4 million higher in 2023. Furthermore, in the prior year there was a £4.5 million downward adjustment made against turnover to reduce insurance proceeds receivable.

Total comprehensive income shows a deficit of £83.8 million (2022: £167.3 million) for the year. The figure included £8.3 million of impairment costs (2022: £36.9 million). Delays on the Essex Cordage development resulted in sales income being £3.9 million below target for the year. Intercompany lending has also been provided for, with a total of £43.2 million being provided during the current financial year (2022: £149.6 million).

Within bank debt, the Association has non-basic financial instruments totalling £62.5m which are carried at fair value. The deficit for the year includes a gain of £28.3m (2022: £9.2m gain) for the movement in the fair value of the non-basic financial instruments. The resultant year end position represents the cost Swan Housing Association would incur if it was to repay the underlying debt early.

There has been an actuarial loss of £1.9m (2022: gain £3.7m) in respect of the Association's defined benefit pension obligation for the SHPS multi-employer pension scheme. Key assumptions are updated each year the year to reflect the view of board and management. Differences are seen in lower CPI and RPI inflation, salary growth and a higher discount rate. Further details are set out in note 26.

The Association reserves have decreased by £83.8m to £14.9m (2022 £98.7m). Discussions took place with our lenders prior to the finalisation of the merger with Sanctuary Group. This resulted in a revised set of interest cover and net debt covenants. In the period between 31 March 2023 and the date on which the statutory audited financial statements were finalised, two of the Association's lenders agreed to modify their testing of interest cover, which is based on the audited statutory financial statements of the Association. This is due to year-end adjustments not envisaged in the interest cover definition in place as at the 31 March 2023 having crystallised in the preparation of the statutory financial statements.

Cash and cash equivalents have decreased by £34.5m to £15.3m (2022: £49.8m). Loans of £62.5m (2022: £62.5m) have been received in the year; £2.5m from Orbit (2022: £37.5m), £10.0m drawn under bank facilities (2022: £25.0m) and £50m from Sanctuary. The Orbit loan was refinanced by Sanctuary in November 2022. Loans of £44.1m have been repaid as £40m to Orbit, and £4.1m under other bank facilities. Further analysis is provided in the Financial Risk Management section.

Current tenant arrears at 1.76% (2022: 1.96%) have improved again during the year, despite the continued impact of adverse economic and social conditions which has understandably resulted in increased pressure on KPIs. However, void turnaround of 16.8 days (2022: 12.4 days) was 1.8 days above target. The Board is encouraged that the continued hard work and support given by our staff to our customers has helped to mitigate the impact of those external factors.

Corporate Strategy 2022-2023

The last few years have been unprecedented in term of challenges faced by housing associations in general and the Association in particular. Throughout this time we have continued to work towards the key elements of our Corporate Strategy. Since the business combination, the Association has adopted Sanctuary Group's 2023 to 2026 Corporate Strategy of:

- Putting our customers first;
- Investing in our assets; and
- Growing our services.

Putting our customers first is at the heart of everything we do. Over the life of the strategy, we will focus on designing new operating models and ways of engaging that give our customers reliable, easy-to-access and personalised services.

Investing in our assets gives our customers confidence that the homes they live in are safe, secure and fit for the future. We'll increase our investment in our customers' homes, including investing in energy efficiency retrofits, as part of our journey to become carbon neutral.

Growing our services remains a core part of our strategy. As a provider of housing and care services, we recognise that Swan Housing Association has a role to play in ensuring the continued success of these sectors in the areas we operate in and will therefore seek opportunities to expand our services in line with our core social purpose.

Operational Delivery

The Operations team continue to deliver key services to our customers, with the focus in the past year on Building Customer Trust and Providing Safe High Quality Homes. Details of how this is achieved is shown in the table below;

Building Customer Trust	
Understanding our Customer	We saw a large increase in complaints in the year with 863 received (2022: 283). This was driven by the Housing Ombudsman Code Revision which required any expression of dissatisfaction to be logged as a stage 1 complaint. The highest number of complaints remain around the maintenance service, in particular the time taken to attend or complete a repair. The method of measuring feedback on handling complaints was changed during 2021 which saw a sharp reduction in satisfaction with the handling of complaints. This has now improved to 49%, just below the target of 50% (2022: 24%). There were 2 Ombudsman investigations (3 in 2022). Both investigations resulted in the determination there had been no maladministration on the part of the Association.
Welfare reform and arrears	The Welfare Benefits team have continued to see increased demand for support from our customers and we take a pro-active approach to delivering targeted support. This includes securing more than £1.5m in additional benefits and discretionary housing payments to sustain tenancies (2022: £1.0m). This work for our customers has seen arrears fall again to 1.76% (2022: 1.96%).
Listening to our Customers	This year the Help us Get it Right Panel (HUG) engaged with Swan in a number of important areas including, our response to Damp and Mould, the proposals for the rent increase and how we could help residents who were potentially struggling with rising costs. In addition, they worked to help ensure information was available to the Association's residents about the merger with Sanctuary Housing Group.
Supporting our Customers	We continue to provide support to customers through a wide range of initiatives: This year more residents than ever accessed our learning opportunities and secured an accredited qualification: with our support, 20 people went on to secure permanent employment. A record number of hot meals were provided to children through our holiday hunger clubs, providing essential childcare provision for working parents. Two new Food Pantries were established in Tower Hamlets and our team has worked with the Illegal Money Lending Team to raise awareness of loan sharks and of legal lenders, such as Credit Unions. Once again, our 'Warm in Winter' Campaign supported older, more vulnerable customers to protect themselves against the cold.

Building Customer Trust (continued)	
Lettings	There has been some deterioration in void turnaround times with general needs operational voids being re-let in 16.8 days (12.4 days in 2022) and major works voids taking an average of 37 days (34 days 2022).
ASB	Satisfaction with how cases were dealt with was 100% (2022: 82%).
Supported Accommodation and Care	More than 1,300 people are supported by our care teams with over 44,000 hours of care delivered (2022: more than 40,000). Customer satisfaction: 100% (2022: 100%). Customers who would recommend our care services: 86% (2022: 80%). CQC rating: 100% of schemes outstanding or good (2022: 100%).

Providing Safe, High-Quality Homes	
There have again been challenges in the year with continued material and labour shortages having an effect on performance. Repair costs remain high and we continue to work in partnership with Axis to put improvements in place. Following our self-reporting to the Regulator in March 2022 and subsequently the Regulator of Social Housing publishing a Regulatory Notice stating that the Association's management of statutory health and safety compliance had breached the requirements of the Home Standard, significant improvements have been made over the past year to ensure our compliance programme is now achieving the required standards. Our fire risk assessment programme continues to be managed daily to ensure that actions arising from the programme are completed in a timely manner.	
Day to Day Repairs	KPI performance was: • 97.01% immediate repairs completed on time (2022: 99.07%) • 99.47% emergency repairs completed on time (2022: 99.95%) • 83.74% standard repairs completed on time (2022: 85.74%) • Satisfaction with most recent repair (internally assessed) 89.70% (2022: 87.00%)
Gas Servicing	100% servicing completed (2022: 100%), and 96.0% customers satisfied with Gas Repairs following a quality check (2022: 96.8%)
Electric and Lifts	99.53% of Domestic Electrical Testing completed (2022: 97.00%) 99.31% Lift Inspections Completed (2022 100.00%)

Financial Risk Management

Treasury Management

The Association's treasury management policy is to ensure there is adequate liquidity to meet liabilities as they fall due, ensure borrowing covenant compliance, arrange, and manage, short term funding for development projects and longer-term strategic funding.

Where the Association has liquidity, interest rate, counterparty and refinance risk, the treasury management policy dictates how these should be managed.

Capital structure, facilities, and liquidity

The Association uses project specific debt, undrawn existing credit facilities, funding from Sanctuary Affordable Housing Limited (part of the Sanctuary Group) and retained earnings to fund its current development projects.

As at 31 March 2023, the Association had facilities and drawn debt from the following sources.

Source	Facility 2023 £m	Drawn 2023 £m	Facility 2022 £m	Drawn 2022 £m
Bank Loans	**274**	**254**	**275**	**245**
Bond ([1])	250	235	250	235
Bank & Bond Total	**524**	**489**	**525**	**480**
Sanctuary/Orbit	50	50	40	37
PFI loan	16	16	20	20
Total Debt	**590**	**555**	**585**	**537**
Cash		(15)		(50)
Net Debt		**540**		**487**
Finance Leases		3		3
Financial Instruments at fair value		23		51
Bond issue premium and costs		4		4
Balance sheet net debt		**570**		**545**

(1) Swan Housing Capital PLC (SHC) is the issuing entity for the Bond, which is then on-lent to the Association. £15m of the original bond remains unissued (see note 19).

Bank facilities contain Revolving Credit Facilities (RCF) which have been drawn during the year to meet cash need.

Non-bank funding has been provided by Sanctuary Affordable Housing Limited with funding also drawn during the year. This facility contains an option to extend the final repayment date.

The PFI loan amortises over the life of the contract with the current amortisation rate of £3m per annum.

Security

Bank facilities, the Sanctuary Affordable Housing Limited loan, and the bond are secured on the Association's housing assets.

Credit Rating

Further to the October 2022 credit downgrade to BB- on both the Association and the £250m bond issue, on 8th February 2023 following Sanctuary's acquisition of Swan, S&P Global Ratings:

- Raised to BBB+ its long-term issuer credit rating on Swan Housing Association Limited; and
- At the same time raised to 'BBB+' from 'BB-' its long-term issue credit rating on the £250 million 3.625% senior secured bond due 2048 issued by Swan Housing Capital PLC.

Also, at the same time as the credit upgrade, S&P removed the issuer and issue credit ratings from credit watch.

The credit rating upgrade follows S&Ps view that they consider the Association's status within Sanctuary to be highly strategic. The credit could be raised further if the Association is fully integrated into Sanctuary.

Furthermore, the Association's combination with the Sanctuary Group has not had an adverse impact on the credit profile of the latter. Both Standard and Poor's and Moody's maintained their pre-acquisition ratings of Sanctuary Housing Association:

- Standard and Poor's reaffirmed their A rating on 8th February 2023; and
- Moody's maintained their A2 rating on the 1st March 2023.

Events during the year

During the year Sanctuary Affordable Housing Limited repaid the £40m Orbit loan and replaced Orbit as a borrower. Sanctuary Affordable Housing Limited also advanced the Association a further £10m, increasing their exposure to £50m.

Additionally, in December 2022, the Association drew £10m under its existing NatWest RCF; £20m remains available to draw.

Facility agreements were renegotiated and restated with new covenant levels agreed. As part of these negotiations, net debt per unit was replaced with a gearing covenant based on historic properties at cost.

Covenants

Swan Housing Association has three loan covenants which cover the banking credit facilities. The bond only has an asset cover test.

1. Gearing – restricts the quantum of net debt the Association can hold. It is dependent on the value of housing properties at cost on the Association's statement of financial performance.
2. Interest cover – restricts how much debt can be serviced through interest in proportion to the Association's cash generation.
3. Asset cover – borrowings are secured on social housing assets. The minimum value of these assets is required to be greater than borrowings.

In the period between 31 March 2023 and the date on which the statutory audited financial statements were finalised, two of the Association's lenders agreed to modify their testing of interest cover, which is based on the audited statutory financial statements of the Association. This is due to year-end adjustments not envisaged in the interest cover definition in place as at the 31 March 2023 having crystallised in the preparation of the statutory financial statements. As a result of these amendments there is no event of default.

Development loans from Homes and Communities Agency trading as Homes England (HCAi) and the GLA in the Association's commercial subsidiaries have a number of covenants appropriate to the type of activity being undertaken. Cross default clauses exist in the Association's loan agreements in relation to financial indebtedness of other subsidiaries.

Interest risk

The majority of borrowings in the Association are at fixed rates of interest using embedded swaps and the fixed rate bond. Where borrowings are at a floating rate, the impact of movements in interest rates has been scenario tested.

Interest Rate Mix	Drawn Facility	Available Facility
Fixed	64%	62%
RPI	2%	2%
Callable	9%	8%
Variable	25%	28%
	100%	**100%**

There are two fixed rate interest swaps which have a callable option by the lender. In the event the lender exercises the option, the loan will convert from a fixed rate to floating rate product. The Association does not have any non-Sterling or exchange rate exposures in the balance sheet.

Loan investments

Following significant impairments in the Association's commercial subsidiaries, intra-group loans and working capital totalling £39.4m have been provided for in relation to Swan Commercial Services (2022: £149.7m provided for or released in relation to Swan Commercial Services and Swan New Homes)

The Association has an agreement to provide a £15.0m junior loan facility to Porters Place Southend-on-Sea LLP. As at 31 March 2023 £3.8m (2022: £3.3m) of the junior loan was drawn with £109k (2022: £52k) interest paid. The Porters Place investment has been fully provided for, to the sum of £3.8m, in the current year (2022: £nil).

The Association intends to continue to seek recovery of balances that have been provided for.

Principal risks and uncertainties

Swan Housing Association has a risk management system identifying principal risks and uncertainties, but in recent years this has not operated as effectively as it could have, with the risk appetite not always calibrated with Swan Housing Association's capacity to handle risks when they crystallise and a culture of risk management and response not being well embedded at an operational level. The last year has seen Board and Leadership Team focusing on securing a merger partner and customer safety and asset compliance across the key lines of fire safety, legionella, asbestos, gas, electrical and lift management following the regulatory notice issued against Swan Housing Association in May 2022 for outstanding fire risk assessments and remedial action. A new Health and Safety Committee was established in April 2022 to improve oversight.

The Board and the Audit & Risk Committee have met frequently throughout the year to consider the principal and emerging risks facing Swan Housing Association and to determine how these should be managed or mitigated, as set out in the table below. This culminated with the merger with the Sanctuary Group on the 8th February 2023, ensuring Swan Housing Association remains a going concern. There has also been much progress around customer safety and asset compliance since the regulatory notice was issued and the KPIs in this area are significantly improved, we continue to work positively with the Regulator with the expectation the regulatory notice will be lifted during 2024.

Since the merger the focus has moved away from securing a merger partner to ensuring financial viability and property compliance. Swan Housing Association has adopted the Sanctuary Group risk mapping process since merger with the main risk areas identified as;

- Finance and viability;
- Property and compliance;
- Development and sales;
- Integration;
- Technology;
- People and resources;
- Operations, customer satisfaction and reputation; and
- Climate change.

Key Risk:	Controls and Mitigations:
1. Finance and viability - cashflow issues resulting inability to pay creditors as they become due, financial and covenant reporting issues.	• Sanctuary Group provided a £50 million loan facility to Swan prior to acquisition. • Engagement with current lenders throughout the merger process. • Development programmes fully reviewed. • Appropriate controls and robust financial management put in place. • Detailed investigations and consideration of accounting treatment and structuring arrangements are being progressed. • Negotiations with Homes England and the GLA in relation to existing and future funding arrangements. • Resource from the Sanctuary Group have been embedded within the Association to provide support during integration.
2. Property and compliance - building safety, compliance or maintenance issues arise. Assets require significant investment, challenges with service delivery.	• The current position and future requirements determined to allow accurate assumptions for reinvestment and remediation. • Resources have been made available to support with building safety and health and safety requirements. • Support being provided in relation to existing cladding remediation works. • All Health and Safety policies and procedures are being reviewed and will be aligned with the Sanctuary Group at the appropriate time.
3. Development and sales - failure to remediate the development programme, deliver sales and release joint venture investments.	• Sanctuary Group development team member seconded to the Association to effectively manage the development programme. New staffing structures have been established. • Both modular factories have been closed. This will mitigate against further losses being incurred. • Financial control has been obtained and viability of schemes is being reviewed to determine options.
4. Integration - failure to complete the activities to facilitate the transfer of engagements.	• An initial draft timeline has been produced which is being used to manage all activities associated with the transfer and integration activities. • A dedicated project team who have experience of completing Transfer of Engagement projects will be assigned to this project.
5. Technology - data integrity or access to systems are compromised due to a cyber breach.	• Steps taken prior to acquisition to ensure that Sanctuary had greater assurance regarding information security arrangements. • Key staff identified to ensure knowledge and expertise in critical areas is retained • The use of specialist resources to support operational activities. • A separate data management and compliance project has been established. • Regular phishing tests are undertaken to educate staff. • Multifactor authentication is in place.
6. People and resources - key Swan employees leave the business, are demotivated or poorly informed regarding integration plans.	• Workforce planning carried out. • Training needs analysis undertaken and appropriate Learning and Development activities scheduled. • Clear and robust communications plan established to ensure staff are updated and engaged during the integration. • Teams are involved in the integration programme and have the ability to input into plans and utilise the knowledge. • Restructuring of certain teams is either underway or complete and line management changes have taken effect in back office and some operational areas.
7. Operations, customer satisfaction and reputation - operations are poorly managed during integration. Failure to focus on customer experience whilst changes are made.	• Opportunities are being explored in relation to synergies and opportunities for staff. • Integration planning to align key policies, procedures and controls efficiently and in alignment with integration. • A communications plan has been established to provide a high level of assurance to customers throughout the merger process. • The Association will report against the RSH's tenant satisfaction measures from 2023/2024 onwards. • The Association has transferred to Sanctuary Group insurance policies from 1 April 2023. • Sanctuary Group has taken line management responsibility for keyworker, market rent and Supported living functions and are taking steps to embed and align ahead of full systems, data and people transfers.
8. Climate change - climate change adversely affects or threatens the continuity of the business.	• Supporting joint working and collaboration with external parties and other housing associations to support sharing knowledge and resources. • Where possible funding will be accessed to support the decarbonisation of assets, such as the Social Housing Decarbonisation Fund.

Key Risk:	Controls and Mitigations:
Increased costs associated with climate events or mitigations/adaptations.	• A central Sustainability team in the Sanctuary Group monitors performance and changes to external environmental policies and regulation. • Integration planning will seek to align key policies, procedures and controls efficiently and in alignment with integration activities.

Risk scores, considering the effectiveness of controls and mitigations, are shown in the table below.

Risk Map	Risk	Likelihood	Impact	Score	Target
1	Finance	4	4	64	32
2	Property and Compliance	4	4	64	27
3	Development	3	4	48	32
4	Integration	2	4	32	32
5	Technology	3	4	48	48
6	People	3	4	48	32
7	Operations	3	3	27	18
8	Climate change	3	4	48	48

Corporate Governance

The Board can confirm that it has complied with the Governance and Financial Viability Standard set out by the RSH. in accordance with that Standard, the Association is required to adopt and comply with an appropriate code of governance. The Association has adopted the National Housing Federation's (NHF) Code of Governance 2020 and has self-assessed against it for the financial year to 31 March 2023. The Board considers that the Association has complied with the NHF's Code of Governance with the following exceptions detailed below:

Code principle	Detail	Explanation
3.3	There is a dedicated senior board member (normally a vice-chair or senior independent director) with duties that include the appraisal of the chair and assisting the chair to ensure the effectiveness of the board.	During the year under review, the Board composition was revised to ensure there were the right mix of skills and experience to see Swan through the proposed merger. It was not felt necessary to elect an Vice Chair /SID in the circumstances however, corporate lawyers were in attendance at every meeting to ensure effectiveness.
4.1(1)	The board can have confidence in the information it receives and there are robust internal controls and systems for business and control assurance in place which are reviewed annually.	Weaknesses in internal controls were identified and reported in the last annual report. These have been improved during the year however there remains work to be done which will form part of the integration into Sanctuary.
4.3(4)	The board ensures that the organisation is resilient to the risks it may face, with appropriate mitigations and a suitably comprehensive, *tested and up-to-date business continuity plan.*	Due to merger activity, The BCP was not tested during the year however an up to date BCP is in place and accessible to the business.

The Board and its Role

The Association is a Registered Society under the Co-operative and Community Benefit Societies Act 2014. The Rules of the Association remain its principal document of constitution and regulate various matters including the Board, its powers and its role. During 2022/23 and until the completion of the business combination with Sanctuary, the Association was governed by a Board which comprised six non-executive members and two Board co-optees. On 8 February 2023 all Board members resigned, and a new Board appointed which comprises three non-executive directors and two Sanctuary Executive Directors.

The Board's role is to provide strategic direction and to govern, control and scrutinise the Association's operations. It agrees the strategic direction of the organisation and makes sure that policies and plans are in place to achieve its objectives. It also establishes and oversees a framework of delegation and systems of control ensuring that good governance is embedded across operations.

The control environment is embedded within the normal management and governance process and, although the Association is still operating under a RSH G3 rating, it is now a wholly owned subsidiary of Sanctuary Housing Association and is working towards full integration into Sanctuary's processes.

There are clear lines of authority, responsibility and accountability throughout the Association including: a Code of Conduct for staff and Members, Committee terms of reference (for those Committees that operated at any time during the year), a framework of policies and procedures covering fraud prevention and detection, whistleblowing, health and safety, financial delegated authorities, accounting, treasury management and anti-corruption.

The Association remains committed to having an effective Board comprising members with diverse backgrounds and with a range of skills, knowledge and experience appropriate for its needs.

During the year, the Board and its Committees comprised members from a diverse range of backgrounds and with the range of skills, knowledge and experiences appropriate for their needs. At the date of the business combination with Sanctuary, there were equal number of males and females on the Board. Board members had formal service agreements, were expected to devote the necessary time to prepare for and attend all Board meetings and the meetings of those Committees of which they were members, together with appropriate training, appraisal and other review meetings. Members were paid as detailed in the Board Remuneration section below.

Relations with Stakeholders

The principal stakeholders of the Association are its customers, employees, local authorities, key suppliers, lenders and investors, the Greater London Authority, the Regulator and the Care Quality Commission in respect of their regulatory activity and Homes England in respect of investment activity and funders. The operations of the Association are regulated primarily by the RSH, but also, in part, by the Financial Conduct Authority as well as the Care Quality Commission.

How the Board Operates

The Board's Standing Orders, Scheme of Delegations, Code of Conduct and Financial Regulations codified various matters for the better operation of the Association's business and within which it expressly reserved specified significant matters for its sole decision. The Board had established a number of Committees to which the Board delegated certain responsibilities under formal Terms of Reference. Details of the Committees can be found below.

The Board met regularly (virtually and face to face) during the year, including a number of additional meetings held to discuss matters specifically relating to proposed merger discussions. The meetings held during the year and the attendance of individual members at each is detailed below. Each entry is displayed as a fraction, which has the number of meetings actually attended as the numerator and the number of meetings held and which could have been attended as the denominator.

Board and Committee Meeting Attendance

	Swan Housing Association Board	Customer Committee	Development Committee	Audit & Risk Committee	Remuneration & Appointments Committee	Health and Safety Committee
Pat Billingham (resigned 8 February 2023)	20/21				3/3	
Elizabeth Sipiere (resigned 8 February 2023)	20/21	3/3				
Devan Bala (resigned 8 February 2023)	15/21			4/5	3/3	
Jane Bristow (resigned 8 February 2023)	18/21	3/3			3/3	4/7
Matthew Bailes Board Co-optee (resigned 8 February 2023)	21/21					7/7
Paul Phillips Board Co-optee (resigned 8 February 2023)	21/21			5/5		
Joy Baggaley (resigned 8 February 2023)	18/21					
Mike Johnson (resigned 8 February 2023)	20/21		3/3			
Arvinda Gohil (appointed 8 February 2023)	2/2					
Hilary Gardner (appointed 8 February 2023)	2/2					
Simon Clark (appointed 8 February 2023)	2/2					
Nathan Warren (appointed 8 February 2023)	2/2					1/1
David Soothill (appointed 8 February 2023)	2/2					1/1
Peter Martin (appointed 8 February 2023)						1/1
Committee members who are not Swan Housing Association Board members:						

Audit and Risk Committee						
Hugh Titcomb (left 8 February 2023)				4/5		
Peter Benz (left 8 February 2023)				2/5		
Jane Harrison (left 8 February 2023)				5/5		
Development Committee						
Simon Hardwick (left 30 September 2022)			3/3			
Simon Harden (Chair of SNH Board) (resigned 8 February 2023)			3/3			5/7
Nick Shattock (left 30 September 2022)			2/3			
Customer Committee						
Kobirul Islam (left 30 September 2022)		3/3				
Rod Lamb (left 30 September 2022)		3/3				
Mayuri Parmar (left 30 September 2022)		2/3				
Beverley Neufville (left 30 September 2022)		3/3				
Nicole Seymour (appointed 8 February 2023)						1/1

A brief overview of the constitution of the Committees is given below. Other panels and working groups are formed as considered appropriate to deal with particular issues as they arise.

Audit and Risk Committee

The Audit and Risk Committee consisted of five members, two of whom were Board members/Board co-optees. During the year these were Devan Bala (Chair) and Paul Phillips (Board co-optee). There were also three independent members, namely Hugh Titcomb, Peter Benz and Jane Harrison. The Committee met five times during the year. It received reports from the external and internal auditors and reviewed the processes for audit and risk management. The Committee was disbanded on 8 February 2023 after it had considered the financial statements for 2022 and upon the completion of the business combination with Sanctuary.

Remuneration and Appointments Committee

This Committee comprised three members of the Board, namely Jane Bristow (Chair), Pat Billingham and Devan Bala.

It met three times during the year with a remit to consider Board structure and appointments, the working arrangements and remuneration of the Board, Chief Executive and Executive Directors. The Committee was disbanded on 8 February 2023 upon the completion of the business combination with Sanctuary.

Customer Committee

The Customer Committee was disbanded on 30 September 2022 and, until that date, provided oversight and scrutiny of customer service and engagement as well as housing management operations. The Committee comprised six members, two from the Board, Elizabeth Sipiere (Chair) and Jane Bristow and four residents namely, Kobirul Islam, Rod Lamb, Mayuri Parmar and Beverley Neufville. Upon its disbandment, the work undertaken by the Customer Committee moved to the main Board.

Development Committee

The Development Committee was disbanded on 30 September 2022 and, until that date, oversaw Swan's development of new homes and monitored the performance of Swan's development, construction, sales programmes and modular factory. The Committee comprised five members, two from the Swan HA Board, the Chair of the Swan New Homes Board, namely Simon Harden and two independent members who were Simon Hardwick and Nick Shattock. Upon its disbandment, the work undertaken by the Development Committee moved to the main Board.

Health and Safety Committee

A new Health and Safety Committee was formed during the year to oversee and scrutinise health and safety activities and monitor compliance with health and safety legislation. The Committee comprised two Swan HA Board members, namely Matthew Bailes and Jane Bristow, the Swan New Homes Chair, namely Simon Harden and the then Chief Executive, Susan Hickey. The Committee met regularly during the year and is continuing post the business combination, with Sanctuary Executive Directors comprising membership.

Report of the Board

Declarations of Interest

All Board and Committee Members were required to declare any interests annually and otherwise at meetings where potential issues may arise. Individuals with a relevant interest were required to leave the meeting, unless requested otherwise by the Board/Committee members, and in any event would not vote on the issue concerned.

A Conflicts of Interest Policy is in place and reviewed on a regular basis.

Board Remuneration

The Board determined, following previous independent advice and benchmarking, that it was appropriate that Board Members should be paid for their time and dedication. Committee Members who were not Board Members also received fees for their services. The annual fees paid to Board Members in position during the year are set out below. In addition, Board and Committee Members were reimbursed for any expenses incurred in carrying out their duties and in attending Board or Committee meetings.

Non-Executive Board Members (all resigned on 8 February 2023)	**£**
Pat Billingham	19,313
Simon Harden (Chair Swan New Homes Board)	9,227
Elizabeth Sipiere	10,515
Devan Bala	10,515
Jane Bristow	9,227
Matthew Bailes Board Co-optee	9,227
Paul Phillips Board Co-optee	10,515
Joy Baggaley	9,227
Mike Johnson	10,515
Non-Executive Board Members Total	**98,281**
Committee Members who are not Board Members:	
Peter Benz (left 8 February 2023)	4,614
Jane Harrison (left 8 February 2023)	4,614
Simon Hardwick (left 30 September 2022)	2,687
Kobirul Islam (left 30 September 2022)	2,687
Hugh Titcomb (left 8 February 2023)	4,614
Beverley Neufville (left 30 September 2022)	2,687
Nick Shattock (left 30 September 2022)	2,687
Rod Lamb (left 30 September 2022)	2,687
Mayuri Parmar (left 30 September 2022)	2,687
Committee Members Total	**29,964**
Non-Executive Board and Committee Members Total	**128,245**

The total amount paid above represents 0.2% (2022: 0.2%) of Swan's annual turnover

Internal control and risk management

The Board is ultimately responsible for the system of risk management and the internal control framework across the Group and for reviewing their effectiveness. The system of risk management and internal control is designed to monitor, manage and mitigate the risk of failing to achieve business objectives. It can only provide reasonable, not absolute assurance against material misstatement or loss. The system of risk management and internal control also exists to give reasonable assurance about the reliability of financial and operational information and the safeguarding of assets, services and interests. The Audit and Risk Committee ('the Committee') met throughout 2022 to provides oversight on behalf of the Board regarding the system of risk management and the internal control framework, and regularly reviews their effectiveness, until disbanded following the merger, at which point this responsibility was handed to the Sanctuary Group Audit and Risk Committee.

The Regulator in its Regulatory Judgement of December 2021 downgraded Swan Housing Association's previously published assessment for Governance and Viability from G2/V2 to G3/V3, citing concerns around business planning, the risk and control framework and that the Association has managed its affairs with an appropriate degree of skill to ensure effective control of the organisation. This rating has now been removed and Swan is incorporated into Sanctuary Group's G1/V2 rating.

As a result of this downgrading, there has been ongoing dialogue with the RSH to address the issues identified and regular updates have been provided to the Board on progress against identified improvement areas. The Regulator has been kept fully informed of our discussions with, initially the Orbit Group and subsequently Sanctuary Group, in the run up to the merger, the Regulator has been fully supportive of this process. The merger process included a revised business plan which has been incorporated into the budget for 2023/2024. At the time of the merger the existing Board stood down and a new Board was put in place. The next year will see a full integration to Sanctuary management, policies, control framework and systems.

Following self-referral by Swan, the Regulator of Social Housing issued a Regulatory Notice on 25 May 2022 against the Association relating to a breach of the Home Standard due to outstanding compliance matters. In response we set up a Health and Safety Committee and undertook a programme to address the issues raised. Significant improvements have been made to ensure the safety of the Association's customers. Positive discussions are ongoing with the Regulator of Social Housing regarding the steps required to remove the notice.

The risk review process

The Association has been working to the eight key risks outlined in its Risk Register which was approved by the Board in May 2022. Following the merger with the Sanctuary Group, the Association has adopted the Sanctuary Group risk mapping process and will focus on the new eight key risk outlined in the risk management section of the Strategic Report.

Internal audit

The Group's internal audit function was outsourced to RSM, which has been the provider since 2012. RSM ceased to provide internal audit services from 8 November 2022, the Sanctuary Group internal audit provider, PwC, will provide internal audit services to the Association going forward. They will provide a programme of internal audit reviews to be carried out during 2023-24.

Control environment and control procedures

Managers are aware of the requirement to promptly report any suspected breach or weakness of controls via line management or in accordance with the Whistleblowing Policy, if necessary. The Association also operates a formal process of regular self-assessment of controls, designed to ensure potential risks and weaknesses in the control environment are escalated. The Code of Conduct sets out the expectation of employees with regard to business practices, honesty and integrity. The work of the external auditor provides further independent assurance on the control environment. The external auditor advises the Sanctuary Group Audit and Risk Committee in writing of any weaknesses in internal control identified through the course of its work, along with recommendations for improvement.

Auditor

The external auditor, Grant Thornton UK LLP, have been re-appointed in accordance with section 93 of the Co-Operative and Community Benefit Societies Act 2014 to carry out the 2022/2023 audit.

Fraud, anti-money laundering, anti-bribery and whistleblowing

The Association has a fraud policy that covers the prevention, detection, investigation and reporting of fraud, including remedial action if a fraud has occurred, to learn lessons and prevent a recurrence. The Committee receives regular updates in relation to fraud or attempted fraud, and the Board receives information at least annually. The Association also has a tenancy fraud strategy, which provides reports to the Committee. The Association has appointed employees to anti-money laundering roles and has an Anti-Money Laundering Policy, as required by current legislation, and has rolled out relevant training and revised procedures. The Association has a Whistleblowing Policy that encourages employees and others to express any serious concerns regarding suspected misconduct or malpractice within the organisation. The Code of Conduct and the Group's Anti-Bribery Policy make it clear that the Group has zero tolerance for any form of bribery, and antibribery training is provided to all employees. The Association will migrate to Sanctuary Group's policies in these areas during 2023.

Statement on internal controls assurance

The Board has reviewed the effectiveness of the system of internal control, including risk management, for the year to 31 March 2023, and up to the date of signing these financial statements.

As noted in the Principal Risks and Uncertainties section above, the merger with Sanctuary Group will help improve the internal control environment through appropriate skills, policies, structures and cultural change, as well as providing the financial backing of the Sanctuary Group to enable the Association to continue to operate as a going concern. Moving to Sanctuary Group, policies, procedures and systems during 2023 will also mitigate the key financial control weaknesses highlighted by RSM in their internal audit report of November 2022, in the areas of control account reconciliations and updating the chart of accounts, although a number of the recommendations were addressed prior to the merger.

The Board acknowledges its ultimate responsibility for ensuring that the Association has in place a system of internal control that is appropriate to the various business environments in which it operates. This is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. These controls are designed to give reasonable assurance in respect of;

- the reliability of financial information used within the Association or for publication;
- the maintenance of proper accounting records; and
- the safeguarding of assets against unauthorised use or disposition.

The processes in place for identifying, evaluating and managing the significant risks faced by the Association are now better understood, well documented and appropriate action has been taken to mitigate these risks.

Key elements of the system of risk management and internal control included:

- the Board being directly responsible for strategic risk management;
- use of formal policies and procedures;
- an annual review of compliance with the NHF Code;
- approval by the appropriate committee or Board of key policies, initiatives and major commitments;
- regular updates and reporting by the external auditor to the Audit and Risk Committee;
- experienced and suitably qualified staff being responsible for important business functions;
- regular monitoring of loan covenants and requirements for loan facilities;
- reporting to the Audit and Risk Committee of instances of fraud, whistleblowing, bribery and money laundering, and updates on compliance with the UK General Data Protection Regulation and other high-risk areas;

Action has been taken on the following areas where internal controls have previously been identified as being weak:
- complete review and rationalisation of the development programme;
- all development now managed by the Sanctuary Group;
- closure of the modular build factories;
- revised business plan post merger to ensure long term financial viability;
- heighten focus on building and fire safety; and
- appointment of Sanctuary Group internal auditors.

The Board has delegated to the Audit and Risk Committee the regular review of the effectiveness of the Group system of internal control, while maintaining ultimate responsibility for the system of internal control. The Audit and Risk Committee reviewed the effectiveness of the system of internal control in existence in the Association for the period commencing 1 April 2022 up to 7 February 2023, at which point going forward this will be handled by the Sanctuary Group Audit and Risk Committee.

Following self-referral by the Association to the Regulator of Social Housing regarding building compliance issues, a Health and Safety Committee was set up. The Board delegated responsibility of this area to the Committee.

Going concern

On 8th February 2023, Swan Housing Association (the Association) and its subsidiaries were acquired by Sanctuary Housing Association. The going concern assessment performed by the directors of the Association reflects the structure of the new, wider group and takes into account the availability of additional funding available via Sanctuary Group partners.

The financial statements disclose all matters of which we are aware that are relevant to the Association's ability to continue as a going concern, including all significant conditions and events, mitigating factors and management's and the board's plans. Whilst it is expected that the trade and assets of the Association will ultimately transfer to Sanctuary Housing Association, or its subsidiary Sanctuary Affordable Housing Limited, via a Transfer of Engagements (TOE), there is no agreed timescale for this to happen and this course of action has not yet been approved by the board. Consequently, the directors of the Association have concluded that this potential future action does not have an impact on their current assessment of the status of the Association as a going concern.

The Association's operations, together with the factors likely to affect its future performance and financial position, are set out in the Strategic Report on pages 4 to 13.

Information about the Association's approach to treasury risk management can be found on pages 9 to 11.

The Association manages its exposure to risk, and this activity is reviewed and scrutinised by the Group Audit and Risk Committee. Details of the Association's principal risks are discussed on pages 11 to 13.

The Association has continued to face challenges during the year, with further impairments and provisions resulting in a deficit for the year of £86,273,000 (2022 restated: deficit of £171,002,000). Under the terms of its borrowing facilities the Association is required to comply with certain covenant requirements. In the period between 31 March 2023 and the date on which the statutory audited financial statements were finalised, two of the Association's lenders agreed to modify their testing of interest cover, which is based on the audited statutory financial statements of the Association. This is due to year-end adjustments not envisaged in the interest cover definition in place as at the 31 March 2023 having crystallised in the preparation of the statutory financial statements. As a result of these amendments there is no event of default (occurred nor continuing) that could result in acceleration of loan repayments.

The directors have prepared a going concern assessment for the Association, based on consideration of cash flow forecasts, for the period to 31 March 2025 (the going concern assessment period), which take into account a number of severe, but plausible downside scenarios, and also funding available from its parent, Sanctuary Housing Association.

The wider Sanctuary Group support, as a result of the acquisition, provides comfort over the viability of the Association and this is evidenced by an enhanced outlook that is reflected in Standard & Poor's (S&P) upgrade to the Association's credit rating from 'BB-' to 'BBB+' immediately following the acquisition.

In November 2022, Sanctuary Affordable Housing Limited, a 100% subsidiary of Sanctuary Housing Association, provided a £50 million loan to the Association and on 7 September 2023 Sanctuary Housing Association directly provided a further £50 million of funding to the Association. Sanctuary Housing Association has also provided a letter of support to the directors of the Association to confirm that it intends to continue, should the need arise, to provide financial and/or other support, including, if required, not seeking repayment of amounts currently made available, for the period to 31 March 2025.

Whilst, at the date of approval of these financial statements, the directors have no reason to believe that the financial support provided by other group entities will not continue, they acknowledge that this is not certain. Further, the directors also acknowledge that any such support will not be unlimited.

The circumstances of the Association, including its reliance on wider Sanctuary Group support and the need to renegotiate borrowing covenants, represent material uncertainties that may cast significant doubt on the Association's ability to continue as a going concern and therefore that it is able to realise its assets and discharge its liabilities in the ordinary course of business.

However, based on all of the above considerations the directors confirm that they have a reasonable expectation that the Association has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Association continues to adopt the going concern basis in its financial statements.

Statement of the responsibilities of the Board for the report and financial statements

The Board is responsible for preparing the report and financial statements in accordance with applicable law and regulations.

Co-operative and Community Benefit Society legislation requires the Board to prepare financial statements for each financial year. Under that law the Board has elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland. Under the Co-operative and Community Benefit Society legislation the Board must not approve the financial statements unless it is satisfied that they give a true and fair view of the state of affairs and surplus or deficit of the Association for that period.

In preparing these financial statements, the Board is required to:

• select suitable accounting policies and apply them consistently;

• make judgements and estimates that are reasonable and prudent;

• state whether applicable UK Accounting Standards and the Statement of Recommended Practice (SORP) Accounting by Registered Housing Providers 2018 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 association will continue in business.The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Association and enable it to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2022. It is also responsible for safeguarding the assets of the Association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board is responsible for the maintenance and integrity of the corporate and financial information included on the Association's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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Arvinda Gohil
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Arvinda Gohil
Chair

17 November 2023

Independent auditor's report to the members of Swan Housing Association Limited

Qualified opinion

We have audited the financial statements of Swan Housing Association Limited (the 'Association') for the year ended 31 March 2023, which comprise the Statement of Comprehensive Income, the Statement of Changes in Reserves, the Statement of Financial Position, and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, except for the possible effects of the matter described in the basis for qualified opinion section of our report, the financial statements:

- give a true and fair view of the state of the Association's affairs as at 31 March 2023 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008, and the Accounting Direction for Private Registered Providers of Social Housing 2022.

Basis for qualified opinion

The Association operates development schemes which span a number of financial years and require a high level of management judgement and are subject to high levels of estimation uncertainty. The Association financial statements include an impairment charge of £6.8million (2022: £36.9million) in respect of these development schemes.

During the previous financial period (year ended 31 March 2022), the development schemes were impacted by significant operational challenges, resulting from factors including changes to the Association's management team, changes to the building regulations, and the impact of macro-economic conditions. These challenges restricted our ability to conduct appropriate audit procedures over the related balances and transactions at 31 March 2022 and for the year then ended. We were unable to obtain sufficient and appropriate audit evidence over:

- The accuracy of the impairment charge, including the extent to which elements of this charge relate to prior periods; and
- The completeness of the impairment charge, associated provisions and contingent liabilities.
- Our audit opinion for the year ended 31 March 2022 was modified accordingly. Our opinion on the current year's financial statements is also modified because of the possible effect of this matter on the opening balances and comparability of the current period's figures and the corresponding figures.

We have been appointed as auditor under the Co-operative and Community Benefit Societies Act 2014 and report in accordance with that Act. We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Material uncertainty related to going concern

We draw attention to note 2 in the financial statements, which notes the Association's reliance on the Sanctuary Housing Group for continued financial support, along with a need to renegotiate borrowing covenants. As stated in note 2, these events or conditions, along with the other matters as set forth in note 2, indicate that a material uncertainty exists that may cast significant doubt on the Association's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

In auditing the financial statements, we have concluded that the board's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our responsibilities

We are responsible for concluding on the appropriateness of the board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Association's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Association to cease to continue as a going concern.

Our responsibilities and the responsibilities of the board with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the Annual Report and Financial Statements, other than the financial statements and our auditor's report thereon. The board is responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

As described in the basis for qualified opinion section of our report, we were unable to satisfy ourselves concerning the opening balances and the comparability of the corresponding figures. We have concluded that where the other information refers to the opening balances or corresponding figures, it may be materially misstated for the same reason.

Matters on which we are required to report by exception

Arising solely from the basis for qualified opinion, referred to above:

- a satisfactory system of control over transactions has not been maintained; or
- we have not received all the information and explanations we need for our audit.

We have nothing to report in respect of the following matters where the Co-operative and Community Benefit Societies Act 2014 requires us to report to you if, in our opinion:

- the Association has not kept proper accounting records; or
- the financial statements are not in agreement with the books of account; or

Responsibilities of the board

As explained more fully in the statement of responsibilities of the board set out on page 21, the board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the board is responsible for assessing the Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the board either intends to liquidate the Association or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Association and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting framework FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', Housing SORP 2018, Accounting Direction for Private Registered Providers of Social Housing 2022, Co-operative and Communities Benefit Societies Act 2014 and National Housing Federation's 2020 Code of Governance.

- We enquired of management about the Association's policies and procedures relating to the identification, evaluation and compliance with laws and regulations and the detection and response to the risks of fraud and the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

- We enquired of management whether they were aware of any instances or non-compliance with laws and regulations and whether they had any knowledge of actual, suspected or alleged fraud.

- We assessed the susceptibility of the entity's financial statements to material misstatement, including how fraud might occur and the risk of management override of controls. Audit procedures performed by the engagement team included:
  - Identifying and assessing the design effectiveness of controls management has in place to prevent and detect fraud;
  - Challenge assumptions and judgements made by management in its significant accounting estimates; and
  - Identifying higher risk journal entries and testing these journal entries.

- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Association's operations, including the nature of its income sources and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement; and
  - the Association's control environment, including management's knowledge of relevant laws and regulations and how the Association is complying with those laws and regulations, the adequacy of procedures for authorisation of transactions, and procedures to ensure that possible breaches of law and regulations are appropriately resolved.

- The engagement partner's assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's understanding of, and practical experience with, audit engagements of a similar nature and complexity, through appropriate training and participation.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Association, as a body, in accordance with section 87 of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the Association 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 Association as a body, for our audit work, for this report, or for the opinions we have formed.

Grant Thornton UK LLP.

Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
Date: 17/11/2023

Statement of Comprehensive Income

	Notes	2023 £'000	2022 as restated £'000
Turnover	3	80,295	**73,708**
Operating costs		(123,663)	**(62,806)**
Surplus on sale of fixed assets	7	937	**11,255**
Impairment	3, 10	(8,341)	**(36,897)**
Operating Deficit	3	**(50,772)**	**(14,740)**
Loan and working capital released	15b	-	(97,000)
Loan and working capital provided for	15b	(43,172)	(52,648)
Interest receivable and similar income	8	3,474	4,563
Interest payable and similar charges	9	(24,119)	(20,370)
Movement in fair value of financial instruments	19	28,316	9,193
Deficit before taxation	10	**(86,273)**	**(171,002)**
Taxation	11	-	**-**
Deficit after taxation		**(86,273)**	**(171,002)**
Revaluation gain prior to transfer to investment property	14, 15	4,375	-
Actuarial (loss) / gain in respect of defined benefit pension obligation	26	(1,878)	3,746
Total comprehensive loss for the year		**(83,776)**	**(167,256)**

The Association's results relate wholly to continuing activities.

The accompanying notes form part of these financial statements.

These financial statements were approved by the Board of Directors and authorised for issue on 17 November 2023 and signed on its behalf by:

DocuSigned by:
Arvinda Gohil
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Arvinda Gohil
Chair

DocuSigned by:
Nathan Warren
5A0577458D644DB...

Nathan Warren
Director

DocuSigned by:
Nicole Seymour
05803E631D83476...

Nicole Seymour
Company Secretary

Co-operative and Community Benefit Society Company Number: 28496R

Statement of Changes in Reserves

	Share capital £'000	Income and expenditure reserve £'000	Revaluation reserve £'000	Total £'000
Balance as at 1 April 2021	**-**	**103,512**	**162,459**	**265,971**
Deficit as previously reported	-	(169,573)	-	(169,573)
Prior period adjustment (note 29)	-	(1,429)	-	(1,429)
Other comprehensive income for the year	-	3,746		3,746
Total comprehensive loss for the year, as restated	-	**(167,256)**	-	**(167,256)**
Transfer from revaluation reserve to income and expenditure reserve	-	10,327	(10,327)	-
Balance as at 31 March 2022, as restated	**-**	**(53,417)**	**152,132**	**98,715**
Deficit for the year	-	(86,273)	-	(86,273)
Other comprehensive income for the year	-	(1,878)	4,375	2,497
Total comprehensive loss for the year	-	**(88,151)**	**4,375**	**(83,776)**
Transfer from revaluation reserve to income and expenditure reserve	-	1,467	(1,467)	-
Balance as at 31 March 2023	**-**	**(140,101)**	**155,040**	**14,939**

The accompanying notes form part of these financial statements.

Statement of Financial Position

	Notes	2023 £'000	2022 as restated £'000
Fixed Assets			
Intangible fixed assets	12	1,286	3,921
Tangible fixed assets – housing properties	13	708,402	689,847
Other tangible fixed assets	14	3,858	5,666
Investment Property	15a	6,050	-
Other Investments	15b	5,165	4,482
		724,761	703,916
Current Assets			
Properties held for sale	16	5,218	20,778
Debtors due within one year	17a	16,931	23,812
Debtors due after one year	17b	16,306	18,966
Cash at bank and in hand		15,267	49,824
		53,722	113,380
Creditors: amounts falling due within one year	18	(650,570)	(106,123)
Net current (liabilities) / assets		(596,848)	7,257
Total assets less current liabilities		127,913	711,173
Creditors: amounts falling due after more than one year	19	(64,318)	(599,782)
Provision for Liabilities			
Defined benefit pension liability	26	(3,594)	(2,463)
Other provisions	20	(45,062)	(10,213)
Total net assets		**14,939**	**98,715**
Capital and reserves			
Share capital	21	-	-
Income and expenditure reserve	21	(140,101)	(53,417)
Revaluation reserve	21	155,040	152,132
Total capital and reserves		**14,939**	**98,715**

The accompanying notes form part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 17 November 2023 and signed on its behalf by:

DocuSigned by: Arvinda Gohil EBF27C96ED594F7...

DocuSigned by: Nathan Warren 5A0577458D644DB...

DocuSigned by: Nicole Seymour 05803E631D83476...

Arvinda Gohil
Chair

Nathan Warren
Director

Nicole Seymour
Company Secretary

Co-operative and Community Benefit Society Company Number: 28496R

Notes to the Financial Statements

1. Legal Status

Swan Housing Association (the Association) is registered in England as a Registered Society (number 28496R) and with the Regulator of Social Housing (number L4145).

At 31 March 2023 the Association held 100% of the issued ordinary share capital of the following:

Company	Activity	Country of incorporation
Swan New Homes Limited	Build of new homes	England and Wales
Swan Commercial Services Limited	Design and build contractor	England and Wales
Hera Management Services Limited*	Property management	England and Wales
Vivo Support Limited*	Care and support services	England and Wales
Swan Housing Capital Plc	Treasury	England and Wales
Swan Housing Finance Limited	Treasury	England and Wales
Swan BQ Limited	Investment holding company	England and Wales

*Owned indirectly – 100% owned by Swan New Homes Limited

The jointly controlled entities are:

Company	Activity	Country of incorporation
Purfleet Centre Regeneration Limited**	Property development	England and Wales
Purfleet Centre Regeneration Limited 1A	Property development	England and Wales
Porters Place Southend-on-Sea LLP***	Regeneration partnership	England and Wales

** 49.9% owned by Swan New Homes Limited
*** 50% partnership between Swan BQ Limited and Southend-on-Sea Borough Council

The registered office address of all of the Association's subsidiaries and the jointly controlled entities is Sanctuary House, Castle Street, Worcester, England, WR1 3ZQ.

The associate entity is:

Company	Activity	Country of incorporation
Linq Investors Limited	Buying and selling of own real estate	England and Wales

Swan New Homes Limited holds 25% of shares with voting rights of Linq Investors Limited and can appoint two directors from a total of seven.

2. Principal Accounting Policies

Basis of accounting
The Association's financial statements have been prepared in accordance with UK Generally Accepted Accounting Practice ('UK GAAP') including Financial Reporting Standard 102 ('FRS102').They are also prepared in accordance with the Co-operative and Community Benefit Societies Act 2014, Schedule 1 to the Housing and Regeneration Act 2008, the Accounting Direction for private registered providers of social housing 2022 and the Statement of Recommended Practice: Accounting by Registered Social Housing Providers 2018 (the SORP).

The financial statements are presented in pounds sterling which is the Association's functional currency. Unless otherwise stated, amounts are denominated in thousands (£'000) rounded to the nearest £1,000.

The Association is a public benefit entity.

The Association's ultimate parent undertaking, Sanctuary Housing Association includes the Association in its consolidated financial statements. The consolidated financial statements of Sanctuary Housing Association are prepared in accordance with UK-adopted international accounting standards (IFRS), are available to the public and may be obtained from Sanctuary House, Chamber Court, Castle Street, Worcester, WR1 3ZQ.

Consequently, the Association has applied the exemption from preparing consolidated accounts and these financial statements relate only to the Association as an individual entity.

Notes to the Financial Statements

2. Principal Accounting Policies

Disclosure exemptions
In these financial statements, the Association is considered to be a qualifying entity (for the purposes of FRS 102) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

(a) The requirement to present a statement of cash flows and related notes

Alternative performance measures

In the reporting of financial information, the Association uses various Alternative Performance Measures (APMs). These measures are not defined under FRS 102 and therefore may not be directly comparable with the APMs of other businesses reporting under FRS 102.

APMs are not intended to be a substitute for, or superior to, FRS 102 measurement, but are included to provide additional useful information on the underlying trends, performance and position of the Association.

APMs are used for the following reasons:

- Where metrics have been defined by the Regulator of Social Housing (RSH) and are a compulsory requirement within the financial statements of a housing association.
- Where metrics are not defined by the RSH but are commonly used within the sector and so their use aids comparability with peers.
- Where adjustment for events outside normal operations aids users of the financial statements in understanding the Association's underlying performance.

Going Concern

On 8th February 2023, Swan Housing Association (the Association) and its subsidiaries were acquired by Sanctuary Housing Association. The going concern assessment performed by the directors of the Association reflects the structure of the new, wider group and takes into account the availability of additional funding available via Sanctuary Group partners.

The financial statements disclose all matters of which we are aware that are relevant to the Association's ability to continue as a going concern, including all significant conditions and events, mitigating factors and management's and the board's plans. Whilst it is expected that the trade and assets of the Association will ultimately transfer to Sanctuary Housing Association, or its subsidiary Sanctuary Affordable Housing Limited, via a Transfer of Engagements (TOE), there is no agreed timescale for this to happen and this course of action has not yet been approved by the board. Consequently, the directors of the Association have concluded that this potential future action does not have an impact on their current assessment of the status of the Association as a going concern.

The Association's operations, together with the factors likely to affect its future performance and financial position, are set out in the Strategic Report on pages 4 to 13.

Information about the Association's approach to treasury risk management can be found on pages 9 to 11.

The Association manages its exposure to risk, and this activity is reviewed and scrutinised by the Sanctuary Group Audit and Risk Committee. Details of the Association's principal risks are discussed on pages 11 to 13.

The Association has continued to face challenges during the year, with further impairments and provisions resulting in a deficit for the year of £86,273,000 (2022 restated: deficit of £171,002,000). Under the terms of its borrowing facilities the Association is required to comply with certain covenant requirements. In the period between 31 March 2023 and the date on which the statutory audited financial statements were finalised, two of the Association's lenders agreed to modify their testing of interest cover, which is based on the audited statutory financial statements of the Association. This is due to year-end adjustments not envisaged in the interest cover definition in place as at the 31 March 2023 having crystallised in the preparation of the statutory financial statements. As a result of these amendments there is no event of default (occurred nor continuing) that could result in acceleration of loan repayments.

The directors have prepared a going concern assessment for the Association, based on consideration of cash flow forecasts, for the period to 31 March 2025 (the going concern assessment period), which take into account a number of severe, but plausible downside scenarios, and also funding available from its parent, Sanctuary Housing Association.

Notes to the Financial Statements

2. Principal Accounting Policies

The wider Sanctuary Group support, as a result of the acquisition, provides comfort over the viability of the Association and this is evidenced by an enhanced outlook that is reflected in Standard & Poor's (S&P) upgrade to the Association's credit rating from 'BB-' to 'BBB+' immediately following the acquisition.

In November 2022, Sanctuary Affordable Housing Limited, a 100% subsidiary of Sanctuary Housing Association, provided a £50 million loan to the Association and on 7 September 2023 Sanctuary Housing Association directly provided a further £50 million of funding to the Association. Sanctuary Housing Association has also provided a letter of support to the directors of the Association to confirm that it intends to continue, should the need arise, to provide financial and/or other support, including, if required, not seeking repayment of amounts currently made available, for the period to 31 March 2025.

Whilst, at the date of approval of these financial statements, the directors have no reason to believe that the financial support provided by other group entities will not continue, they acknowledge that this is not certain. Further, the directors also acknowledge that any such support will not be unlimited.

The circumstances of the Association, including its reliance on wider Sanctuary Group support together with the need to renegotiate borrowing covenants, represent material uncertainties that may cast significant doubt on the Association's ability to continue as a going concern and therefore that it is able to realise its assets and discharge its liabilities in the ordinary course of business.

However, based on all of the above considerations the directors confirm that they have a reasonable expectation that the Association has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Association continues to adopt the going concern basis in its financial statements.

Significant accounting judgements, estimates and assumptions

The Association's financial statements for the year ended 31 March 2023 are prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws, including FRS 102, "The Financial Reporting Standard applicable in the UK and Republic of Ireland").

This requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the year end and the amounts reported for revenues and expenses during the year.

Significant accounting judgements

The following are the management judgements made in applying policies of the Association that have the most significant effect on the financial statements.

Replacement of cladding and fire safety works

The aggregate cost of rectifying potential issues within 18m+ buildings across a number of sites has been estimated as up to £116 million. However, the Association will pursue recovery from contractors, insurances and Government funding where that is available. As a result, management's expectation is that the total cost of remediation works will be materially less than this this amount. The potential requirement to recognise provisions or recovery assets in respect of these works is considered below.

FRS 102 Section 21 *Provisions and Contingencies* determines that an entity should recognise a provision when: there is an obligation at the reporting date as a result of a past event; it is probable (more likely than not) that the entity will be required to transfer economic benefits in settlement; and the amount of the obligation can be estimated reliably. The Standard emphasises that this means there must be no realistic alternative to settling the obligation. This can happen when there is a legal obligation that can be enforced by law or when the entity has a constructive obligation.

When some or all of the amount required to settle a provision may be reimbursed by another party, an entity will often remain liable for the whole amount in question so that the entity would have to settle the full amount if the third party failed to pay for any reason. In this situation, a provision is recognised for the full amount of the liability, and a separate asset for the expected reimbursement is recognised when it is virtually certain that reimbursement will be received if the entity settles the liability.

Notes to the Financial Statements

2. Principal Accounting Policies

In determining whether a provision is required at the balance sheet date, management has reviewed the requirements of Section 21 of FRS 102 in conjunction with legal advice and consideration of new legislation, such as the Building Safety Act 2022, which came into force on 28 April 2022. Where reimbursement is possible then correspondence between the parties has been reviewed to determine the status of negotiations at year end and whether reimbursement could be established to be virtually certain at 31 March 2023.

Replacement of cladding containing Aluminium Composite Material (ACM)

It was determined in the year ended 31 March 2018 that a constructive obligation existed in respect of replacement of ACM cladding at two schemes and a provision was recognised at that time. Works at one of these schemes concluded during the year ended 31 March 2023 and so the brought forward provision relating to this site was fully utilised. Management has determined that the circumstances relating to the other scheme in respect of obligations have not changed and therefore it is appropriate to carry forward a provision in respect of the remaining obligation.

Negotiations with the contractor who carried out the original construction have progressed significantly during the year and management have concluded that the other party's commitment to get the building to a compliant position at their own cost made the prospect of reimbursement virtually certain at year end. Consequently, a reimbursement asset has been established equal to the full value of the provision.

Properties where the Association was engaged under a refurbishment and management contract

A potential issue has been identified at four 18m+ tower blocks. The Association subcontracted the original refurbishment contract to a third party; however, management has determined, after reviewing legal advice, that the Association's obligations under the contract, which encapsulate the original refurbishment, ongoing management and maintenance, mean that it ultimately remains liable for rectification of the identified deficiencies and so a provision has been recognised. Whilst every effort is being made to recover potential costs, the early stage of negotiations with the subcontractor at year end mean that a reimbursement asset has not been recognised.

Properties where the Association was engaged under a development, lease and nominations agreement

Cladding issues have been identified at two 18m+ blocks. Similar to the previous case, the Association subcontracted the original development to a third party. As with the previous case, after reviewing legal advice, management has determined that the Association is ultimately liable for rectifying the deficiencies and so a provision has been recognised. Negotiations with the original subcontractor were not sufficiently progressed at year end to justify recognition of a reimbursement asset.

Properties where the Association is freeholder and where there was an external developer

There are six 18m+ blocks where the Association is the freeholder, but the original development work was carried out by an external party. Drawing on application guidance within FRS 102, management have formed a view that legal obligations do not exist independently of future actions, since the properties can theoretically be sold or transferred to another party and once that has occurred, as the Association is not the developer, there would be no ongoing responsibility in respect of the building safety. This could change if specific enforcement actions were in place, but to date that is not the case. Management have also considered whether the Association's public statement that it will not pass on the cost of remediating external wall systems to leaseholders could create a constructive obligation. Management's view is that it does not, since it does no more than clarify the Association's intention to follow the requirements of the Building Safety Act and does not give a firm timebound commitment to carry out those works. Consequently, no provision has been recognised. Every effort will be made to engage the original developers to rectify the identified issues or to obtain alternative sources of funding where that is not possible.

Properties where the Association is freeholder and where the developer was a subsidiary

Three 18m+ sites with potential issues have been identified where the developer was Swan New Homes Limited. It is management's view that where Swan New Homes was the developer that any potential liability in respect of rectification resides with them and so no provision has been recognised by the Association. Where relevant, the cash flows associated with the potential rectification works within the subsidiary have been considered in forming a view about recoverability of intercompany balances.

Notes to the Financial Statements

2. Principal Accounting Policies

Development incident

Following an incident at a development site in 2020, there is an ongoing investigation by police and the Health & Safety Executive (HSE) as well as civil claims from certain effected parties. The site is owned by the Association and it's 100% owned subsidiary, Swan Commercial Services Limited, was serving as principal contractor.

Having obtained legal advice, management has determined that in respect of the criminal/HSE investigations there was insufficient progress at 31 March 2023 to deem the likelihood of a penalty probable and so the impact on the financial statements is limited to disclosure as a contingent liability. At this early stage of investigation, the broad range of possible outcomes means that quantification of any potential penalty is not possible.

Management has concluded, based on legal discussions, that despite the Association being the site owners that any civil claims associated with the incident (including damage to equipment) should be considered within its subsidiary Swan Commercial Services Limited, since they were the primary contractor responsible for hiring equipment and developing the site. No amounts have therefore been recognised within the Association.

Financial instrument classification

The Association's loans are required to be classified as either basic or non-basic financial instruments in accordance with the conditions set out under FRS102 section 11.9. Management has concluded that two of the Association's loans should be reported as non-basic. Both include an embedded mandatory swap payment on termination of the loan which results in the return to the lender being a combination of a positive fixed rate and a negative variable rate (as part of the notional swap value) which is not meeting the definition as set by FRS102 11.9a (iv).

The Association's remaining loans each contain a prepayment option which may result in a compensation payment from the lender. Management has assessed this prepayment option against the condition set out in FRS102 11.9b which states that for a loan to be classified as basic there should be no contractual provision that results in the holder losing the principal amount or any interest attributable to current or prior periods. Management has concluded that the loans are basic on the basis that the repayment relates to future interest payments and not the repayment of the principal amount or interest that is due.

Notes to the Financial Statements

2. Principal Accounting Policies

Significant accounting estimates and assumptions

Estimates and assumptions are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed in the following sections.

Carrying value of schemes under development

The carrying value of schemes under development has been assessed using a combination of internal appraisals external valuations and independent third-party specialist assessments of costs to complete.

Properties held for sale are carried at the lower of cost and estimated selling price less costs to complete and sell.

Development schemes have been assessed for impairment based on the estimated value of shared ownership first tranche sales, plus the present value of the estimated net revenue streams from rented homes, including the retained equity in shared ownership homes, and commercial properties, less the estimated costs to complete the development.

The present value of estimated net revenue streams from rental properties is based on a discounted cash flow model using discount rates and estimates of cost appropriate to the type of tenancy. The costs to complete the development are based on the anticipated outturn cost of construction, professional services and other subcontracts, with allowances made for inflation, claims and variations, plus an allocation of the internal cost of management time and capitalised interest.

Beechwood

Beechwood is a multi-tenure multi-phase regeneration with Basildon Council, spanning a number of years. Work in progress is split between the Association and its subsidiary Swan New Homes Limited.

Phase 1 of the development has already completed, and Phase West (including Central West) is under development. The construction of Phase North and Phase South have not yet commenced, though some demolition work has occurred at Phase North, and neither the Association nor its subsidiary have any current ownership rights for the land on which these future phases will be constructed.

Due to the status of future phases, the assessment only considers the development of phase West (including Central West), but takes into account a range of broader scheme commitments.

After appraisal, it was concluded that the work in progress in the Association should be fully written down and a total sum of £3.5 million has been recognised as impairment.

Blackwall Reach

The Association has total work in progress balances of £23.2 million associated with Phase 2 of the development. The purchase price that the Association is paying its subsidiary, Swan New Homes, for the social properties within the scheme is aligned to external professional valuations of EUV-SH for the finished units and so no impairment is indicated within the Association.

A balance of £61,000 in respect of Phase 3, for which the Association has no land ownership rights and construction has not commenced, has been fully written off and recognised as impairment.

Notes to the Financial Statements

2. Principal Accounting Policies

Cordage Works

The Cordage development, which sits fully within the Association, relates to 28 shared ownership properties. At year end, development of the whole site was complete and first tranches of 17 properties had already sold.

First tranche sales for the year resulted in losses of £712,000. An internal assessment of the scheme resulted in recognition of £2.3 million of impairment of the remaining balances.

An additional year-end review was then conducted, based on external valuation reports, which indicated that no further impairment was required.

Watts Grove

All work at the Watts Grove site is on hold. Consequently, since there are no clear timelines over the work continuing or the form this will take, it was determined that the most appropriate means of assessing whether the carrying value was impaired was to consider the fair value of the development site in its current condition, rather than using internal development appraisals.

The carrying value was therefore compared to an independent external valuation of the site in its current form; this indicated that no impairment was required.

PCRL 1A

Phase 1A of the Purfleet project comprises 61 homes, built in two sub-phases. Sub-Phase 1A(1) comprises 34 homes which are being sold to the Association for shared ownership under an Agreement for Lease and Development between the Association and PCRL 1A Ltd.

The Association pays stage payments to PCRL 1A for works as they are completed. The work in progress balance at 31 March 2023 was £9.9 million.

A year end assessment was carried out with reference to third party valuations for finished units and using internal appraisals of costs to complete. On the basis of these assessments, no impairment was indicated.

Queensway Southend and Purfleet

The development of Queensway in Southend-on-Sea is within a joint venture of the Group, Porter's Place Southend-on-Sea LLP. The Association had recognised a carrying value of £667,000 for work in progress within its own balance sheet. The uncertain future of the development means that there is no clear means of realising any future benefits and so the full balance has been impaired.

The development of Purfleet is within a joint venture of the Group, Purfleet Centre Regeneration Limited. The Association had recognised a carrying value of £244,000 for work in progress within its own balance sheet. The uncertain future of the development means that there is no clear means of realising any future benefits and so the full balance has been impaired.

Recoverability of loans to joint ventures

At 31 March 2023, within investments, the Association had a balance of £3.8 million, relating to a loan to Porter's Place Southend-on-Sea LLP. After considering the current status of development projects within the joint venture, including availability of funding, and having reviewed independent third-party assessments of the value of the investment, management has determined that the investment balance should be fully provided for. This has been recognised as part of a separate line item within the Statement of total Comprehensive Income called 'loan and working capital provided for'. The Association intends to continue to seek recovery of balances that have been provided for.

Notes to the Financial Statements

2. Principal Accounting Policies

Recoverability of intercompany balances

At 31 March 2023 there were loans (included within investments) from the Association to subsidiaries Swan Commercial Services Limited (£25.8 million) and Swan New Homes Limited (£5.1 million); the Association also had trading balances with the respective parties of £13.6 million (net debtor) and £1.3 million (net creditor).

Management conducted an assessment of recoverability of these balances, based on financial projections for the subsidiaries, which reflect future development expenditure, sales income, defects payments and outflows in relation to the previously mentioned development incident.

The developments included in the projections are all forecast to be completed and sold by March 2028, with no further development activity assumed in the subsidiaries after that time and therefore it is deemed appropriate to use the projected balances at that date to assess current recoverability.

Based on this assessment it was concluded that amounts due from Swan New Homes are fully recoverable, but that all amounts due from Swan Commercial Services should be fully provided for. Provisions have therefore been recognised against investments and intercompany trade debtors with the provision movement presented as part of a separate line item within the Statement of total Comprehensive Income called 'loan and working capital provided for'. The Association intends to continue to seek recovery of balances that have been provided for.

Replacement of cladding and fire safety works

As previously detailed under significant accounting judgements, there are a number of different scenarios, which have each been considered in turn to determine if a provision should be recognised. In quantifying the required provisions, sources of estimation uncertainty exist in relation to both the nature of the required works and the cost of the works. Estimates have, where possible, been based on third-party information, with adjustments to reflect indexation (due to the timing of the original estimates compared to the date of review), additional contingency and value added tax. However, these estimates are high level and based on the scope of works identified in initial assessments, so whilst they represent a reasoned basis for quantifying the provisions, there is potential that the final outcome could be materially different. The table below summarises the amounts to be recognised.

Scenario	**Provision amount**	**Other information**
Replacement of cladding containing Aluminium Composite Material (ACM)	£5.1 million	Brought forward provision, but a new reimbursement asset has been recognised for £5.1 million. £1.5 million of grant previously received has been treated as repayable.
Properties where the Association was engaged under a refurbishment and management contract	£31.8 million (£33.5 million before discounting)	No reimbursement asset
Properties where the Association was engaged under a development, lease and nominations agreement	£8.1 million (£8.5 million before discounting)	No reimbursement asset

Defined pension liability valuation

The defined benefit obligation is based on several critical underlying assumptions such as standard rates of inflation, mortality, discount rate and anticipation of future salary increases. Variation in these assumptions may significantly impact the liability and the annual defined benefit expenses (as analysed in note 26). The net defined benefit pension liability at 31 March 2023 was £3.6m (2022: £2.4m).

During the year ended 31 March 2022, the trustee of the scheme conducted a review of the application of historic changes to scheme member benefits. The review found that, in some cases, changes to benefits provided by the scheme may have been implemented at a time or in a way that may not be in accordance with scheme rules. In response to the review, the trustee will be seeking direction from the courts, on behalf of scheme employers, on how to interpret these rules. Should the courts direct that some changes were made in a way not permitted by the scheme rules, this could give rise to an increase in member benefits and an additional liability for the Association. Due to the uncertainty surrounding this review, the pension obligations stated in the financial statements do not reflect any additional liability that may arise from this review, which is not expected to complete until the final quarter of 2024.

Notes to the Financial Statements

2. Principal Accounting Policies

Fair value measurement

Management utilises the services of a specialist third party treasury advisor Centrus to calculate the fair value of its financial instruments. Fair value measurements were applied to the embedded derivatives for two loans in the year. The valuation techniques include discounted cash flow pricing models with observable inputs. The most significant inputs into those models are interest rate yield curves, developed from publicly quoted rates and market available information.

All valuations have been compared to similar market transactions or alternative third-party pricing services to ensure current market conditions are properly represented.

Movements in fair value between periods are exclusively due to changes in observable inputs, which can shift due to changes in demand and supply in public market rates and market information, and due to time factor in the above instruments' pricing in a discounted cash flow pricing model.

Other accounting judgements, estimates and assumptions

Impairment of tangible fixed assets

The Association has considered individual schemes to be separate Cash Generating Units when assessing impairment in accordance with the requirements of FRS102 and SORP 2018.

Borrowing costs

The Association has capitalised £1.6 million of borrowing costs during the year. The Association has capitalised borrowing costs from the point when schemes commenced development (FRS 102 25D(a)). When substantially all the activities necessary to prepare the relevant asset for its intended use or sale are complete (in 2023 this only applies to individual unit completions on Essex Cordage) capitalisation has ceased (paragraph 25D(c)). This is achieved by calculating interest capitalisation monthly based on the balance of work in progress for each scheme.

Investment property

During the year, several properties have been reclassified from property, plant and equipment to investment property. The reclassification of these properties is as a result of an alignment with Sanctuary Group's accounting policies, which include judgements as to which properties are included as investment properties.

Management therefore concluded that the principles of FRS102.16.9B apply, specifically that where a property is transferred from PPE to investment property, the requirements of Section 17 (Property, Plant and Equipment) are applied up to the date of reclassification. Any difference at that date between the carrying amount of the property in accordance with Section 17 and its fair value is treated in the same way as a revaluation in accordance with section 17. Per FRS102.17.15E an increase in carrying amount as a result of a revaluation is recognised in other comprehensive income and accumulated in equity.

Valuation of investment properties was carried out by independent external valuation specialists.

Repayable grants

Several unallocated grant amounts and, a balance related to an abandoned project, have all been represented in the current and prior year as 'repayable grant' within creditors falling due within one year. Previously these balances were included within deferred grant in creditors falling due after more than one year. Where applicable, interest has been accrued, with the trigger point for initial recognition of interest determined by the start on site dates specified within the grant agreements. Further details are given in note 29.

Notes to the Financial Statements

2. Principal Accounting Policies

Turnover

Turnover comprises rental income receivable in the year, service charge income, income from shared ownership first tranche sales, unitary charge income from a private finance initiative (PFI) and other services included at the contracted or invoiced value (excluding VAT chargeable) of goods and services supplied in the year and grants receivable in the year.

Rental income is recognised from the point when properties under development reach practical completion or otherwise become available for letting, net of any voids.

Service charge income is recognised when service charge expenditure is incurred as this is the point at which the services have been performed. When the outcome of the transaction involving the rendering of services cannot be estimated reliably, management recognise revenue only to the extent that it is probable expenses will be recovered.

Management charge income is recognised when the service has been delivered and is calculated based on time spent supporting the activity. Income from first tranche sales is recognised at the point of legal completion of the sale.

Income from land sales is recognised on the unconditional exchange of contracts.

Unitary charge income is recognised in accordance with the financial close model which apportions the income between the Statement of Comprehensive Income for housing management services and the Statement of Financial position for income accrued during the construction phase of the contract.

Donations received under the gift aid scheme in the Association from its subsidiaries are recognised as turnover as it relates to the principal activities of the Association .

The Association's social housing properties are tenanted under cancellable tenancies. Typical tenant break clauses exist require a notice period of one month. Rents fluctuate in accordance with the Rent Standard and are affected by the Welfare Reform and Work Act 2016. Shared Ownership properties may be part purchased at any time at the prevailing pro rate market rate, on-going rental payments will be adjusted to align with the share of ownership retained in the Association. Certain tenanted properties provide the existing tenant with the right to buy or acquire the property outright.

Interest

Interest is capitalised on borrowings related to the development of qualifying assets, to the extent that it accrues in respect of the period of development if it represents interest on borrowings specifically financing the development programme after deduction of related grants received in advance.

Other interest payable is charged to income and expenditure in the year.

Interest is recognised as income when receivable.

Taxation

Current tax is recognised for the amount of corporation tax payable in respect of the taxable surplus for the current or past reporting periods using the rates and laws that have been enacted or substantively enacted at the reporting date. As a result of the Association's status as a charity, the Association is largely exempt from corporation tax. The Association's subsidiaries are subject to corporation tax but may make gift aid donations to the Association which reduces their liabilities to corporation tax. Following an amendment introduced by the triennial review of FRS102, such donations, if made within nine months of the end of an accounting period, may be used to reduce the corporation tax payable in respect of the profits of that period.

VAT

The Association and the majority of its subsidiaries are included in a Group VAT registration in the name of Sanctuary VAT Group with effect from 1st April 2023 (formerly in a Group VAT registration in the name of Swan Housing Association Limited). The majority of the Association's income, being rents, is exempt for VAT purposes, but other Group members generate taxable income. This combination gives rise to a partial exemption calculation. Expenditure for non-taxable activities is therefore shown inclusive of VAT and the input VAT recovered is credited against operating costs. Expenditure on taxable activities is shown exclusive of VAT. The balance of VAT payable or recoverable at the year-end is included as a current liability or asset.

Termination benefits

Termination benefits are in relation to payment in lieu of notice and settlement for loss of office and are recognised as an expense in the statement of comprehensive income. A liability and expense is recognised for termination benefits when the entity is demonstrably committed to a termination.

Notes to the Financial Statements

2. Principal Accounting Policies

Intangible assets
Computer software is carried at cost less accumulated amortisation and impairment losses. Costs relating to the development of computer software for internal use are capitalised. Costs include the total cost of external products or services and any labour costs directly attributable to the development.

Amortisation is charged on a straight-line basis over the expected useful life of the software and is commenced when the asset is ready for operational use. The expected useful life is considered to be four years.

Investment Property
Investment property is property which is held either to earn rental income or for capital appreciation or for both. During the year, as a result of the acquisition by Sanctuary Housing Association, the Association has reassessed its property portfolio, applying the same judgements used in the wider Sanctuary Group. As a result of this exercise, the Association has reclassified its commercial properties to investment property (see also other accounting judgements, estimates and assumptions). Investment property is measured at fair value at end year end date with changes in fair value recognised in profit or loss.

Investments in subsidiaries
Investments in subsidiaries represent amounts subscribed as share capital to, or on-lent by, the Association to its subsidiaries under the Group's internal financing arrangements and are stated at cost less impairment in the Association's financial statements.

Investments in jointly controlled entities (joint ventures)
An entity is treated as jointly controlled where the Association is party to an agreement with one or more parties from outside the Group to undertake an economic activity that is subject to joint control. In the consolidated accounts, interests in jointly controlled entities are accounted for using the equity method.

Loans due from a jointly controlled entity are included in investments where the amounts are intended for use on a continuing basis in the jointly controlled entities activities. The loans are subsequently accounted for as a basic financial instrument.

Investments in jointly controlled entities are stated at cost less impairment in the Association's financial statements.

Housing properties cost and depreciation
Completed general needs and supported housing properties are stated at cost less accumulated depreciation and impairment losses. Cost includes the cost of acquiring land and buildings, development on-costs and interest charges incurred during the development period.

Works to existing properties which replace a component that has been treated separately for depreciation purposes, along with works that result in an increase in net rental income over the lives of the properties, thereby enhancing the economic benefits of the assets, are capitalised as improvements. The existing components are derecognised through the Statement of Comprehensive Income.

The Association depreciates the major components of its general needs and supported housing properties on a straight-line basis, at the following annual rates:

Structure	0.80%	Boilers	6.66%
Bathrooms	3.33%	Windows	3.33%
Kitchens	5.00%	Central Heating	2.50%
Electrics	3.33%	FRA works	0.80% - 3.33%
Lifts	5.00%	Insulation	2.00%

Freehold land is not depreciated.

Expenditure on shared ownership properties is split proportionally between current and fixed assets based on the element relating to expected first tranche sales. The first tranche proportion is classed as a current asset and the related sales proceeds are included in turnover. The remaining element is classed as a fixed asset and included in housing properties at cost, less accumulated depreciation on a straight-line basis over the life of the structure and impairment losses.

Completed NHS keyworker and properties held under finance leases are stated at cost less depreciation which is charged on a straight-line basis over the lease term.

Housing properties under construction are stated at cost less impairment and are transferred to completed properties once they are available for letting. No depreciation is provided on housing properties under construction.

Notes to the Financial Statements

2. Principal Accounting Policies

For other tangible fixed assets, depreciation is charged on a straight-line basis over the expected economic useful lives of the assets at the following annual rates:

- Freehold offices 2.0% on cost
- Leasehold improvements Length of lease
- Plant and machinery 20% on cost
- Office equipment and fittings 20% on cost
- Computer equipment 25% on cost

Development costs
Costs associated with development projects are capitalised where they are directly attributable to bringing the properties into working condition for their intended use. Such costs generally include professional fees, directly attributable staff salary costs incurred in administering the development programme and loan interest attributable to the scheme. Costs incurred on schemes which are identified as abortive are written off in the year in which the scheme is classified as abortive.

Lease obligations
Where assets are financed by leasing arrangements which transfer substantially all the risks and rewards of ownership, they are classified as finance leases and are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payment during the term of the lease. The corresponding leasing commitments are shown as obligations to the lessor. Rentals paid under operating leases, including those paid under temporary social housing leases, are charged to the Statement of Comprehensive Income on a straight-line basis over the lease term.

Stock
Inventories primarily represent the costs of the first tranche element of shared ownership properties and are stated at the lower of cost and estimated selling price less costs to complete and sell.

Properties for sale
Properties held for sale are stated at the lower of cost and net realisable value and relate to the proportions of shared ownership properties allocated as first tranche sales, whether under construction or completed. Cost comprises materials, direct labour and direct development overheads. Net realisable value is based on estimated sales price after allowing for all further costs of completion and disposal.

Debtors
Short term debtors are measured at transaction price less any impairment. A full provision is made against former tenant arrears and a phased percentage provision is made against current tenant balances and assessed at fair value.

Creditors
Short term creditors are measured at the transaction price.

Government grants
Government grants include grants receivable from Homes England, local authorities and other government organisations. Government capital grants received prior to the transition to FRS102 have been accounted for under the performance method and recognised as income. Capital grants for housing properties received post transition are accounted for under the accruals method within creditors and recognised in income over the useful life of the property structure.

Social Housing and other capital development grants may be repayable under certain circumstances, primarily following the sale of a property. Provision for repayment in the Recycled Capital Grant Fund is made in the Statement of Financial Position when properties which have previously received grant funding are sold.

Grants relating to revenue are recognised as income over the same period as the expenditure to which they relate once reasonable assurance has been gained that any conditions associated with the grant have been met.

Notes to the Financial Statements

2. Principal Accounting Policies

Pensions
The Association participates in a multi-employer defined benefit scheme, the Social Housing Pension Scheme (SHPS), which the Association has closed to new entrants.

The defined benefit obligation is based on a number of critical underlying assumptions such as standard rates of inflation, mortality, discount rate and anticipation of future salary increases. Variation in these assumptions may significantly impact the liability and the annual defined benefit expenses (as analysed in Note 26). The calculation of the obligation also incorporates the impact of the various High Court rulings and GMP rulings where appropriate.

The net defined benefit liability at the year ended 31 March 2023 is £3.6m (2022: £2.5m).

The current service costs and costs from settlements and curtailments are charged against operating surplus in the Consolidated Statement of Comprehensive Income. Interest is calculated on the net defined benefit liability. Remeasurements are reported in Other Comprehensive Income. Note 26 contains further details.

Swan Housing Association Limited currently operate defined contribution pension schemes for active members. The charge to expenditure represents the employer contribution payable to the schemes for the accounting period.

Financial instruments
Financial instruments which meet the criteria of a basic financial instrument as defined in Section 11 of FRS102 are accounted for under an amortised cost model. The effective interest rate method, which applies the interest rate that exactly discounts the estimated future cash flows to the carrying amount of the financial instrument at initial recognition, has been used to calculate amortised cost. Any related fees and transaction costs are also amortised using this method.

Loan modifications are assessed on a case by case basis and where modifications are deemed to be substantial the instrument is derecognised. Where modifications are considered to be non-substantial they are accounted for in accordance with Section 11 of FRS102.

Non basic financial instruments are recognised at fair value using a valuation technique. At each year end the instruments are revalued to fair value with the movements posted to the Statement of Comprehensive Income.

The Association has not adopted hedge accounting for financial instruments.

Public benefit concessionary loans
The investment in Porters Place Southend-on-Sea LLP is treated as a concessionary loan. It is initially recognised as a loan at the amount paid to the LLP and subsequently updated to reflect accrued interest and any impairment loss is recognised in income and expenditure.

Loan issue costs
Costs in relation to the issuance of basic debt instruments are amortised over the life of the instrument. Costs in relation to non-basic debt instruments are expensed as incurred. The discount/premium arising on bond issues are spread evenly over the remaining life of the bond, with a resulting movement in finance costs each year.

Provision for liabilities
Provisions are recognised when the Association has a present obligation (legal or constructive) as a result of a past event, it is probable that the Association will be required to settle the obligation and a reliable estimate can be made of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Reserves
The Association establishes reserves for specific purposes where their use is subject to external restrictions and designated reserved where reserves are earmarked for a particular purpose.

Notes to the Financial Statements

2. Principal Accounting Policies

Revaluation reserves
On transition to FRS102 the revaluation reserve was credited with the difference between the fair value of housing properties and the historical cost carrying value. As a result, housing properties carried at revaluation pre transition are carried at deemed cost.

The depreciation charges and disposal costs relating to housing properties carried at deemed cost therefore contain an element of cost that is attributable to revaluation. Annual transfers between the income and expenditure and revaluation reserves are made to reconcile the reserve accounts.

On acquisition by Sanctuary Group on 8th February 2023, the revaluation reserve was credited with the difference between the fair value of commercial units held within other tangible fixed assets and the historical cost carrying value. Subsequent to revaluation commercial property was transferred to Investment Property.

Notes to the Financial Statements

3. Turnover, operating costs and operating surplus by class of business

				2023				2022
	Turnover	**Other income**	**Operating costs**	**Surplus/ (deficit)**	**Turnover**	**Other income**	**Operating costs**	**Surplus/ (deficit)**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Income and expenditure:								
From social housing lettings (note 4)	64,103	-	(45,061)	19,042	63,886	-	(41,232)	22,654
Other social housing activities:								
Supporting people contract income	2,624	-	(3,278)	(654)	2,190	-	(3,064)	(874)
Group management services	3,164	-	(16,313)	(13,149)	3,102	-	(11,954)	(8,852)
First tranche shared ownership sales	2,950	-	(3,662)	(712)	1,594	-	(1,581)	13
Forest Gate private finance initiative (PFI)	6,254	-	(8,200)	(1,946)	6,449	-	(5,454)	995
Surplus on sale of fixed assets (note 7)	-	937	-	937	-	11,255	-	11,255
Insurance proceeds receivable	1,003	-	-	1,003	(4,457)	-	-	(4,457)
Development	197	-	-	197	944	-	-	944
Cladding and health & safety[1]	-	-	(11,673)	(11,673)	-	-	(6,970)	(6,970)
Cladding and fire safety (PFI)			(31,809)	(31,809)	-	-	-	-
Impairment (notes 2, 10)	-	-	(8,341)	(8,341)	-	-	(36,897)	(36,897)
Write down of work in progress costs	-	-	-	-	-	-	7,449	7,449
Other one-off costs[2]	-	-	(3,667)	(3,667)	-	-	-	-
Total other social housing activities	16,192	937	(86,943)	(69,814)	9,822	11,255	(58,471)	(37,394)
Total social housing activities	**80,295**	**937**	**(132,004)**	**(50,772)**	**73,708**	**11,255**	**(99,703)**	**(14,740)**

[1] Cladding and health & safety costs of £11,673,000 relate to expenditure incurred for waking watch, cladding provisions and other health and safety costs.

[2] Other one-off costs of £3,667,000 relate to costs incurred for Fairfield gas works, Black Horse yard scheme write off and one-off legal fees.

Notes to the Financial Statements

4. Particulars of income and expenditure from lettings

	General Needs Housing £'000	NHS Trust Keyworker £'000	Shared Ownership £'000	Total 2023 £'000	Total 2022 £'000
Rent receivable net of identifiable service charges	46,369	7,358	1,129	54,856	55,063
Amortised government grant	548	-	-	548	599
Service income	7,624	-	184	7,808	7,304
Net rental income	**54,541**	**7,358**	**1,313**	**63,212**	**62,966**
Lease income	891	-	-	891	920
Turnover from social housing lettings	**55,432**	**7,358**	**1,313**	**64,103**	**63,886**
Management	(11,628)	(1,780)	(250)	(13,658)	(10,533)
Services	(7,551)	(999)	(153)	(8,703)	(6,840)
Routine maintenance	(6,797)	(899)	(138)	(7,834)	(6,890)
Planned maintenance	(5,306)	(702)	(108)	(6,116)	(9,379)
Bad debts	(401)	(27)	-	(428)	40
Depreciation of housing properties	(6,421)	(1,775)	(126)	(8,322)	(7,630)
Operating costs on social housing lettings	**(38,104)**	**(6,182)**	**(775)**	**(45,061)**	**(41,232)**
Operating surplus on social housing lettings	**17,328**	**1,176**	**538**	**19,042**	**22,654**
Void losses	(489)	(269)	-	(758)	(875)

Notes to the Financial Statements

5. Key management personnel

The aggregate amount of remuneration for the year for Executive Directors who are considered to be the Association's key management personnel was £1,092k excluding pension contributions and taxable benefits (2022: £1,163k). Directors' pension contributions for the year were £39k (2022: £33k). Directors' social security costs for the year were £131k (2022: £153k). Directors' benefits in kind for the year were £5k (2022: £12k).

The cost of remuneration for one member of key management personnel was borne by the Sanctuary Group on the Association's behalf for the period between 8th February 2023 to 31st March 2023. This cost is not included within the aggregate amount of remuneration for the Association's key management personnel shown above.

Remuneration of the highest paid senior executive (Chief Executive) was £258k (2022: £242k). In addition, a payment in lieu of pension contributions of £11k (2022: £19k) was paid in the year. Social security costs were £36k (2022: £35k).

Parent Non-Executive Board and Committee Members received remuneration of £128k (2022: £162k). Social security costs were £4k (2022: £5k). Total expenses reimbursed to Board and Committee Members were £Nil (2022: £Nil).

During the year £99k (2022: £nil) was paid in compensation for loss of office to key management personnel. Compensation includes payment in lieu of notice and settlement for loss of office.

6. Staff numbers and costs

The average numbers of persons employed by the Association expressed both in full time equivalents and numbers of staff members (including senior executives but excluding Board Members), analysed by category, were as follows:

	Association		Association	
	2023 FTEs	2023 No.	2022 FTEs	2022 No.
Administration staff	230	257	251	265
Maintenance	8	9	6	6
Caretakers, cleaners and wardens	58	65	68	70
	296	331	325	341

The aggregate payroll cost of these persons was as follows:

	Association	
	2023 £'000	2022 £'000
Wages and salaries	14,977	15,434
Social security costs	1,618	1,693
Pension costs	623	615
	17,218	17,742

In addition, a total of £128k (2022: £162k) was paid to Non-Executive Board and Committee members and is included in wages and salaries above.

Notes to the Financial Statements

6. Staff numbers and costs

The full-time equivalents number including Executive Directors who receive remuneration:

	2023	2022
£60,001 to £70,000	9	14
£70,001 to £80,000	6	7
£80,001 to £90,000	9	11
£90,001 to £100,000	5	3
£100,001 to £110,000	4	4
£110,001 to £120,000	2	6
£120,001 to £130,000	2	2
£130,001 to £140,000	3	1
£140,001 to £150,000	2	4
£150,001 to £160,000	2	1
£160,001 to £170,000	2	-
£170,001 to £180,000	-	-
£180,001 to £190,000	-	-
£190,001 to £200,000	-	1
£200,001 to £210,000	-	-
£210,001 to £220,000	-	-
£220,001 to £230,000	-	-
£230,001 to £240,000	-	2
£240,001 to £250,000	-	-
£250,001 to £260,000	1	-

7. Surplus on sale of fixed assets

	2023 £'000	2022 £'000
Disposal proceeds	1,568	79,914
Carrying value of fixed assets sold	(631)	(68,659)
	937	11,255

Included in the amounts above are surpluses on the sale of social housing properties of £937k (2022: £11.3m). These gains include the sale of Shared Ownership Housing properties where a portfolio was sold to Orbit Group in 2022. The carrying value of housing assets sold includes recycled capital grant as detailed in note 19.

8. Interest receivable

	2023 £'000	2022 £'000
Interest receivable from joint venture	110	52
Bank interest receivable	1,298	1
Interest from other group undertakings	2,066	4,510
	3,474	4,563

Notes to the Financial Statements

9. Interest payable and similar charges

	2023 £'000	2022 as restated £'000
Bank loans	12,900	10,313
Loan from parent	1,828	-
Bond	8,450	8,452
Net interest expense from defined benefit pension obligation (see note 26)	57	142
Other bank charges	410	774
Finance lease charges	320	298
Interest on GLA Grant (note 29)	1,787	1,429
	25,752	21,408
Less: Interest capitalised (Average Rate 4.55%)	(1,633)	(1,038)
	24,119	**20,370**

10. Deficit before taxation

	2023 £'000	2022 £'000
The deficit before taxation for the year is stated after charging/(crediting):		
Auditor's remuneration		
- Fees payable to the Association's auditor for the financial statement audit	465	463
- Reporting on covenant or loan agreements	-	9
Depreciation on housing properties	8,322	7,630
Depreciation on other tangible fixed assets	515	788
Amortisation on other intangible fixed assets	1,111	543
Operating lease charges	544	488
Group service fees receivable from other group undertakings (note 25)	(3,164)	(3,102)
Impairment of development projects	6,817	36,897
Impairment on other intangible fixed assets	1,524	-
Loan and working capital released	-	97,000
Loan and working capital provided	43,172	52,648

Impairment has been recognised on development projects at Queensway, Purfleet, Cordage, Beechwood, and Blackwall Reach. Judgements and estimates related to this are provided in the Principal Accounting Policies on pages 34 and 35.

Notes to the Financial Statements

11. Taxation

	2023	2022
	£'000	£'000
Current tax:		
UK corporation tax on deficit for the year	-	-
Deferred tax:		
Origination and reversal of timing differences	-	-
Total tax charge	-	-
Tax reconciliation to total tax charge		
Deficit before taxation	(86,273)	(171,002)
Deficit multiplied by standard rate of Corporation Tax in the UK of 19% (2022: 19%)	(16,392)	(32,490)
Exempt activities	16,392	32,490
Total tax charge on deficit for the year	-	-

Deferred taxation

The Association is and intends to remain a charity and as such it is not subject to Corporation Tax (or deferred tax) on its profits provided its resources are utilised for charitable purposes. Hence no deferred tax asset is available to be recognised in respect of matters such as the Association's pension funding liability.

Notes to the Financial Statements

12. Intangible fixed assets

	Software £'000
Cost	
At 1 April 2022	4,877
Additions	-
At 31 March 2023	4,877
Amortisation and Impairment	
At 1 April 2022	(956)
Impairment	(1,524)
Amortisation charge for the year	(1,111)
At 31 March 2023	(3,591)
Net Book Value	
At 31 March 2023	1,286
At 31 March 2022	3,921

13. Tangible fixed assets – housing properties

Housing properties:	General/ special needs £'000	Completed shared ownership housing properties £'000	Completed NHS keyworker £'000	Properties held under finance leases £'000	Under construction £'000	Total £'000
Cost:						
At 1 April 2022	640,750	25,649	64,754	2,931	60,656	794,740
Additions	8,906	39	201	88	13,009	22,243
Disposals	(1,213)	(266)	(79)	(22)	-	(1,580)
Completions		8,897		-	(8,897)	-
Net transfer from inventory WIP	-	-	-	-	11,898	11,898
At 31 March 2023	648,443	34,319	64,876	2,997	76,666	827,301
Depreciation and Impairment:						
At 1 April 2022	(40,730)	(878)	(24,523)	(2,607)	(36,155)	(104,893)
Disposals	1,055	9	47	22	-	1,133
Impairment charge for the year	-	-	-	-	(6,817)	(6,817)
Depreciation charge for the year	(6,421)	(133)	(1,727)	(41)	-	(8,322)
At 31 March 2023	(46,096)	(1,002)	(26,203)	(2,626)	(42,972)	(118,899)
Net book value:						
At 31 March 2023	602,347	33,317	38,673	371	33,694	708,402
At 31 March 2022	600,020	24,771	40,231	324	24,501	689,847

13. Tangible fixed assets – housing properties (continued)

Housing properties
Included within additions are directly attributable development costs of £190k (2022: £324k) and interest capitalised of £1,633k (2022: £1,038k). The interest capitalisation was calculated using the Association's average cost of floating rate borrowing each month. The average rate during the year was 4.55% (2022: 3.95%).

Planned repairs and maintenance expenditure, excluding amounts provided for cladding and fire safety works during the year of £39.9m (2022: £6.9m) (note 20), on housing properties was £6.1m (2022: £9.4m) (note 4). Capital works to existing properties totalled £9.2m (2022: £7.1m), of which £nil related to fire safety works (2022: £0.6m).

The £11.9m net transfer from inventory work in progress (2022: £10.2m transfer to inventory work in progress) includes movements to reflect changes in the tenure mix on development schemes under construction.

All completed housing stock was restated at deemed cost on transition for FRS102 based on a formal valuation undertaken by Savills, Chartered Surveyors. The deemed cost was based on the Existing Use Value for Social Housing (EUV-SH) for accounts purposes as at 31 March 2014.

The Association annually reviews the carrying values of schemes under development to determine if they are impaired. Impairment assessments use a combination of internal appraisals, external valuations and independent third-party specialist assessments of costs to complete. Further details about the general methodology are included within note 2 on page 34.

In the prior year, the Association recognised write downs across a number of schemes, resulting in a brought forward impairment against housing properties under construction of £36.2 million.

The current year review resulted in recognition of an additional £6.8 million of impairment on development projects at Queensway, Purfleet, Cordage, Beechwood, and Blackwall Reach. Full details are included in note 2 on pages 34 and 35; this covers the specific approaches taken to assess for impairment, and the amounts recognised, on a scheme by scheme basis.

Social Housing Assistance

Total accumulated social housing grant received or receivable at 31 March:	**2023** **£'000**	**2022 as restated** **£'000**
Recognised in the Statement of Comprehensive Income (cumulative)	4,173	3,625
Held as deferred income (note 19)	46,971	45,017
Repayable grant and interest	45,932	44,145
	97,076	92,787

Comparative figures for 2022 have been restated to reflect the true value of social housing grant held as deferred income. The previous financial statements stated that total value held as deferred income was £87,331k and included repayable grant. The total value of social housing grant held as deferred income as at 31 March 2022 has been restated to £45,017k and a separate line for repayable grant and interest included at a value of £44,145k.

Notes to the Financial Statements

14. Other tangible fixed assets

	Freehold offices	Computer equipment	Office equipment & fittings	Commercial units	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 April 2022	3,427	1,806	2,059	1,790	9,082
Additions	-	88	295	-	383
Disposals	-	-	-	-	-
Revaluation	-	-	-	4,375	4,375
Transfer to Investment Property	-	-	-	(6,165)	(6,165)
At 31 March 2023	3,427	1,894	2,354	-	7,675
Depreciation					
At 1 April 2022	(463)	(1,485)	(1,354)	(114)	(3,416)
Charge for the year	(69)	(174)	(272)	-	(515)
Depn on Disposal	-	-	-	-	-
Transfer to Investment Property	-	-	-	114	114
At 31 March 2023	(532)	(1,659)	(1,626)	-	(3,817)
Net Book Value					
At 31 March 2023	2,895	235	728	-	3,858
At 31 March 2022	2,964	321	705	1,676	5,666

Commercial Units
During the year, several properties have been reclassified from property, plant and equipment to investment property. The reclassification of these properties is as a result of an alignment with Sanctuary Group's accounting policies, which include judgements as to which properties are included as investment properties (see note 2). The full Investment Property portfolio was valued by an independent, qualified valuer at a market value of £6,050k. As a result, the commercial property portfolio was revalued and then subsequently transferred to Investment Property (see note15a).

15a. Investment Property

	Commercial units
	£'000
Cost	
At 1 April 2022	-
Transfer from tangible fixed assets	6,050
At 31 March 2023	6,050

During the year, several properties have been reclassified from property, plant and equipment to investment property. The reclassification of these properties is as a result of an alignment with Sanctuary Group's accounting policies, which include judgements as to which properties are included as investment properties (see note 2).

The full Investment Property portfolio was valued on 8 February 2023 by an independent, qualified valuer at a market value of £6,050k. The board have determined that the value would not have materially changed between the date of acquisition and the year-end date of 31 March 2023, therefore no subsequent valuation has been performed.

15b. Other Investments

The Association has an agreement to provide a £15.0m junior loan facility to Porters Place Southend-on-Sea LLP. As at 31 March 2023 £3.78m (2022: £3.32m) of the junior loan was drawn with £133k (2022: £52k) interest paid. The loan facility accrues interest and is repayable 12 months following completion of the final residential unit or 31 December 2034, whichever is earlier.

Management have assessed recoverability of the loan from Porters Place and considered if an impairment is required. In carrying out the assessment, management have considered the joint venture cashflows, status of work done to date and other factors such as planning, external funding and risks. Porters Place Southend-on-Sea LLP 2022 accounts have been prepared on a non-going concern basis. On this basis, the Association has decided to fully provide for the loan to Porters Place, to the sum of £3,775k, resulting in a net carrying value of nil.

As at 31 March 2023, the Association has loans to subsidiary undertakings of £30,867k made up of balances to Swan Commercial Services (£25,752k) and Swan New Homes (£5,115k). The Association has assessed the recoverability of these loans and determined whether balances should be impaired. The Board have concluded that Swan Commercial Services are not able to repay this loan and a provision has been recognised to provide for this loan in full. Swan New Homes has been assessed as able to repay the loan due to the Association in full and no provision has been proposed.

Loans to Subsidiary Undertakings have a margin of 2.00% over the average borrowing cost for Swan HA and have a repayment date of 31 March 2024. Loans are secured on the Subsidiaries assets.

	Shares in Subsidiary Undertakings £'000	Loan to Porters Place £'000	Loan to Swan Commercial Services £'000	Loan to Swan New Homes £'000	Total £'000
At 1 April 2022	50	3,325	-	1,107	4,482
Net advances during the year	-	450	25,752	4,008	30,210
Provision for bad and doubtful debts	-	(3,775)	(25,752)	-	(29,527)
At 31 March 2023	50	-	-	5,115	5,165

In addition to the provision for bad and doubtful debts within investment balances of £29,527k a further £13,645k was provided against working capital balances to give a total of £43,172k as shown in the Statement of Comprehensive Income. The Association intends to continue to seek recovery of balances that have been provided for.

Notes to the Financial Statements

15b. Other Investments (continued)

At 31 March 2023 Swan Housing Association Limited held 100% of the issued ordinary share capital of the following:

Company	Activity	Country of incorporation
Swan New Homes Limited	Build of new homes	England and Wales
Swan Commercial Services Limited	Design and build contractor	England and Wales
Hera Management Services Limited*	Property management	England and Wales
Vivo Support Limited*	Care and support services	England and Wales
Swan Housing Capital Plc	Treasury	England and Wales
Swan Housing Finance Limited	Treasury	England and Wales
Swan BQ Limited	Regeneration partner	England and Wales

*Owned indirectly – 100% owned by Swan New Homes Limited

The jointly controlled entities are:

Company	Activity	Country of incorporation
Purfleet Centre Regeneration Limited *	Property development	England and Wales
Purfleet Centre Regeneration Limited1A*	Property development	England and Wales
Porters Place Southend-on-Sea LLP***	Regeneration partnership	England and Wales

* 49.9% owned by Swan New Homes Limited. Swan New Homes Limited holds 50% of the voting rights.
*** 50% partnership between Swan BQ Limited and Southend-on-Sea Borough Council

All of Swan Group's subsidiaries and the jointly controlled entities' registered office is Chamber Court, Castle Street, Worcester, WR1 3ZQ.

The associate entity is:

Company	Activity	Country of incorporation
Linq Investors Limited	Buying and selling of own real estate	England and Wales

Swan New Homes Limited own 408 shares with voting rights in Linq Investors Limited (LIL), representing 25% of the Company's voting share capital.

16. Properties held for sale

	2023 £'000	2022 £'000
Shared ownership properties		
Work in progress	3,874	20,778
Properties held for sale – completed	1,344	-
Total stock and properties held for sale	5,218	20,778

During the year the Association expensed as cost of sale costs related to Shared Ownership properties held for sale amounting to £3.7m (2022: £1.6m).

Notes to the Financial Statements

17. Debtors

	2023	2022
a) Due within one year	**£'000**	**£'000**
Gross arrears of rent and service charges	1,346	1,155
Less: provision for bad and doubtful debts	(681)	(449)
Net arrears of rent and service charges	665	706
Amounts due from Group undertakings	8,014	12,509
Other debtors	6,586	9,229
Prepayments and accrued income	1,666	1,368
	16,931	23,812
b) Due after one year		
PFI contract debtor	16,306	18,966
	16,306	18,966

Amounts due from Group undertakings are unsecured, do not incur interest and are repayable on demand.

At 31 March 2022, other debtors included £2.0m accrued insurance proceeds in relation to Watts Grove. During the year ended 31 March 2023, this balance was settled and so no value is included within other debtors at year end. At 31 March 2023, other debtors includes a balance of £5.1 million relating to a reimbursement asset where costs of cladding and fire safety works which have been provided for are expected to be borne by the original contractor (see note 20).

18. Creditors: amounts falling due within one year

	2023	2022 as restated
	£'000	**£'000**
Bank loan (note 19)	276,860	1,039
Amounts owed to Group undertakings (loans)	238,674	-
Sanctuary loan	50,000	-
Orbit loan	-	37,500
PFI loan (note 19)	2,411	3,094
Trade creditors	4,138	2,554
Amounts owed to Group undertakings	8,778	2,917
Other taxation and social security	620	410
Other creditors	2,309	2,100
Deferred grant (see note 19)	565	548
Repayable grants and interest	45,932	44,145
Recycled capital grant fund	619	-
Interest payable	2,279	1,780
Accruals and deferred income	17,385	10,036
	650,570	106,123

Trading balances due to Group undertakings are unsecured, do not incur interest and are repayable on demand.

Bank loans (excluding PFI loans) have been presented as due within one year because at 31 March 2023, the Association did not have a unilateral right to defer repayment beyond 12-months. Subsequent to the year-end, amendments have been made to the terms of these facilities. Full details are included in note 19.

Amounts due to Group undertakings relate to the bond issued by Swan Housing Capital. The amount is secured on association assets, incurs interest and is not repayable on demand. This balance has been presented as due within one year because at 31 March 2023, the Association did not have a unilateral right to defer repayment beyond 12-months.

A £25m secured loan agreement with Orbit originally dated 20th January 2022 was increased in March 2022 to £40m, £37.5m of which had been drawn at 31 March 2022. The interest rate is 2% over SONIA. The loan was refinanced in November 2022 by a 12 month £50m loan from Sanctuary with a 12 month option to extend. The interest rate is 2% over SONIA. The loan from Sanctuary is classified as falling due within one year.

Details of the prior year restatement are included in note 29.

Notes to the Financial Statements

19. Creditors: amounts falling due after more than one year

	2023	2022 as restated
	£'000	£'000
Bank loans (see analysis below)	14,087	311,675
Amounts owed to Group undertakings (loans)	-	238,743
	14,087	550,418
Finance leases	3,024	3,024
Recycled capital grant fund	801	1,871
Deferred grant (see analysis below)	46,406	44,469
	64,318	599,782

Loans due after 1 year

	2023	2022 as restated
Housing loans	-	181,450
Financial instruments at fair value	-	113,727
PFI loan	14,087	16,498
	14,087	311,675

Two of the Association's lenders have agreed to modify their testing of interest cover, which is based on the audited statutory financial statements of the Association. Consequently, there is no event of default that will result in acceleration of loan repayments. Notwithstanding no event of default has occurred, nor was continuing, nor notice of enforcement issued by the lenders, an unconditional right to defer payment solely in accordance with FRS 102 did not exist as at 31 March 2023 due to the modification of the interest calculation to be tested on the final audited financial statements, and so loans from these lenders totalling £276.9m have been presented as due less than one year.

Details of the prior year restatement are included in note 29.

Loans and Bond maturity (excluding PFI loans which are considered separately below)

	2023	2022
	£'000	£'000
Falling due less than one year	542,623	38,540
Falling due within one to two years	-	64,059
Falling due two to five years	-	22,717
Falling due after five years	-	395,916
	542,623	521,232
Fair value adjustments for non-basic financial instruments	22,911	51,227
	565,534	572,459

The bank loans above are drawn from bi-lateral loan facilities of £279m. Bank loans are secured by charges on specific properties and floating charges over the Association's assets and are repayable at variable and average fixed rates of interest up to 6.25%. Loans of £62.5m have been drawn in the year and loans of £44.1m repaid.

On 5 March 2015 the Swan Group arranged a £250m bond with £150m issued immediately and £100m retained. The bond has a coupon rate of 3.625%, matures in 2048 and has a remaining life of 26 years. Security for the bond has been provided in the form of housing assets.

The original £150m bond was issued at discount of £1.6m in 2015. The £60m retained bond issued in July 2016 generated a £3.3m premium on issue. The £25m retained bond issued in March 2020 generated a £4.0m premium on issue. The discount and premiums are being amortised over the remaining life of the bond using the effective average interest rate method.

Notes to the Financial Statements

19. Creditors: amounts falling due after more than one year

	2023	2022
PFI loan:	**£'000**	**£'000**
Falling due less than one year	2,411	3,094
Falling due within one to two years	3,509	2,411
Falling due two to five years	8,835	9,107
Falling due after five years	1,743	4,981
	16,498	19,593

The PFI loan is provided by Royal Bank of Scotland plc and repayable in full by 2028. Interest is payable at 6.21% per annum for the remainder of the facility.

	2023	2022
	£'000	**£'000**
Finance leases – falling due after one year	3,024	3,024

Finance leases represent the capital funding advanced under finance lease arrangements for a total of 35 properties. These entail the funder purchasing the freehold of properties on the open market and leasing them to Swan Housing Association Limited for 25 years from 2001. Stratton Property Holdings Limited has a put option to sell the properties and Swan Housing Association Limited has a call option to purchase the properties at any time, both at historic cost, at which point the liability will be settled.

	2023	2022
Analysis of Recycled Capital Grant Fund:	**£'000**	**£'000**
Balance at 1 April	1,871	1,369
Additions to the fund from sales	168	502
Repayment of grant	(619)	-
Balance at 31 March	1,420	1,871

The amounts included in the Recycled Capital Grant Fund which are outstanding for three or more years that are potentially due for repayment to the Homes England or the Greater London Authority are £618,000 (2022: £nil).

	2023	2022 as restated
Analysis of Deferred Grant:	**£'000**	**£'000**
Balance at 1 April	45,017	62,141
Grant additions during the year	974	1,573
Released to income during the year	(548)	(599)
Grant recycled	-	(130)
Grant repaid	-	(11,040)
Grant transferred	-	(7,450)
Other	1,528	522
Balance at 31 March	46,971	45,017
Amounts to be released within one year	565	548
Amounts to be released in more than one year	46,406	44,469
	46,971	45,017

Details of the prior year restatement are included in note 29.

Notes to the Financial Statements

19. Creditors: amounts falling due after more than one year

	2023	2022 as restated
Analysis of Repayable Grant:	**£'000**	**£'000**
Balance at 1 April	44,145	42,716
Interest recognised on GLA Grant	1,787	1,429
Balance at 31 March	45,932	44,145
Amounts to be released or repaid within one year	45,932	44,145
Amounts to be released in more than one year	-	-
	45,932	44,145

20. Provision for liabilities

Provision for cladding and fire safety	**2023**	**2022**
	£'000	**£'000**
Balance at 1 April	10,213	8,071
Costs charged to provision in the year	(5,049)	(4,769)
Provision recognised in the year	39,898	6,911
Balance at 31 March	45,062	10,213

Provisions relate to a sum of £45.1 million in relation to cladding and fire safety works where the Association has contractual obligations to external parties to rectify the issues. At one site it has been determined that it is virtually certain that rectification costs will be borne by the original contractor and so a reimbursement asset of £5.1 million has been recognised within other debtors (note 17). In all other cases there is the potential to recover a significant proportion of the costs from other parties; however, at the year-end there was not sufficient certainty to enable recognition of assets. Further details are included in note 2 - significant accounting judgements, estimates and assumptions.

Notes to the Financial Statements

21. Share capital and reserves

Share Capital	**2023**	**2022**
	£	**£**
Outstanding at 1 April	18	18
Shares of £1 each allotted issued and fully paid at 31 March	18	18

The shares have limited rights. They carry no entitlement to a dividend, are not repayable and do not carry rights to participate in a winding up. They carry an entitlement to vote at the annual and special meetings of the Association. When shares are cancelled the amount paid up becomes the property of the Association.

Income and expenditure reserve
The income and expenditure reserve includes all current and prior year retained surpluses and losses.

Revaluation reserve
On transition to FRS102 the revaluation reserve was credited with the difference between the fair value of housing properties and the historical cost carrying value. As a result, housing properties carried at revaluation pre transition are carried at deemed cost.

During the year, commercial properties were reclassified from property, plant and equipment to investment property. The reclassification of these properties was as a result of an alignment with Sanctuary Group's accounting policies (see note 2). The full Investment Property portfolio was valued by an independent, qualified valuer at that date at a value of £6,050k. As a result, the revaluation reserve was credited with the difference between the fair value of commercial properties and historical cost carrying value of £4,375k. The commercial property portfolio was subsequently transferred to Investment Property (see note 15a).

22. Commitments

i) Capital Commitments at the end of the financial year for which no provision has been made:

	2023	**2022**
	£'000	**£'000**
Contracted but not provided	6,639	69,402

These will be funded by existing cash and facilities, future sales, and anticipated continuing support of Sanctuary.

ii) future minimum lease payments under non-cancellable operating leases for equipment, motor vehicles and buildings are as follows:

	2023	**2022**
Operating leases which expire:	**£'000**	**£'000**
Within one year	356	358
Between two and five years	729	827
Greater than five years	604	562
	1,689	1,747

23. Contingent liabilities

Swan Housing Association Limited has issued performance bonds in respect of highway and other works which are part of development schemes in Basildon for £1,043k, and a further £649k for development projects elsewhere, which may be retained by the local or water authority in the event of works required under the construction programme not being completed. At present the Association is expecting to complete these works satisfactorily. The bonds expire at various dates, contingent upon practical completion of the works.

Following an incident in 2020 at a development site owned by the Association, where its subsidiary Swan Commercial Services Limited, was acting as principal contractor, there is an ongoing investigation by police and the HSE as well as civil claims from certain effected parties.

In respect of the criminal/HSE investigations there was insufficient progress at 31 March 2023 to deem the likelihood of a penalty probable and at this early stage of investigation, the broad range of possible outcomes means that quantification of any potential penalty is not possible.

Civil claims in relation to the incident have been reflected within the Association's subsidiary Swan Commercial Services Limited, the primary contractor. No amounts have been recognised within the Association (see also accounting judgements in note 2).

24. Analysis of completed property units

At 31 March 2023 housing stock comprised:

	Owned number of units		Managed number of units	
Social housing:	**2023**	**2022**	**2023**	**2022**
General needs	6,547	6,549	-	-
Affordable	342	343	-	-
Shared ownership	238	213	-	-
Sheltered (elderly)	79	79	-	-
Other supported housing	415	415	-	-
NHS keyworker accommodation	906	907	-	-
London Borough of Newham	-	-	1,301	1,301
Total social housing	8,527	8,506	1,301	1,301
Non-social housing:				
Garages	243	243	81	81
Sold to leaseholder with retained freehold	797	795	-	-
Total housing stock	9,567	9,544	1,382	1,382

The total units owned and managed as at 31 March 2023 equates to 10,949 (2022: 10,926). The change in the year relates to units developed less units sold.

25. Related party disclosures

The Association had the following activity with non-regulated entities in the Group.

Entity	Description	Transaction	2023 £'000	2022 £'000
Swan New Homes Limited	Land Property Sales & Management Service	Construction Services	(4,415)	(3,317)
		Management Fee	2,275	2,230
		Interest charged	1,069	2,785
		Total	(1,071)	1,698
Swan Commercial Services Limited	Construction and Management Services	Construction Services	(6,026)	(12,706)
		Charges	197	729
		Management Fee	846	829
		Interest charged	993	1,725
		Total	(3,990)	(9,423)
Swan Housing Capital	Treasury	Bond Interest charged	(8,450)	(8,452)
		Total	(8,450)	(8,452)
Hera Management Services Limited	Property Management Services	Trading Activity	21	23
		Management Fee	21	21
		Interest charged	4	-
		Total	46	44
Vivo Support Limited	Care Services	Trading Activity	2,071	1,697
		Management Fee	22	22
		Interest charged	-	
		Total	2,093	1,719
Total			(11,372)	(14,414)

Swan Housing Association Limited provides management, operational and other services to its subsidiaries under the terms of procedure agreements. Details of the amount charged to the subsidiaries within the Group are shown above under the heading “Management Fee“.

The Association has trading activity with Purfleet Centre Regeneration Limited (PCRL). PCRL is a joint venture held by the Association’s subsidiary Swan New Homes Limited. The principal activity of the joint venture is the regeneration of the centre of Purfleet, Thurrock. During the year ended 31 March 2023 no activity took place between PCRL and the Association and no balances were due between the two entities.

PCRL has a 100% subsidiary entity, PCRL 1A Limited (PCRL 1A). PCRL 1A’s principal activity is the development of phase 1A specifically within the regeneration of the centre of Purfleet, Thurrock. During the year ended 31 March 2023, the Association accrued £6,941k (2022: £3,861k) of costs in relation to the PCRL 1A development to Assets Under Construction and Inventory. At year end, the balance of the scheme held within Assets Under Construction was £7,845k (2022: £2,703k) and within Inventory was £2,957k (2022: £1,158k). The balance due to PCRL1A at year end 31 March 2023 was £612k (2022: £nil).

The Association has an agreement to provide a £15.0m junior loan facility to Porters Place Southend-on-Sea LLP. Porters Place Southend-on-Sea LLP is a joint venture held by the Association’s subsidiary Swan BQ Ltd. The principal activity of the joint venture is that of property development and the provision of new neighbourhood facilities at a development known as the Queensway Estate, Southend. As at 31 March 2023 £3.8m (2022: £3.32m) of the junior loan was drawn with £109k (2022: £52k) interest paid. The loan facility accrues interest and is repayable 12 months following completion of the final residential unit or 31 December 2034, whichever is earlier. The Porters Place investment has been fully provided for, to the sum of £3.8m, in the current year (2022: £nil). The Association intends to continue to seek recovery of balances that have been provided for.

Notes to the Financial Statements

25. Related party disclosures

The Association had the following balances with non-regulated entities in the Group.

Entity	Description	Balance	2023 £'000	2022 £'000
Swan New Homes Limited	Land Property Sales & Management Service	Loan	5,115	1,107
		Trading balance	(1,258)	10,907
		Total	3,857	12,014
Swan Commercial Services Limited	Construction and Management Services	Loan	25,752	-
		Trading balance	13,644	(548)
		Provision for bad / doubtful debt - loan	(25,752)	-
		Provision for bad / doubtful debt – trading	(13,644)	-
		Total	-	(548)
Swan Housing Capital	Treasury	Trading balance	(610)	(610)
		Total	(610)	(610)
Hera Management Services Limited	Property Management Services	Trading balance	1,375	18
		Total	1,375	18
Vivo Support Limited	Care Services	Trading balance	(272)	(175)
		Total	(272)	(175)
Total			4,350	10,699

26. Pensions

Social Housing Pension Scheme ('SHPS')

The Association participates in SHPS, a multi-employer scheme which provides benefits to non-associated participating employers. The scheme is a defined benefit pension scheme in the UK. The scheme is classified as a 'last-man standing arrangement'. Therefore, the Association is potentially liable for other participating employers' obligations if those employers are unable to meet their share of the scheme deficit following withdrawal from the scheme. Participating employers are legally required to meet their share of the scheme deficit on an annuity purchase basis on withdrawal from the scheme.

The most recent formal actuarial valuation was completed as at 30 September 2020 and rolled forward, allowing for the different financial assumptions required under FRS102, to 31 March 2023 by a qualified independent actuary.

Management's estimate of the defined benefit obligation is based on a number of critical underlying assumptions such as standard rates of inflation, mortality, discount rate and anticipation of future salary increases. Variation in these assumptions may significantly impact the liability and the annual defined benefit expenses. The calculation of the obligation also incorporates the impact of the various High Court rulings and GMP rulings where appropriate.

We have been notified by the Trustee of the Scheme that it has performed a review of the changes made to the Scheme's benefits over the years and the result is that there is uncertainty surrounding some of these changes. The Trustee has been advised to seek clarification from the Court on these items. This process is ongoing and the matter is unlikely to be resolved before the end of 2024 at the earliest. It is recognised that this could potentially impact the value of Scheme liabilities, but until Court directions are received, it is not possible to calculate the impact of this issue, particularly on an individual employer basis, with any accuracy at this time. No adjustment has been made in these financial statements in respect of this potential issue.

The net defined benefit liability at the year ended 31 March 2023 is £3.6m (2022: £2.5m).

Notes to the Financial Statements

26. Pensions

PRESENT VALUES OF DEFINED BENEFIT OBLIGATION, FAIR VALUE OF ASSETS AND DEFINED BENEFIT LIABILITY

	2023 £'000	2022 £'000
Fair value of plan assets	15,318	24,982
Present value of defined benefit obligation	(18,912)	(27,445)
Defined benefit liability to be recognised	**(3,594)**	**(2,463)**

RECONCILIATION OF OPENING AND CLOSING BALANCES OF THE FAIR VALUE OF PLAN ASSETS

	2023 £'000	2022 £'000
Fair value of plan assets at the start of the year	24,982	21,524
Interest income	699	481
Experience on plan assets (excluding amounts included in interest income) (loss) / gain	(10,691)	2,671
Contributions by the employer	827	697
Benefits paid and expenses	(499)	(391)
Fair value of plan assets at the end of the year	**15,318**	**24,982**

RECONCILIATION OF OPENING AND CLOSING BALANCES OF THE DEFINED BENEFIT OBLIGATION

	2023 £'000	2022 £'000
Defined benefit obligation at the start of the year	27,445	28,265
Expenses	23	23
Interest expense	756	623
Actuarial loss due to scheme experience	337	1,828
Actuarial gains due to changes in demographic assumptions	(41)	(413)
Actuarial gains due to changes in financial assumptions	(9,109)	(2,490)
Benefits paid and expenses	(499)	(391)
Defined benefit obligation at the end of the year	**18,912**	**27,445**

DEFINED BENEFIT COSTS RECOGNISED IN STATEMENT OF COMPREHENSIVE INCOME (SOCI)

	2023 £'000	2022 £'000
Expenses	23	23
Net interest	57	142
Defined benefit costs recognised in statement of comprehensive income (SOCI)	**80**	**165**

DEFINED BENEFIT COSTS RECOGNISED IN OTHER COMPREHENSIVE INCOME

	2023 £'000	2022 £'000
Experience on plan assets (excluding amounts included in net interest cost) – (loss) / gain	(10,691)	2,671
Experience gains and losses arising on the plan liabilities – (loss)	(337)	(1,828)
Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation – gain	41	413
Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation – gain	9,109	2,490
Total amount recognised in other comprehensive income – (loss) / gain	**(1,878)**	**3,746**

Notes to the Financial Statements

26. Pensions

ASSETS

	2023	2022
	£'000	£'000
Global Equity	286	4,794
Absolute Return	166	1,002
Distressed Opportunities	464	894
Credit Relative Value	578	830
Alternative Risk Premia	28	824
Fund of Hedge Funds	-	-
Emerging Markets Debt	82	727
Risk Sharing	1,128	823
Insurance-Linked Securities	387	582
Property	659	675
Infrastructure	1,750	1,780
Private Debt	682	640
Opportunistic Liquid Credit	655	839
High Yield	54	215
Opportunistic Credit	1	89
Cash	110	85
Corporate Bond Fund	-	1,667
Liquid Credit	-	-
Long Lease Property	462	643
Secured Income	703	931
Liability Driven Investment	7,055	6,971
Currency Hedging	29	(98)
Net Current Assets	39	69
Total assets	**15,318**	**24,982**

KEY ASSUMPTIONS

	2023 % per annum	2022 % per annum
Discount Rate	4.70	2.78
Inflation (RPI)	3.30	3.44
Inflation (CPI)	2.90	3.13
Salary Growth	2.90	4.13
Allowance for commutation of pension for cash at retirement	75% of maximum allowance	75% of maximum allowance

The mortality assumptions adopted at 31 March 2023 imply the following life expectancies:

	Life expectancy at age 65 (years) 2023	Life expectancy at age 65 (years) 2022
Male retiring in 2023	21.0	21.1
Female retiring in 2023	23.4	23.7
Male retiring in 2043	22.2	22.4
Female retiring in 2043	24.9	25.2

Notes to the Financial Statements

27. Financial assets and liabilities

Treasury strategy is explained in the Strategic Report and includes the approach to interest rate and counterparty risk management (see page 9).

Financial assets
Financial assets are sterling denominated and include:

	2023 £'000	2022 as restated £'000
Loans to subsidiaries and Joint Ventures (note 15b)	5,115	4,432
Short term Debtors (note 17a)	15,265	22,444
Long term Debtors (note 17b)	16,306	18,966
Cash at bank and in hand	15,267	49,824
Total financial assets	51,953	95,666

Comparative figures for 2022 have been restated to reflect a review of the items included. Financial assets include loans to subsidiaries and joint ventures, all short term debtors (with the exception of prepayments and accrued income), long term debtors and cash balances held at bank and in hand. Changes to the comparative information within this note do not have an impact on amounts recognised within the financial statements.

Financial liabilities excluding trade creditors – interest rate risk profile
The Association's financial liabilities are sterling denominated. After taking into account various interest rate swaps, the interest rate profile of the Association's financial liabilities at 31 March was:

	2023 £'000	2022 as restated £'000
Fixed rate	401,498	404,592
RPI linked	12,500	12,500
Floating rate	141,449	119,989
Total borrowings*	555,447	537,081

*The above figures exclude finance leases and Mark to Market (MtM) adjustments on non-basic financial instruments.

Comparative figures for 2022 have been restated to reflect the true value of financial liabilities with a fixed rate interest profile. The previous financial statements stated that total value with a fixed rate interest profile was £408,335. This has been restated to £404,592.

The floating rate financial liabilities comprise bank loans that bear interest at rates based on SONIA. Changes to contracts as a direct consequence of IBOR reform are on an economically equivalent basis with FRS 102 11.19 applied, meaning there is no immediate gain or loss arising.

The fixed rate financial liabilities have a weighted average interest rate of 4.55% (2022: 4.15%) and weighted average period for which it is fixed is 18 years (2022: 18 years).

The debt maturity profile is shown in note 19.

Borrowing facilities
The Association has undrawn borrowing facilities. The undrawn facilities available at 31 March in respect of which all conditions precedent had been met were as follows:

	2023 £'000	2022 £'000
Expiring in less than 2 years	-	-
Expiring in more than 2 years	20,000	30,000

Notes to the Financial Statements

27. Financial assets and liabilities

Fair value of financial assets and liabilities

	Book value 2023	Book value 2022 as restated	Fair value 2023	Fair value 2022 as restated
	£'000	£'000	£'000	£'000
Primary financial instruments held or issued to finance the Association's operations				
Financial assets	51,953	95,666	51,953	95,666
Current portion of long term borrowing at amortised cost	51,470	41,634	51,470	41,634
Long term borrowings at fair value through statement of comprehensive income	85,411	113,727	85,411	113,727
Long term borrowings at amortised cost*	444,501	435,971	452,938	465,126

Comparative figures for 2022 have been restated to reflect the true value of current asset trade investments and long term borrowings at amortised cost. The previous financial statements stated current asset trade investments were £84,306k (a change of £11,084k), book value of long term borrowings was £439,714k (a change of £3,743k) and fair value of long term borrowings £468,869 (a change of £3,743k).

The fair value of long-term borrowings includes the mark to market position of the embedded interest rate swaps. There is no requirement to post collateral against the out of the money mark to market positions.

*In this context, borrowings relating to bank loans have not been presented as short-term in line with note 19, since the required presentation under FRS 102 has no bearing on the expected timing of cash flows.

28. Post balance sheet events

There are no post balance sheet events which the board have determined to require disclosure in these financial statements.

29. Prior period adjustment

Interest – Greater London Authority (GLA) grant

The accounts have been restated as at 31 March 2022 to reflect the fact that certain grants have been determined as repayable as at that date, together with accrued interest. A Strategic Partnership programme between the Association and GLA had a contractual milestone for start on site by 31 March 2022. Failure to meet this deadline meant any unallocated grant on un-started projects would become repayable on demand and interest, backdated to an earlier date, would be incurred. There are also a small level of repayable grants from other funders.

The adjustment results in a reclassification of grant balances, totalling £42.7m, from deferred grant within creditors falling due after more than one year, to repayable grants within creditors falling due within one year. Interest incurred to 31 March 2022 of £1.4m has been included on top of this balance and has been recognised within interest payable in the Income Statement. The effect is an increase of deficit after taxation reported from £169.6m to £171.0m for year ended 31 March 2022 and the impact on net assets in the prior year is a reduction from £100.1m as previously stated to £98.7m.