Financial Statements
for the year ended
31 March 2022

Paragon Asra
PA Housing

Paragon Asra Housing Limited
Community Benefit Society Registration Number 7536
Homes an Communities Agency Registration Number 4849

2021/22 *Highlights*

Fixed rate interest cover
80%

Liquidity
£362m

Community investment
£586,000

Properties with EPC rating A-C
63%

Operating margin (all activities)
28%

Benefit gains for customers
£4.3m

Turnover
£169m

New homes sold
127

Housing assets
£1.95bn

Borrowing
£994m

Rent arrears
4.0%

New homes built
317

Social housing cost per unit
£5,412

Homes owned and/or managed
23,292

Contents

Board members, Executive and Advisors

Group Chair

Anne Turner (appointed 26/05/21)

Hattie Llewelyn–Davies OBE (resigned 23/05/21)

Other Members

Stephen Amos

Andrew Carrington

Chris Cheshire (resigned 24/05/21)

Kim Francis

Kathleen Harris Leighton

Rahul Jaitly

Curtis Juman

Dilip Kavi

Katherine Lyons

Seetle Patel (designate Board member – resigned 31/08/21)

Company Secretary

Jacqueline Gregory (appointed 22/09/22)
John Stemp (resigned 21/09/22)

Executive Team

Dilip Kavi - Chief Executive

Simon Hatchman - Executive Director – Resources

Chris Whelan - Executive Director of Business Development and Sales

Ian Watts - Executive Director of Customer Services

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Auditor

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Birmingham
B4 6GH

Solicitor

Devonshires Solicitors LLP
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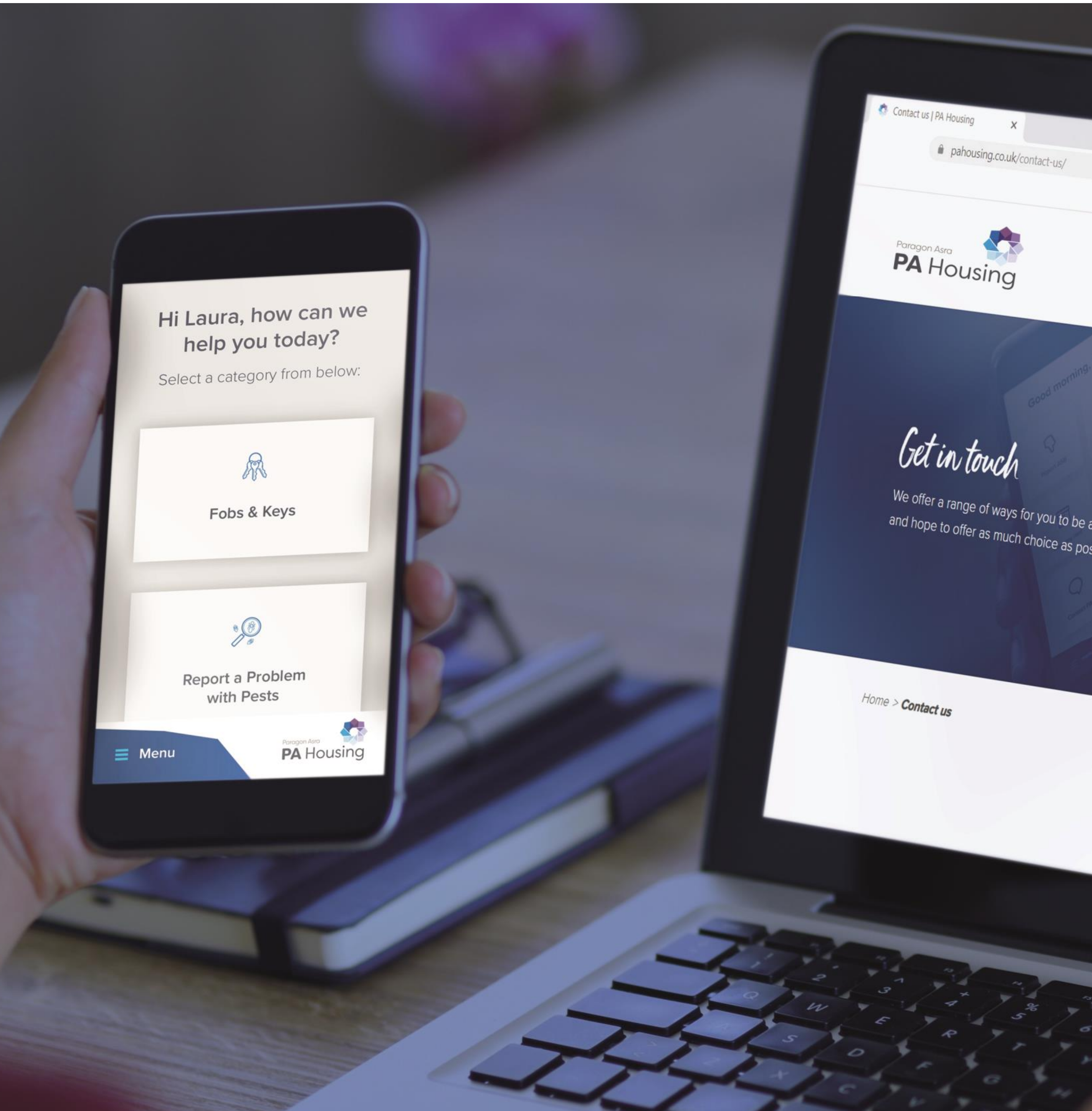


Chair and Chief Executive Statements

Chair's statement

Welcome to our 2022 financial statements. Covid-19 continued to heavily influence life during the year being reported on and our thoughts remain with all who have been affected by the virus. Day to day life has now though broadly returned to normal, and at PA we have been working to ensure that our customer services are back on track after the disruption of the previous year.

The quality of our service delivery is measured by the feedback we receive from our residents. This has shown us that we have much more to do. Overall satisfaction with our services is much lower than we want it to be, ending the financial year at 62%. Although our residents give us higher ratings when they have received individual transactions from us such as repairs, we fully recognise that we must work to achieve a consistent level of service in all that we do, and to make it easy for our residents to seek help from us when they need it.

Recognising the challenge ahead of us, we engaged support from the established national tenant engagement experts (Tpas) to review the feedback our residents have been giving us. This helped us to better understand where and how our services need to improve, and we are now working to put in place the actions and recommendations arising from the Tpas review. This has included additional investment in specialist roles to drive this agenda forward more quickly.

All this work feeds into the upcoming changes to consumer regulation within the sector. We welcome the enhanced scrutiny of our services that this will entail, and we are determined to make sure that we are achieving high standards. Although the overall picture on our service delivery is not where we want it to be, we have a good understanding of the main causal factors and we are working hard to improve.

Some aspects of our work with residents did enjoy a successful year. We put effort into improving our complaints service so that residents who felt the need to raise issues were given a meaningful response and resolution within a reasonable time frame, and by the end of the year over 90% of complaints were being responded to within our target timescales. Turning to rent collection, our rent arrears percentage steadily reduced throughout the year. This was supported by the work of our Tenancy Sustainment Team which assisted over 2,000 of our residents who were facing challenges with paying their rent. Extra investment in our contact centre hubs paid off, with an increased proportion of telephone calls from residents being answered. Our emergency repairs service maintained high standards (although non-urgent repairs faced challenges which we are working with our contractors to resolve), and we delivered an increased programme of planned maintenance into our residents' homes.

Keeping our homes safe remains a top priority for us, and during the year the Board closely monitored our progress with delivering the various statutory building safety testing and inspection programmes. On fire safety in particular, survey work on our blocks of flats has revealed a small number of estates where the original construction did not comply with the necessary standards. We want to complete the remediation works as quickly as possible so that our residents can continue to feel safe, and in the meantime, we have put in place additional safety and security measures. Our bank lenders have been extremely supportive in accommodating this extra investment, and we are very grateful for their work with us on this important project.

Building new social homes is one of our headline Corporate Plan objectives. We were able to continue our investment towards the target of delivering 6,000 new homes in the 10 years to 2030, and although the number of homes completed in the year was below target we have a number of projects on site and in the pipeline. This is supported by our ongoing work to maintain appropriate levels of liquidity, with our successful £400m bond issue in May 2021 being a landmark transaction for PA. Our growth ambitions were also supported through the allocation of nearly £300m of combined grant funding from the Greater London Authority and Homes England, the latter via our strategic partnership with Accent Housing Group. This funding has enabled us to change the tenure mix of our new build programme, enabling greater emphasis on social rent as our Board's preferred tenure. Our latest financial plan allows for 34% of our 6,000 new homes to be built for social rent or London equivalent tenures.

As 2022 progresses, the UK is grappling with a cost of living crisis which will significantly impact our residents, our employees and our business. This is necessitating some challenging decisions – as a Board we want to do the right thing by our residents where we can, and we will continue to support our employees. However, we must also ensure ongoing financial resilience at a time when our operating costs face severe upward pressure and our rental income faces restrictions as we seek to mitigate the impact on residents. It seems inevitable that in the short term at least, financial metrics throughout our housing sector will be compromised. Our job is to steer as steady a path as possible through these headwinds, continuing to draw on our purpose and values as an organisation.

These factors came into play during PA's recent regulatory In-Depth Assessment, which concluded in early 2022. The process culminated in a regrade from V1 to V2 for financial viability, with our governance grading remaining at G1. Key factors in the regulator's decision on financial viability related to our growth programme including shared ownership sales, additional fire safety expenditure, and levels of investment in our homes. We fully accept the outcome and we have taken some valuable learning points from the feedback the Regulator provided.

I took on the role of Interim Chair in May 2021, and our new permanent Chair Suki Kalirai has now been appointed. He will start with PA in October 2022 and I will work closely with him to ensure a smooth handover. The past year has been challenging and rewarding in equal measure. I am grateful for the support of my fellow Board members, the executive team and PA's wider staff base. We know we have more that we need to do but we are determined to continue to provide quality homes and services to our current and future residents.

Anne Turner
Group Chair

Chief Executive's statement

It has been another busy year at PA Housing and although we have made good progress in a number of areas we must redouble our efforts to provide brilliant services to our residents.

This is at the forefront of my mind and as Chief Executive I am responsible to the Board for our customer service performance. We have been told loud and clear by our residents that we must get better – the message is understood, and I am working with my team to implement a range of improvements. This work includes changes to our repairs services, simplification of our internal processes so that things get done more quickly, more resources to respond to enquiries from residents by phone or email (including complaints), improvements to our My PA app for automated transactions, and modernisation of our resident involvement and consultation approach so that the residents' voice is stronger.

We are also acutely aware of the financial pressures many of our residents are facing due to the cost of living crisis. We have already put in place various measures to assist, including a cap on service charges with PA bearing some of the costs which could otherwise be passed on to residents, an energy support fund to assist with higher utilities bills, and tenancy sustainment work which secured over £4m in additional benefits payments for residents in the 2021/22 financial year. PA has also never sought to pass on to residents any costs relating to fire safety remediation projects, including the costs of 24-hour waking watch services to keep our residents safe.

These and other measures demonstrate that PA works to do the right thing by our residents, but we know that a strong and trusting relationship will only be possible if we can also show that our day-to-day services are at a consistently high standard. This is our number one priority for the year ahead and beyond. We will not be happy until our residents tell us that they are consistently happy with the services we provide.

In other areas we are making good headway. We are investing more in both existing and new homes than at any time since PA came into being in 2017. For our existing properties this means that more residents are having their homes upgraded and modernised, whereas on the new build side it means PA is playing its part in meeting the acute shortage in genuinely affordable housing within our core areas of operation. This has included increasing new build activity in the East Midlands, an important link to PA's heritage and one our Board has been keen to make happen.

Going forward, this investment will also incorporate our plans to transition PA's homes towards net-zero carbon status, in line with the government's long-term goal. Our financial plans include provision for this expenditure and demonstrate the resilience we need to deliver this investment on all fronts. We must though recognise that the UK economy faces some acute challenges relating to escalating living costs and recessionary pressures. The social housing sector is not immune to these challenges, with costs increasing more quickly than income and heightened risk around financial performance. We will continue to manage our financial resources very carefully, ensuring that we can continue to deliver on the things which really matter to our residents. This inevitably means that the sector will be reporting somewhat weakened financial metrics for the time being.

In our 2021 annual report I mentioned the importance of equality, diversity and inclusion ('EDI') at PA. During 2021/22 we moved this work onto the next level via our first EDI Strategy. This sets out an ambitious vision and programme of work across four pillars:

- Using EDI as a driver for investment in our residents and communities
- Ensuring that PA is a vibrant and inclusive place to work where everyone can reach their full potential
- Harnessing EDI as a positive force behind our business decisions and ways of working
- Prioritising and influencing partnerships with others who share a similar EDI vision and ethos

The initial strategy has a three-year time horizon and in the year ahead we will be instigating a number of workstreams to bring it to life. EDI is absolutely fundamental to PA's values as an organisation - we strongly believe that all organisations should be actively working to advance their approach in this crucial area, and we want to place PA at the forefront of this agenda. If we do it well, then our residents should also see significant improvements to the services they receive from us.

This takes me back to where I started – all the work we do must be geared towards making sure our residents are happy with the services and homes that PA provides. This is what drives and motivates me, and I will continue working with our Board to ensure that all PA colleagues maintain the same focus.

Although we have future challenges to meet, everyone at PA has worked hard during the year to help us along the journey and I appreciate the efforts of my colleagues. I am also grateful for the continued support and guidance of our Board members, and I know that they will continue to push me so that we can collectively meet our residents' expectations.

Dilip Kavi
Chief Executive

Strategic Report

Strategic Report: Our Strategy

About Us

PA Housing ('PA') is a leading provider of social housing with over 23,000 homes in London, Surrey and the Midlands and operating from offices in London, Walton-on-Thames and Leicester. These office locations reflect our main concentration of residents and their homes.

Our purpose is to deliver great services to our residents and to increase the provision of social housing in our areas of operation.

Our vision is to connect with our customers in every community we serve, providing quality homes and services and creating places where people thrive and are proud to live.

PA has a proud heritage of providing services for minority groups in our communities. We are energised by the heritage of our founding organisations we and continue to be a prominent housing provider to Black and Minority Ethnic residents, placing us at the forefront of equality, diversity, and inclusion within the housing sector. We have a truly diverse resident and colleague base and are committed to ensuring that diversity in its broadest sense is fully represented throughout our organisation.

Our Operating Model

We are a community benefit society and our surplus is reinvested back into providing homes and services for our residents. Our core activity is that of a landlord of social and affordable rented homes and the provision of low-cost affordable housing through shared ownership. We provide management services to over 1,500 leaseholders, we offer a range of independent living services for older residents and we own and manage a small number of market rented homes. During the year we have reviewed our commitment to the provision of supported housing, where by and large services are delivered through specialist external agencies and PA acts as the property landlord. Our Board has agreed that we will strategically withdraw from this service as it is not a core part of our operating model and other specialist providers will be better placed to ensure ongoing provision of high-quality services.

We recognise however that we are much more than a landlord and a provider of safe and good quality homes. We want to build great communities and neighbourhoods and support our residents to sustain their tenancies.

Our ambition is to continue to grow and provide homes to those in need. This is through a combination of building and acquiring new homes, the redevelopment and regeneration of neighbourhoods and the acquisition of existing homes from other providers where these complement our existing stock.

We work together with our stakeholders to make a difference to our residents and communities. We are dedicated to finding innovative ways to involve our residents, while empowering our people to do whatever it takes to deliver services we can be proud of.

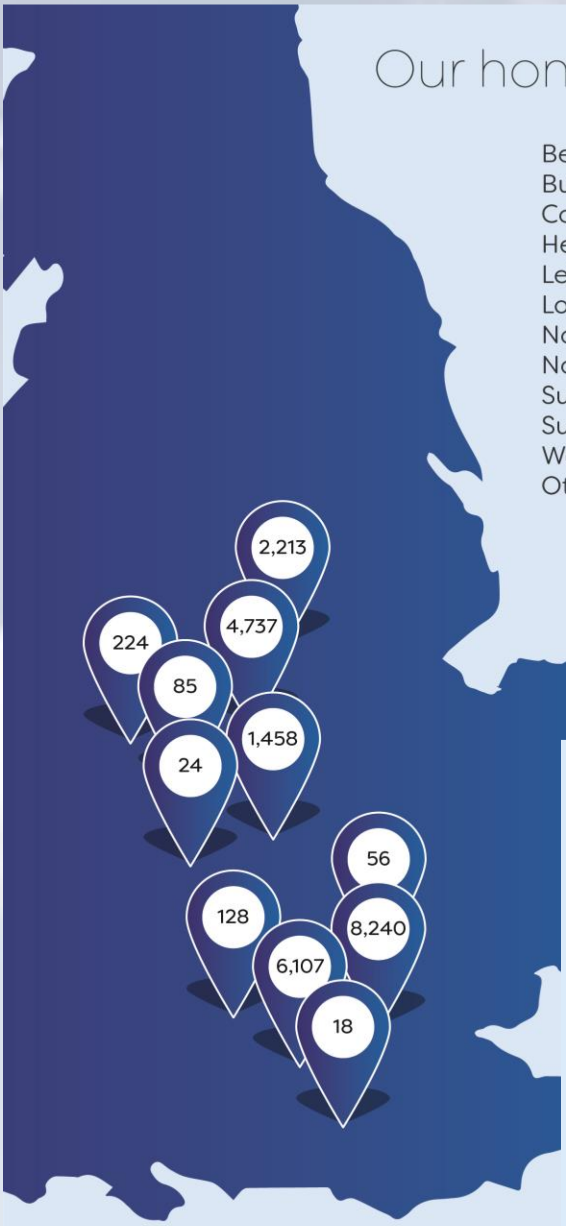
PA is committed to the principles of ESG (Environmental, Social and Governance) and our services are naturally aligned to these themes. We want to achieve high ESG standards and have developed an ESG framework to support this.

Delivering our Corporate Plan

Our approach is underpinned by six clear headline objectives which are the basis of our Corporate Plan, each with measurable supporting goals:

- Providing great services to customers.
- Positive relationships in our neighbourhoods.
- Sustainability strategy to deliver net zero-carbon before 2050.
- Increase construction of affordable and social homes
- Maximise our capacity to deliver.
- Our people – delivering the plan.

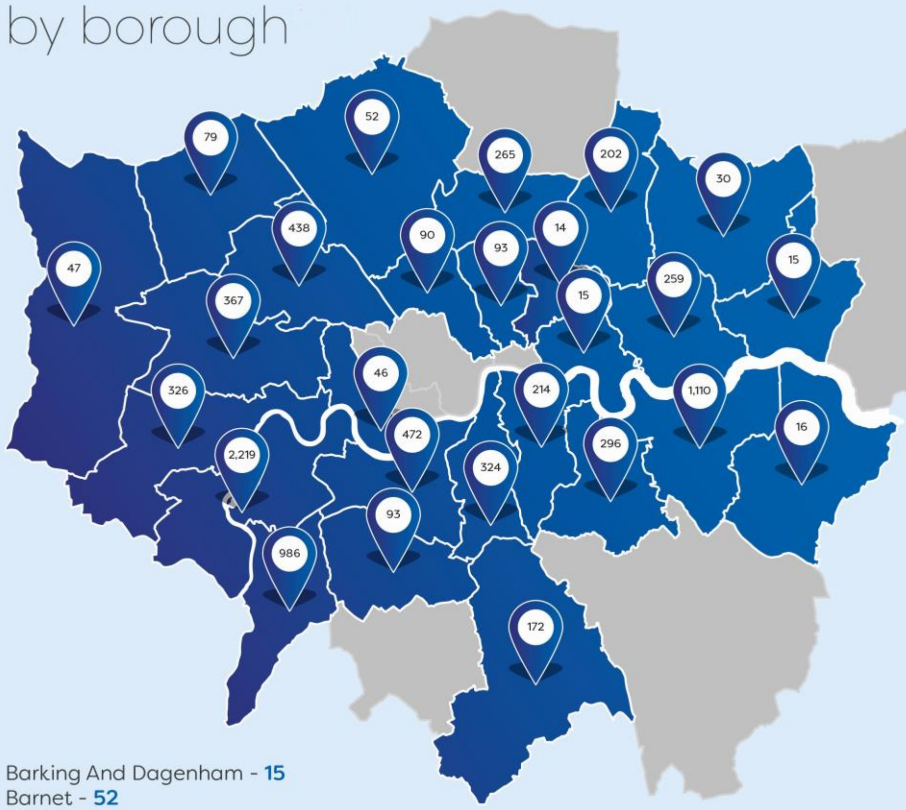
Our homes by county



Berkshire - **128**
Buckinghamshire - **24**
Coventry - **85**
Hertfordshire - **56**
Leicestershire - **4,737**
London - **8,240**
Northamptonshire - **1,458**
Nottinghamshire - **2,213**
Surrey - **6,107**
Sussex - **18**
Warwickshire - **224**
Other - **2**

Total:
23,292

Our London homes by borough



Barking And Dagenham - **15**
Barnet - **52**
Bexley - **16**
Brent - **438**
Camden - **90**
Croydon - **172**
Ealing - **367**
Greenwich - **1,110**
Hackney - **14**
Hammersmith And Fulham - **46**
Haringey - **265**
Harrow - **79**
Hillingdon - **47**
Hounslow - **326**
Islington - **93**
Kingston upon Thames - **986**
Lambeth - **324**
Lewisham - **296**
Merton - **93**
Newham - **259**
Redbridge - **30**
Richmond upon Thames - **2,219**
Southwark - **214**
Tower Hamlets - **15**
Waltham Forest - **202**
Wandsworth - **472**

Total:
8,240

Strategic Report: Strategic Risks

Key risks and how we manage them

PA manages the risks and opportunities associated with the delivery of its strategic objectives through a risk management framework. This includes the approach to risk appetite, monitoring of existing and emerging risks, and decision making through delegated authorities to ensure these strike a balance between risk and reward.

The approach to risk management links to our budgeting and financial planning. This ensures the financial impact of risks is robustly tested in the light of our financial viability.

Risk management

Risk is managed through the delegation of authority from the Board to the Audit and Risk Committee, executive directors and senior managers. Our first line of defence is to ensure robust controls and processes are in place which are owned and managed by executives and senior managers responsible for business activities, together with our financial controls. The Audit and Risk Committee is responsible for oversight of risk and maintaining the Risk Register. This is supported by our Internal Audit function to provide assurance that the controls in place are effective in mitigating risk. The Committee also receives and considers the external audit recommendations report. Ultimately the Board is responsible for risk including the approval of the risk management framework, risk appetite, associated policies, and financial regulations. The Board will also review the corporate Risk Register at every meeting.

Risk register and risk appetite

The PA Risk Register identifies existing and emerging risks and captures the assessment of each risk together with impact and controls in place to mitigate against the risk. The register is regularly reviewed and updated by the Audit and Risk Committee.

The approach to risk appetite balances the level of risk the Board is prepared to take, with the rewards in the delivery of our strategic objectives and potential opportunities. Our risk appetite is not necessarily static. The Board may vary the amount of risk which it is prepared to take depending on the circumstances and a particular risk may change over time. The Board reviews its appetite across a range of areas in order to determine the specific nature and extent of significant risks that PA Housing is and is not prepared to take in the achievement of its strategic objectives.

Early warning triggers

We have identified a range of indicators which may provide early warning that a significant risk scenario is starting to crystallise. These indicators are reported to every Audit and Risk Committee meeting, assessing whether a trigger point has been reached and / or if the future outlook suggests an increasingly risky environment.

The process allows executive staff and Board members to consider if any mitigating actions in response to an emerging risk scenario may need to be invoked.

A number of potential mitigating actions have been evaluated and quantified, and the Board has established a mitigations matrix which sets out the prioritisation of these actions based on a combination of scale of impact and ease of implementation. Examples include:

- Scaling back on new development to preserve cash (priority 1)
- Small-scale disposal of high value assets to generate cash (priority 2)
- Reduction in scale of non-essential services (e.g. community investment programmes) to reduce operating expenditure (priority 3)

Headline risk	Risk detail and impact	Monitoring and mitigation	Risk triggers
Landlord health and safety compliance	Overdue safety tests and other key health and safety requirements leading to risk of unsafe homes, non-compliant position, and potential injury. Additional costs (e.g. waking watch) and resources required impacting on financial plan.	■ Monitoring number of homes without current safety certifications ■ Ongoing Board scrutiny of certifications and other property compliance requirements ■ Proactive engagement with residents on safety and compliance ■ Plans for tall building fire safety remediation ■ Robust contract management	■ Failure to meet compliance performance targets ■ Increase in non-access ■ Delayed legal processes ■ Contractor staffing shortages / performance
Resident satisfaction	Reduced satisfaction in services leading to reputational damage and regulatory scrutiny. Current satisfaction ratings are below target. Complaint volumes remain high as seen more widely across the sector but performance in managing these is improving.	■ Behavioural insights programme ■ Board scrutiny of performance ■ Resident engagement ■ 'We are PA' action plan ■ Complaints lessons learnt ■ Increased Hub resources ■ Launching new tenant satisfaction measures	■ Increasing complaints ■ Ombudsman reports ■ Fall in transactional satisfaction ■ Disrepair cases ■ Enforcement notices ■ Fall in key performance indicators e.g.– rents / relets / repairs

Strategic Report: Strategic Risks

Headline risk	Risk detail and impact	Monitoring and mitigation	Risk triggers
Empty properties	Increase in empty properties resulting in rent losses and failure to achieve corporate targets. Increased empty property turnaround time impacting on ability to provide homes to new residents. Sales delays and unsold new homes.	■ Board scrutiny of performance ■ Improvement action plans ■ Additional back up contracts ■ Customer journey mapping	■ Vacancy rate increases ■ Turnaround times ■ Housing market downturn ■ Contractor performance
Cyber security and Data Protection	Service disruption and reputational damage due to cyber crime. Remote working practices result in data loss/data breach. Increased risk of unauthorised access to PA systems.	■ Cyber security strategy and action plan ■ Penetration testing ■ Anti-virus filters / firewalls ■ Disaster recovery system ■ Cyber Essentials Plus accreditation ■ IT policies, physical security access measures ■ Internal security reviews ■ Staff training	■ Frequency of unsuccessful malware / virus attack ■ System downtime ■ Increasing subject access requests
Development	Economic environment impacts on delivery of development programme. Increasing work in progress and contractor insolvency. Impact on delivery of our development ambitions and provision of new homes to residents.	■ Financial monitoring ■ Monitoring success rate of new bids ■ Programme of pipeline schemes monitored by Board ■ Contractor financial diligence ■ Viability of supply chain continually assessed	■ Increased time on site ■ Prospects for land bank sites reduced ■ Change in contractor solvency status ■ Unit cost increases
Sales	Interest in sales / ability to secure mortgages reduces leading to lower surpluses from sale of new homes, high number of unsold properties and lost revenue from rental element of new homes for sale.	■ Structure deals that enable switch of tenure should sales become problematic ■ Ongoing market review ■ Enhanced digital marketing ■ Sales incentives	■ Fall in valuations / sales prices achieved ■ Reduced interest and sales pipeline. ■ Interest rate rises / key economic indicators ■ Reduced availability of mortgages ■ Increasing number of applicants failing affordability checks
Governance	Recruitment of Chair / Members. Advent of consumer regulation and the impact of the Housing Ombudsman reports.	■ Recruitment underway with external support ■ Implementing new tenant satisfaction measures early ■ Board and Committee scrutiny ■ IDA confirmed G1 rating ■ Self-assessment	■ Ombudsman findings ■ Regulatory engagement
Staffing matters including EDI	Failing to recognise EDI as an essential tool for running the business successfully. Employee satisfaction, brand management and attracting talent. Colleague wellbeing, retention, reducing morale and leavers.	■ EDI Strategy and action plan ■ EDI working group ■ People Strategy and action plan ■ Talent management and succession planning ■ Development programmes ■ Wellbeing group ■ Quarterly staff surveys	■ Fall in key staffing indicators ■ Reducing satisfaction ■ Leavers and vacant posts ■ Time taken to successfully recruit
Sustainability and carbon neutral agenda	Failing to meet challenging targets set in sustainability strategy leading to financial and reputational impact.	■ Sustainability Strategy, action plan and working group ■ Sustainability working group ■ ESG reporting ■ Significant business plan funding commitment ■ Asset Management Strategy	■ EPC ratings identify significant investment ■ Programme delays

Strategic Report: Our Performance

Our performance

Our Corporate Plan puts our residents, their homes, and the neighbourhoods in which they live at the heart of everything we do.

We have listened to feedback from our residents and it is clear that we still need to do more to improve our overall performance and meet their expectations. We measure satisfaction across all our services which gives us valuable insight into what our residents want from us. This enables us to take the necessary action to make improvements in the way we deliver our services.

The commitment of our team has enabled us to make a difference to many of our residents' lives. Our social purpose and the wider work we do in our communities contributes to making the areas in which we operate stronger and safer for everyone. The diversity of our colleagues and residents puts PA in an enviable position where we understand the need to include everyone in what we do. Whilst improvement is key to our long-term success, we also track our achievements and the positive contributions we have made despite the challenges we all face. Highlights over the past year include as follows:

- We have improved the quality of many of our residents' homes through our planned maintenance and improvements programme of investment.
- We have provided over 300 new homes to those in need.
- We have invested in our local communities, including additional support in areas such as financial inclusion, digital literacy, and employment skills and opportunities.
- We have provided direct financial support to our residents living in homes that do not meet our energy efficiency standards, through the provision of energy cost vouchers
- We have shared the pain of prices rises where we can to protect our residents against the cost of living crisis, including capping both our service charges and our shared ownership rents at levels below maximum permissible limits.
- We have ensured our buildings provide safe and secure places for our residents to live, and we have absorbed all of the costs associated with necessary fire safety improvements.
- We have installed free Wi-Fi into the communal areas of our independent living estates.
- We have invested in our teams to improve the quality of services where needed, including to ensure that residents who call us for help are spoken to more quickly.
- We have improved the way we handle complaints.
- We have listened to our residents and changed the way we do things based on their feedback.
- We have helped over 2,100 residents sustain their tenancy.
- We have improved how we communicate with residents.

The proposed new consumer standards

We welcome the Government social housing white paper "The charter for social housing residents" and the proposed changes to the consumer regulation of social housing. Although the new consumer standards are not yet implemented we are actively looking at ways we can improve our services and our engagement with residents.

The Regulator of Social Housing ('the Regulator') has set out its vision for landlords in its approach to reshaping consumer regulation. This includes: Ensuring landlords maintain tenants' homes so they are safe and of a decent standard; that landlords provide a quality service and that when things go wrong complaints are handled effectively and things put right; that landlords demonstrate the diverse needs of the communities that they serve and that their services reflect that. The proposed consumer standards align with our own vision and we wholeheartedly welcome accountability to the Regulator.

The Regulator has set out a number of themes which will be used to structure and develop the new consumer standards:

- Safety
- Quality
- Neighbourhoods
- Transparency
- Engagement and accountability
- Tenancy

Strategic Report: Safety

Safety of our residents in their homes

This remains a top priority for PA and we commit significant resource and financial capacity to ensure that all homes are safe to live in.

Our building safety programme monitors the risks and improvements required to our homes. We work with our residents to ensure their homes meet the latest compliance standards and where remediation works are required, we keep them informed at each stage of the process. We have continued to focus on undertaking assessments of our residents' homes and our Board closely monitors our building safety performance. This includes day-to-day compliance with health and safety legislation and progress on significant remediation projects.

Our investment in safety during 2021/22 included £6.6m for risk assessments, compliance, servicing, and regular health and safety checks. Where remediation works were required, we invested £2.6m in works to our buildings and a further £2.0m in the replacement of building components. Costs for 24 hour waking watch services and similar fire cover arrangements were £4.3m. None of these costs are passed on to residents.

Compliance

Fire Safety

As at 31 March 2022 14 (of 1,493) fire risk assessments were outstanding. These were completed in April 2022.

There were no critical actions outstanding. Five high risk tasks were outstanding which were completed in April 2022. Remaining actions are all low and medium risk and have been assigned to our fire improvement works team for inclusion in the 2022/23 building safety programme. During the year over 6,500 actions have been completed, this includes installing new fire doors, fire alarms and compartmentation works.

PA has six blocks of flats where we have identified that significant fire remediation works are required. One project was completed in 2021/22; this included compartmentation remediation and replacement fire doors and equipment. Works to another block commenced early in 2022/23, including remediation of the external render, insulation, and cavity barriers. Progress is being made on the remediation works for the other four blocks although the position on these is quite complex. We are working with original contractors and external experts to ensure we have assessed and agreed the best course of action for these schemes. In the meantime, we have carried out interim works and have other safety measures in place to ensure the safety of our residents. This includes interim fire stopping measures and installation of fire alarms and other equipment. Where required we also retain 24 hour waking watch and fire cover with full weekly inspections.

Costs to complete all works have been factored into our business plan.

Gas Safety

At 31 March 2022 269 (of 15,450) gas safety checks were overdue. We took action to improve the position by contracting with additional suppliers to undertake the work and at the end of May 2022 35 were overdue. Our target is to achieve 100% compliance and we take all necessary steps to achieve this including legal escalation for non-access and capping of gas meters where necessary. Residents are contacted ahead of all appointments to ensure access to their homes.

Electrical

At 31 March 2022, 484 occupied properties had an electrical test over five years old. Steps are in place to complete the tests including legal processes to gain access.

Key Indicators (% complete)	2022	2021
Fire risk assessments	99.1%	99.9%
Electrical testing	97.6%	95.7%
Gas safety checks	98.3%	99.6%
Legionella risk assessments	100.0%	100.0%
Asbestos surveys	96.7%	96.3%

Safety in communal areas and in our neighbourhoods

It is important that our residents feel safe. Their safety is not limited to their own homes, it also relates to communal areas, outside space and the wider neighbourhoods in which they live. Likewise, safety extends beyond the physical aspects and we also support our residents' mental wellbeing. We proactively deal with all issues which will have an impact on safety in our neighbourhoods, whether this be dealing with anti-social behaviour or tackling tenancy issues impacting on the wider community.

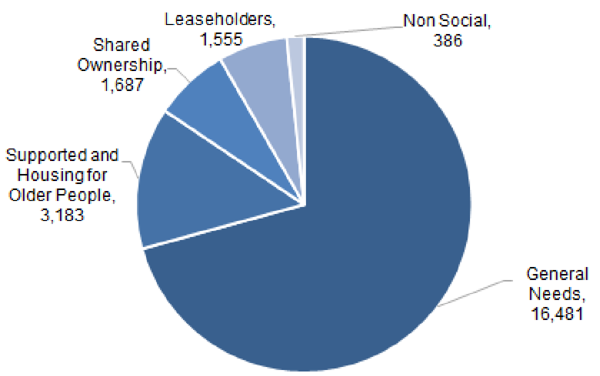
Strategic Report: Quality

Our residents' homes

We provide over 23,000 homes over a wide geographic area. We operate in over 60 local authorities with our core operating areas being in London, Surrey and the East Midlands. Approximately 40% of our homes are in Elmbridge (5,424) and Leicester (3,767). 35% (8,240) are in London.

Over 98% of our homes are social housing, including homes which we manage on behalf of leaseholders who were previously social renters or shared owners. Our small portfolio of non-social housing includes 117 market rented properties and 223 properties for healthcare workers at King's Mill hospital in Nottinghamshire.

Homes by tenure



Investment in our homes

We know that the quality of our residents' homes is important to them and directly relates to how satisfied they are with PA as a landlord.

Our overall investment in revenue and capital planned works (before fire safety remediation costs) in the year was £31.3m (2021: £26.8m). A further £20.2m (2021: £17.6m) of expenditure was on responsive repairs and works to void properties.

The Decent Homes Standard

The Decent Homes Standard applies to over 19,200 of our homes. The standard (introduced in 2001) means that a home is classed as 'decent' if:

- It meets the current statutory minimum standard for housing
- It is in a reasonable state of repair
- It has reasonably modern facilities and services
- It provides as reasonable degree of thermal comfort

As at 31 March 2022 all of our homes complied with the Standard with the exception of a small number where we were unable to obtain access to the property.

The Charter for Social Housing Residents (published in November 2020) announced a review of the Decent Homes Standard to understand if it is right for the social housing sector today. We expect that by the summer of 2022 the review will have considered how decency should be defined, with a refreshed Decent Homes Standard being an expected outcome. Whilst we await confirmation, we are implementing our own measures in respect of decarbonisation, energy efficiency and improvement to communal areas and green spaces.

Energy efficiency and sustainability

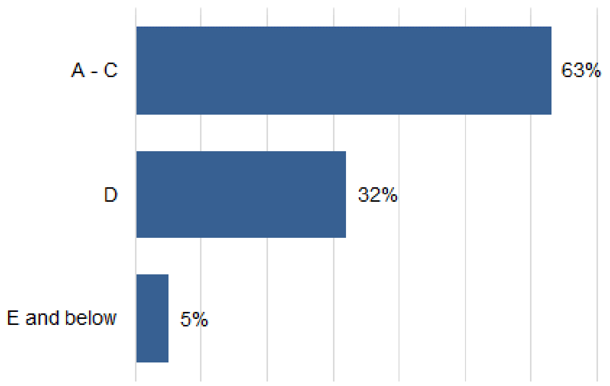
We are working to achieve high energy efficiency standards in residents' homes. 63% of our homes meet Energy Performance Certificate ('EPC') band C or above. This is a small improvement compared to 61% at the end of March 2021. We recognise however that we have work to do in this area, particularly in the light of significant increases to utility costs and the impact on our residents' income and living standards.

We will attain EPC band C or better for all homes by 2030. Our traditional investment programmes including improved insulation to roofs and walls, upgrades to heating systems and new double or triple glazed windows will play a large part in achieving this. In the year ahead we are also undertaking some pilot projects to install more advanced energy-efficiency technology at certain estates, with a view to wider rollout in future years.

In the meantime, we want to help our residents live comfortably in their homes wherever possible. In 2021/22 we launched our Warm Welcome initiative to directly support residents living in a property with an EPC rating of D or below. All residents in these properties were entitled to a free £80 energy voucher to help heat their homes. We have also absorbed a large proportion of the increases in utility costs suffered through reprocurement of our contracts, rather than simply pass on the costs in full to residents via the service charge.

As part of our programme we are also considering broader sustainability measures such as water capture and electric vehicle charging points.

Property EPC ratings



Responsive repairs

Our responsive repairs service has a direct impact on the quality of residents' homes and in turn their satisfaction levels with us as a landlord. In 2021/22 80% of residents were satisfied with our responsive repairs service.

This was below our target of 90% and we are working to make improvements. This includes close liaison between our repairs teams and external contractors to ensure that residents are always our first priority. We have implemented new ways of working in order to keep residents fully aware of the status and progress of their repairs.

Strategic Report: Quality

87% of routine repairs were completed on time in the year and over 99% of emergency repairs were completed on time.

In the year ahead we want to improve the experience for residents and are targeting the following

- Satisfaction with the repairs service at least 90%.
- 97% of routine repairs completed within 15 working days.
- Reduce complaints by 20%.
- Implement a resident communication plan for the life of a responsive repair.

Customer satisfaction with our repairs service

80%

of customers were satisfied.

2,840 customers were surveyed 2021/22. 7% were neutral and 13% dissatisfied.

Works to empty properties

It is also important that we provide quality and safe homes for new residents moving into a PA property for the first time. We completed works to over 1,000 properties in the year before we re-let them to a new resident. We have reduced the time to re-let a property to 57 days. This remains some way off our target but represents a significant improvement from our performance in 2020/21 (85 days). We are working to achieve a target of 32 days by quarter four of 2022/23.

Investing in existing homes

In 2021/22 we invested £19.6m in replacement of components in our homes (2021: £12.7m) Our programme included work to catch up with the inevitable delays of the previous year when the programme stalled due to Covid-19. This year was not without its challenges however, due to supply chain issues, extended lead times and inclement weather early in the year.

We continue to improve the information we hold on the quality of our homes and during the year we completed over 8,000 surveys which will enable us to focus our investment where it is most needed.

The cyclical works programme fully delivered against our target, completing £3.4m of improvements (2021: £3.2m).

Works completed (no. of homes)	2022	2021
Roofs	106	108
Kitchens	521	163
Bathrooms	340	149
Windows and doors	556	530
Heating and boilers	883	1,001
Lifts	7	10

Quality of Neighbourhoods

Our commitment to quality extends beyond the homes in which residents live. Open and green spaces and communal areas also contribute to quality of life for residents.

Whilst satisfaction with our cleaning and grounds maintenance services fell short of our targets, we have listened to what residents had to say about the services they receive. Reprocurement of the cleaning contract was completed in early 2022/23 and the grounds maintenance reprocurement is in progress. The new specifications for these contracts have addressed the concerns of residents.

Our targets for 22/23 include:

- Being visible in our neighbourhoods.
- Carrying our regular inspections.
- Achieving 90% satisfaction.

Quality services

We continue to invest in the ways our residents can access our services, with a view to improving quality and driving satisfaction. The call answer rates in our contact hubs steadily increased in the year as a result of employing additional advisors to answer calls and assist residents. We have also introduced an improved on-boarding and training programme for all new colleagues to ensure that residents get the best possible service when contacting us.

Our digital services enable residents to report a repair and pay their rents on-line at a time that suits them. We work to continuously improve this offer and we listen to feedback from residents. This year we have added the functionality for residents to request a refund when their account is in credit.

Strategic Report: Neighbourhoods

Our role as a landlord

Our services extend beyond providing a safe and secure home and our objective is to contribute more widely to the neighbourhoods in which our residents live.

This is done through a combination of initiatives, projects and direct investment where we know we can make a difference.

Investing in communities

Our community investment team has continued to support residents. Our work with Enterprise CUBE since 2015 has had a lasting impact in our communities. This is a social enterprise which helps disadvantaged people to set up their own business.

During the year we also celebrated 30 years of working with two Co-operative Societies: Maynard and Ross Walk. PA provides management and building services to over 230 homes in the Belgrave and Highfield areas of Leicester. The Co-ops are important to PA as they offer a personal way of living which is tailored to the communities. PA is proud of this continued partnership.

Our Community Fund is available to support projects which make a difference to our communities. It is used to fund projects, events, or the purchase of equipment. This includes:

- Environmental and green space improvements.
- Befriending services.
- Social Committee and Resident Association activities.
- One-off donations.
- Supporting community cafés and clubs.

In 2021/22 the fund supported the creation of a sensory room at Eden Park, our support scheme for young parents. Many of the families who live in the 13 self-contained flats at Eden Park are referred via social services when their lives have reached crisis point, and the team has an excellent track record of supporting them to be ready to move into their own homes. The new sensory room has helped babies and young children develop vital skills.

Our investment in the community

£586,000

Includes all community activities and associated costs.

We have also supported the Crisis at Christmas campaign to help raise vital funds for those affected by homelessness. 2021 was difficult for many people in our communities as we emerged from the pandemic. Colleagues at PA made donations to Crisis which was match funded by the organisation. A total of £5,641 was donated, assisting those in the wider community.

As part of our new development programme we work to improve local neighbourhoods and communities. Elmbridge is a core operating area for PA and during the year we approved the construction of new affordable homes including a community space at Ansell Hall. Work on this project commenced in the spring of 2022. The community centre will be available for local groups to use, providing a valuable new hub for the community.

Our neighbourhoods

Each of our neighbourhoods has a dedicated Neighbourhood Coordinator who is on hand to help. They spend most of their time working in the neighbourhoods they serve, providing support with reporting communal repairs and offering advice on other services available to our residents.

Our Neighbourhoods on Tour initiative continued to go from strength to strength. This face-to-face interaction with residents is a great opportunity to discuss how they feel about the neighbourhood in which they live so we can take positive action dealing with issues and improving the local area.

Our teams are assisted by Neighbourhood Champions, residents who are passionate about where they live and want to make a difference to how PA provides services. They work closely with PA colleagues and meet regularly with them to:

- Take part in estate inspections.
- Suggest improvements in the local area.
- Provide feedback on PA contractors.
- Get involved with Neighbourhood on Tour events.
- Help organise community events.

Strategic Report: Neighbourhoods

Tackling Anti-Social Behaviour

During the pandemic we saw an increase Anti-Social Behaviour (‘ASB’) and in 2021/22 we continued to work hard in our neighbourhoods, resulting in a number of successes in reducing ASB.

We have listened to feedback from residents who have been a victim of ASB and we carried out a specific service review into how we can improve what we do to make our neighbourhoods safer. This work is led by some guiding principles:

- We recognise that people want to be heard and taken seriously when reporting ASB.
- Issues need to be dealt with quickly and by someone with the relevant experience and skills.
- We need to evidence and complete all actions.
- We should offer a range of solutions to achieve the outcome wanted.

We have therefore:

- Improved the first point of contact to deliver better support and resolution.
- Re-trained colleagues on the tools available for managing ASB.
- Reviewed our case process to deliver consistent and improved outcomes.
- Used customer insight and lessons learnt to improve our range of solutions in the future.

Strategic Report: Transparency

Transparency

We want to make all relevant information available to our residents. We are transparent about our performance and we will not shy away in being honest about the areas where we need to improve. We recognise throughout this Report that our performance in a number of areas is not where we would like it to be. We are open about our actions and decisions and we will always engage with and listen to our residents where important decisions need to be made.

Our Value for Money report provides information on how we make the best use of our resources and how we compare to other organisations. We are conscious that we need to extract the best value for residents in how we spend the rent we receive from them in delivering services, reinvestment in our existing homes, and building new homes.

We have a duty to be fully transparent about how we handle and resolve complaints and we have made strides to improve in this area, as highlighted in the Engagement and Accountability section on the following page.

We are already embedding a culture of transparency within our organisation and our colleagues are free to raise any concerns they have about the quality of our residents' homes and neighbourhoods, and their safety. In turn this further enables us to act quickly in resolving issues.

We are also fully transparent with the Regulator and will raise any issues and concerns about our performance with them.

The new Tenant Satisfaction Measures

The new Tenant Satisfaction Measures will further hold us to account. We have chosen to adopt the draft measures early and we are already engaging with our residents in collating this information. This will give us further insight into the quality of our services and enable us to take the action required. The proposed five main themes are:

- Keeping properties in good repair.
- Maintaining building safety.
- Respectful and helpful engagement.
- Responsible neighbourhood management.
- Effective handling of complaints.

Strategic Report: Engagement and Accountability

Engagement

Communicating, engaging with, and listening to our residents to show we care is essential for us to improve our services. We want to be clear on what we can and can't do, listening to what the resident wants and setting fair expectations.

Our work in 2021/22 has included:

- Ensuring all resident communication is proactive.
- Updating residents on live issues.
- Implementing service improvement panels for residents.
- Identifying root causes for issues and dealing with them.

Resident scrutiny and involved residents

We strive to improve our services by involving residents to scrutinise what we do. This provides opportunities for residents to contribute to delivery of our services, ensuring that their voices are heard and acted upon.

A main emphasis in our engagement with residents is at a local level, through community activities run by Neighbourhood and Resident Involvement Coordinators which in turn helps to promote more formal engagement.

Our Scrutiny, Complaints, and Service Improvement Panels all feed into our Resident Assembly, our overarching resident group that hold PA to account.

How we handle complaints

It is important that resents can hold us to account and we introduced a new complaints process in April 2021 with a dedicated team to respond, investigate, own and resolve complaints. This was introduced in line with resident feedback and guidance from the Housing Ombudsman. The Ombudsman has further strengthened the provisions of its Code and updated it from 1 April 2022 to support a positive complaints handling culture. Landlords have until 1 October 2022 to become fully compliant and we have taken steps to meet the new requirements.

The volume of complaints received increased by 44% in 2021/22, which was reflective of the sector as a whole. In total we dealt with 1,437 complaints in the year. Despite the increase, our response times to dealing with complaints on time steadily increased from 49% in October 2021 to 92% in March 2022. The satisfaction with complaints handling was lower than we would like, we are confident however that we will see an improvement in this as our new processes bed in.

Issues with our responsive repairs service made up the majority of complaints, accounting for 63% of the total received. The quality of the repair, delays in carrying out work and issues with follow-up visits were common areas. We have taken a number of steps to improve our service as a result of this feedback:

- Changed process to ensure repairs jobs remain open until all associated works have been completed.
- Open and proactive communication on the status of jobs in progress.
- Recruiting additional advisors in our contact hubs.
- Our contractors recruiting additional resource to meet demand.

Geographically we received more complaints from residents living in London and the South East. This insight is important to us so we can work with residents not only on an individual level but also collectively in understanding if there are any more widespread issues that we need to tackle.

We have also introduced a Residents Complaints Panel to improve engagement with residents about complaints themes and actions required. We have held five meetings so far and taken feedback from residents, shared case studies and discussed lessons learnt. Actions following feedback have included:

- The introduction of a single point of contact for all complaints with a named individual.
- Improvements to resident communication.
- Improved accessibility to information.

Treating residents with fairness and respect

At PA we take into account the diverse needs of our residents. Our work on Equality, Diversity, and Inclusion ('EDI') underpins our work with residents, influencing relationships which are fair and respectful. Our work this year has focused on training our colleagues on EDI, to act with our residents in mind and to empathise with the challenges residents may be facing whether this be linked to the services PA provides or other circumstances. Our work will continue, to ensure that fairness and respect resonates throughout PA as an organisation.

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Strategic Report: Tenancy

Tenancy

We fully comply with our obligations under the Tenancy Standard set out by the Regulator of Social Housing. The proposed new consumer regulaton will further focus our approach and expectations as a landlord.

Tenancy sustainment

Helping our residents to stay in their homes for as long as they need is an essential component of our work. This year we have helped over 2,100 residents claim over £4.3m of benefits they were entitled to. Our teams are trained on all aspects of welfare benefits and this invaluable service not only helps residents pay their rent but also means they can live more comfortably in their homes.

Total benefit gains for customers*

£4.3m

*Gains calculated on an equivalent 52-week period.

Tenancy sustainment is not just about benefits however, and we recognise that our residents will be facing challenges from rising prices, in particular the costs of heating their home. Our Warm Welcome campaign directly supported our residents in the winter of 2021/22 and all residents whose home was rated EPC banding D or below were offered a free £80 energy voucher. We set aside £200,000 of funding to support residents living in our least energy efficient homes. Due to the success of the scheme, we also opened up the initiative to all residents who were able to apply for a £40 voucher. In total we helped over 3,500 residents heat their homes.

Many of our residents pay a service charge in addition to their rent and we saw an increase in the costs of providing these services in 2021/22, with further increases anticipated in 2022/23. We carefully monitor the affordability of charges to our residents and we appreciate that rises in these costs will only make it more difficult for residents to sustain their tenancy. We work to share this pain with residents where we can, limiting service charge increases and balancing charges at the end of the year. This allows us to balance increasing costs with affordability whilst we review the services and work with our contractors and suppliers to understand costs. We take this approach regardless of tenure as we believe all our residents should be treated fairly and consistently.

Whilst the courts opened up in year following the Covid-19 related shutdown, at PA we still recognise that evicting residents is a matter of absolute last resort and work to avoid any unnecessary evictions. In 2021/22 we evicted 38 residents, 15 of which were for rent arrears. Through early intervention, engagement and working with our residents, the majority of arrears cases successfully avoid eviction and residents continue with their tenancy with ongoing support from our teams.

Tenancy Solutions and lettings

Our Tenancy Solutions team works to give residents advice and guidance, offering practical support on all aspects of their tenancy. The team covers a diverse range of areas including ASB, domestic abuse, hoarding, mental health and drug and alcohol related issues. In addition, our team will investigate reports of tenancy fraud and we aim to ensure our homes are being used by people who are entitled to live there.

As with Tenancy Sustainment our team will only take enforcement action as a matter of last resort and will work to engage with residents on finding solutions where there is a potential breach of tenancy. We often find that by taking a step back and discussing a case, positive ideas that bring us closer to reaching an agreement can be put forward. Our team does however deal with complex cases and we have had a number of successes in the year in dealing with the eviction of squatters, “cuckooing”, where a resident has been taken advantage of by others to perform illegal activities from their home, and tenancy fraud. Each case has resulted in a positive outcome for our residents and their neighbourhood.

Our Lettings and Home Moves teams coordinates the letting of empty and new properties and supports our residents in rehousing, including mutual exchange, a management move or decanting where major repairs are required. Over 1,300 lettings were made in 2021/22 and 144 mutual exchanges were made.

Value for Money

Strategic Report: Value for Money

Our approach to Value for Money and Corporate Objectives

We work hard to ensure the services we provide to residents are seen as good Value for Money ('VFM'). Our approach to VFM is underpinned by our corporate objectives as outlined in our Corporate Plan. This ensures our resources are directed accordingly and that we are held accountable on VFM by both our residents and the Board.

Alongside this we benchmark ourselves against other organisations and set challenging targets across all areas of our operations. This embeds efficiency and outcomes into the delivery of our strategy.

Our headline Corporate Objectives are:

- Providing great services to customers.
- Positive relationships in our neighbourhoods.
- Sustainability strategy to deliver net zero-carbon before 2050.
- Increase construction of affordable and social homes.
- Maximise our capacity to deliver.
- Our people – delivering the plan.

Monitoring VFM

Our Board has agreed a VFM strategy which is designed to ensure we meet both internal and external expectations in this crucial area. Monitoring of progress is delegated to our Finance Committee which also provides financial scrutiny of performance against budget and regular in-depth reviews of our financial and VFM metrics.

Operational targets are set at the start of each financial year and approved by our Board. Targets are set for each quarter as we aim to deliver continuous improvement throughout the year. Our executive and senior management team regularly meet to review performance and take appropriate action if targets are not being met.

Our operational indicators that we report on monthly include, but are not limited to the below:

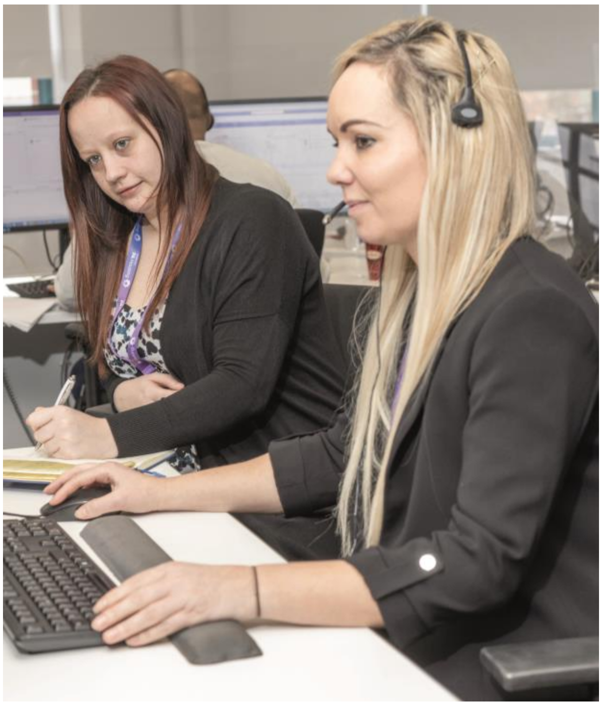
- Empty properties: Our re-let times for general needs and housing for older people properties and rent losses.
- Rent collection: Our arrears percentage and collection rates.
- Routine and emergency repairs: The percentage of repairs completed on time by contractor, appointments kept and satisfaction with the service.
- Digital engagement: How we are improving our digital services and resident engagement.
- Contact: Our percentage of calls answered, average wait times and length of calls.
- Resident satisfaction: We measure perception-based satisfaction with PA and transactional satisfaction in response to services received.
- Complaints: Number and percentage of complaints responded to in target times.
- Compliance: All aspects of building safety.
- Planned maintenance: How we are performing against our programme targets.
- Our People: The overall satisfaction of our colleagues at PA.
- New homes: The number of new homes delivered and sold against our targets.

Our performance and areas we need to improve

Providing great services to our customers

We measure resident satisfaction in a number of ways, and this provides us with insight into what residents think of our services. Our headline overall satisfaction is measured using STAR (Survey of Tenants and Residents) surveys which is recognised across the sector. The survey is a perception survey drawn from a randomly selected sample.

Our results for 2021/22 showed that 61% of residents were satisfied. We also survey residents when they have recently received a service from PA. Whilst this fares better with 70% satisfied, it also falls short of target.



In our report for 2020/21 we recognised that resident satisfaction was an area in which we needed to improve. It is therefore disappointing that we have seen a slight drop in how residents perceive PA and the services they receive. During 2021/22 we have implemented a strategy to improve our services; this includes:

- Recruitment of a new Assistant Director of Customer Experience with a remit which is dedicated towards improving satisfaction results.
- Engaging with all our colleagues in how we improve services, be more human centred and look for marginal gains to improve the customer experience.

Strategic Report: Value for Money

- Investment in new platforms to analyse resident feedback and respond quickly where there are issues.
- Ensuring we turn insight into action through the customer voice.
- Improvement in the quality of conversations in our contact hubs through training and on-boarding of new colleagues.
- Working with our contractors to improve key services to residents.

We recognise that we still need to do more, and we are embracing the proposed new consumer regulation set out by the Regulator of Social Housing including the new Tenant Satisfaction Measures which we are looking to implement as soon as possible.

What we have achieved in 2021/22:

- ✓ Supporting our residents with help in claiming additional benefits of over £4.3m and high satisfaction with this service.
- ✓ Automation of routine processes enabling our advisors to spend more time helping residents.
- ✓ Enhancing our digital services and supporting those who need assistance to gain access.
- ✓ Recruitment and training for our contact hubs and an improvement in our call answer rates.
- ✓ Reviewing and investing in how we handle complaints to ensure a better outcome for our residents.

Positive relationships in our neighbourhoods

Whilst our purpose is the delivery of affordable homes and providing great services to residents, we also strive to improve the communities in which we operate, and to drive positive relationships with our residents. We have already put steps in place to embrace the themes which will be used to structure the new regulatory consumer standards.

What we have achieved in 2021/22:

- ✓ More face to face engagement with communities through our neighbourhoods on tour initiative.
- ✓ Subsidising the cost of services on our estates.
- ✓ Engaging with residents on the re-procurement of cleaning and grounds maintenance contracts.
- ✓ Engagement with our communities to promote local employment initiatives and help the self-employed.

Sustainability strategy to deliver net zero-carbon before 2050

Our approach covers all areas of the business.

- Our Property: How we develop new homes, invest in our existing homes, and use our offices
- Our People: Working with colleagues and residents.
- Our Partners: Working with suppliers, contractors and partners including Local Authorities, the GLA, Homes England, lenders, and investors.

We want our residents' homes to be genuinely affordable places to live, not just through the rent they pay, but also the costs of running their home. We now have full and detailed information on the energy performance of all our homes and we plan to improve the worst performing stock to an EPC C rating by 2030.

Our Sustainable Finance Framework sets out our approach to sustainable investment and our Sustainable Bond, issue in May 2021, has enabled to us to drive and support our objective to improve the energy efficiency of our existing homes, alongside investment in new social homes and wider community benefits.

What we have achieved in 2021/22:

- ✓ Supporting our residents in low energy efficiency homes through our Warm Welcome initiative.
- ✓ New initiative to help inform future improvement programmes for poorer performing homes.
- ✓ Investment of £107m from the proceeds of our bond in sustainable areas.

Increase construction of affordable and social homes

We are committed to growth and the provision of quality new homes in the neighbourhoods in which we operate. Our new homes are genuinely affordable, offering VFM to those looking to rent or get onto the home ownership ladder. We work closely with all new residents and homeowners to ensure they can afford their new home and provide support in the early stages of their tenancy or home ownership.

We also work with other housing providers where there are opportunities to transfer homes, thus improving the efficiency and quality of service delivery for residents. This was demonstrated by the acquisition of 163 homes in Elmbridge, a key area in which we already operate.

What we have achieved in 2021/22:

- ✓ Provision of 317 affordable new homes.
- ✓ Supporting 127 residents into home ownership

Strategic Report: Value for Money

- ✓ Securing additional grant allocation of nearly £300m to help fund our development ambition.
- ✓ Acquisition of 163 social homes in Elmbridge.

Waterline House (Hackney)

Maximise our capacity to deliver

Our delivery capacity has a foundation in operational performance and how efficient we are in delivering our services.

We have highlighted in previous reports our need to improve property re-let times as this directly impacts on providing homes to new residents and our income stream through higher rent losses. Throughout 2021/22 we worked with our contractors and in-house maintenance teams to address this, and our average re-let time in the year was 57 days. Whilst this is an improvement on the previous year (85 days) we need to do more to reduce the number of days to meet our targets. In the latter part of 2021/22 and early in the new financial year we have seen a further improvement in the re-let process and times, in particular the period whilst the property is undergoing maintenance prior to being let. We are pleased with the direction of travel and the performance outcomes, with the caveat that this trend must now be sustained.

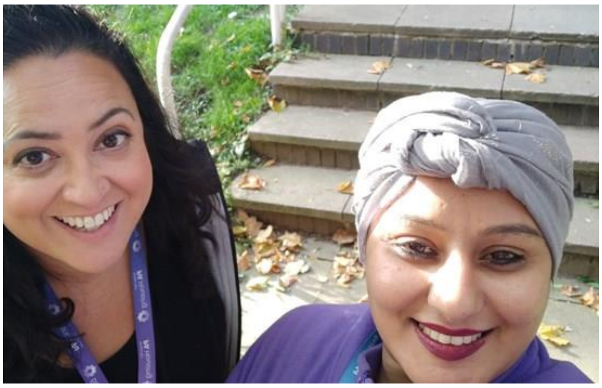
We also achieved good results on rent collection and reduced our current tenant arrears percentage through working with and providing support to residents to pay their rent.

What we have achieved in 2021/22:

- ✓ Combatting tenancy fraud with a number of key successes in the year.
- ✓ Reducing our re-let times and bringing long term empty properties back into management.
- ✓ An improvement in our rent collection rates enabling us to further invest in our services.
- ✓ Reprocurement of key contracts at competitive rates.
- ✓ Implementation of a fairer management fee structure for the provision of service charges.

Our people – delivering the plan

Our colleagues play a vital role in providing VFM to residents. We look to attract and retain talented people to help us deliver great services, and we have continued to invest in training to improve services. As with many organisations, we have experienced an increase in staff attrition. Whilst this may be a positive for colleagues, during the year we have often needed to rely on temporary resource to provide services. We have addressed this through our new recruitment approach which entails a strengthened in-house resource to head-hunt suitable candidates for vacant positions.



What we have achieved in 2021/22:

- ✓ A new applicant tracking system to speed up recruitment and support on-boarding of new colleagues.
- ✓ Improvements in how we advertise and recruit for new colleagues.
- ✓ Investment in all colleagues and improvement in leadership skills for senior managers.

Indicator	2023 Target	2022 Target	Bench-mark	2022 Actual	2021 Actual	2020 Actual
Overall customer satisfaction	80%	90%	86% [1]	61%	62%	82%
Void rent loss (social housing lettings)	2.0%	2.0%	1.4% [2]	2.1%	2.8%	2.1%
Average re-let days (general needs)	37	40	44 [3]	57	85	56
Rent arrears	4.0%	4.5%	3.1% [2]	4.0%	4.6%	4.4%

[1] National Housing Federation Sector Scorecard UK wide Median 2021 results (General needs and housing for older people).
[2] Regulator of Social Housing Quarterly Survey (January to March 2022) Median results.
[3] Housemark 2020/21 England Housing Associations, 15,000 units + stock owned.

Strategic Report: Value for Money

Value for money metrics

We incorporate the Regulator of Social Housing's Value for Money metrics into our routine reporting, financial planning, decision making, and Board discussion.

We compare our performance to others in the sector and our VFM metrics are regularly reviewed by our Finance Committee. We use a peer group of 20 other housing associations with social housing stock owned of between 15,000 and 35,000 properties, who operate in similar geographical areas to PA. We recognise however that the type and location of our residents' homes is a significant factor when comparing costs, particularly for homes in London. As over 35% of our homes are in London boroughs, we use further regional analysis for internal reporting to ensure our costs are aligned to others in these areas. The comparable data for our peer group is taken from the information published by the Regulator of Social Housing.

Some of our 2022 results have been impacted by expenditure on fire safety remediation projects, including waking watch costs incurred before start of the remediation works.

We have not reported on the supply of new non-social housing as this is not a material consideration for PA with no (2021: two) non-social residential homes developed in the year.

Group results	2022 Budget	2022 Actual	2021 Actual	2020 Actual	2019 Actual	2018 Actual
Reinvestment	9.8%	6.3%	6.6%	7.1%	4.3%	4.7%
New supply – Social Housing	1.7%	1.4%	1.3%	1.1%	1.5%	1.8%
Gearing	49.7%	48.6%	45.7%	43.2%	40.2%	40.7%
EBITDA MRI interest cover	116.0%	103.0%	136.5%	131.1%	169.0%	167.7%
Social housing cost per unit	£4,921	£5,412	£4,758	£4,632	£4,213	£3,900
Operating margin – Social Housing Lettings	26.0%	22.2%	24.9%	25.7%	33.3%	36.3%
Operating margin – Overall	25.5%	23.0%	23.2%	26.2%	33.8%	34.6%
Return on capital employed	2.5%	2.3%	2.2%	3.0%	3.6%	3.9%

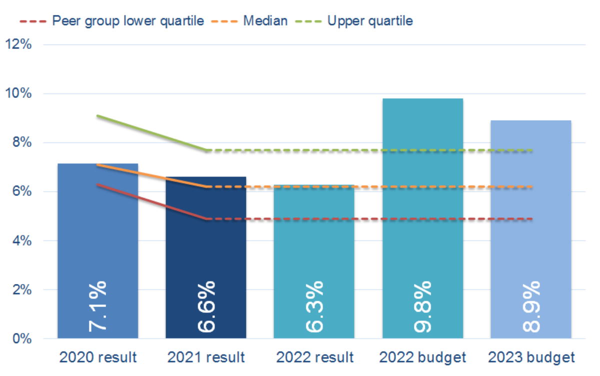
How we have performed against our targets and how do we compare to our peers?

Reinvestment and new supply

We re-invested £103m (2021: £108m) in the provision of affordable new homes through either construction or purchase of new homes. A further £20m (2021: £13m) was invested in our existing stock.

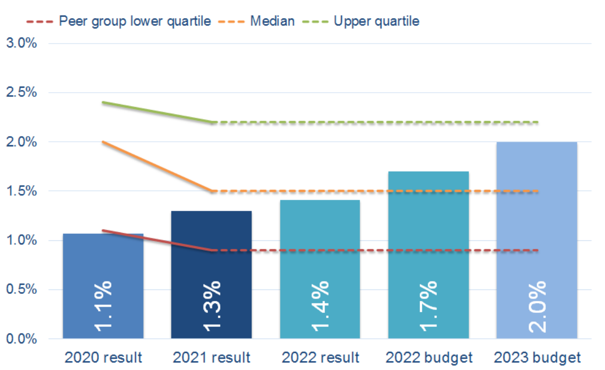
Our VFM metric for reinvestment is 6.3%. Whilst this is below our targeted result, we invested an additional £23m (net of grant received) in the acquisition of homes from another registered provider which is not included in the reinvestment calculation.

Reinvestment



Our reinvestment forecast reflects our Corporate Plan ambition to develop 6,000 new homes over 10 years plus investment in our existing stock. The sustainable bond issue in May 2021 supports our delivery of growth and sustainability goals.

New Supply (Social)



In 2021/22 we developed 317 new affordable homes. Our VFM metric for new supply was 1.4%. Whilst this falls short of our budgeted 1.7%, we also acquired a further 163 new homes from another registered provider. Our Board recognises the delivery of new homes as a key corporate objective and we balance our growth ambition with our financial plan to ensure a sustained level of growth over the long term. Our expectations in 2022/23 will be to deliver a further 450 new homes and our financial position and borrowing capacity will enable us to deliver further growth beyond this.

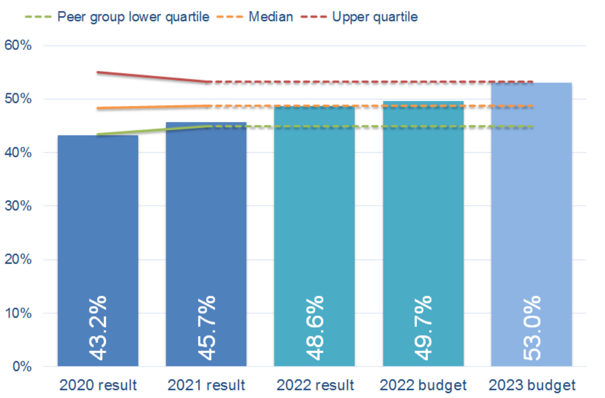
Strategic Report: Value for Money

Debt

Our gearing ratio is in line with our target for the year and our peer group. Total borrowing increased from £882m to £994m in the year and the value of tangible fixed assets increased by £119m to £1,948m.

We are budgeting for an increase in gearing in 2022/23 as we continue our development programme. We arrange funding for development ahead of need which is in line with our treasury strategy and we monitor our gearing (both VFM metric and lender covenants) as part of our financial plan and stress test this to ensure we do not over-commit on our development programme.

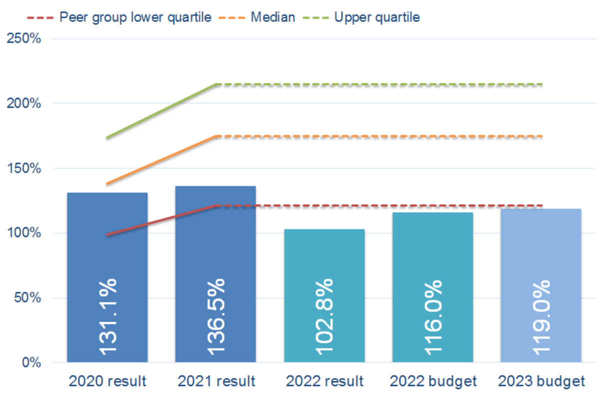
Gearing



Interest costs (before capitalisation) were £34.5m (2021: £30.8m). Our weighted average cost of capital remains relatively unchanged and the increase in interest is due to the increase in our borrowing.

Earnings before interest, tax, depreciation and including major repairs were £35.4m (2021: £42.0m). The reduction is primarily because of a significant increase in our planned maintenance programme. In 2021/22 we invested £19.6m (2021: £12.7m) in our existing properties. 2020/21 was however an exceptionally low year for reinvestment in existing properties due to the challenges of Covid-19 and our programme in 2021/22 looked to rebalance the position, alongside additional costs associated with our fire safety remediation projects.

EBITDA (MRI)



Our Board monitors and is comfortable with our EBITDA (MRI) and outlook. Despite our result being below peer group it aligns with our strategy to continue prioritising investment in existing and new homes, in order to maximise VFM for residents without unduly compromising on financial capacity and resilience.

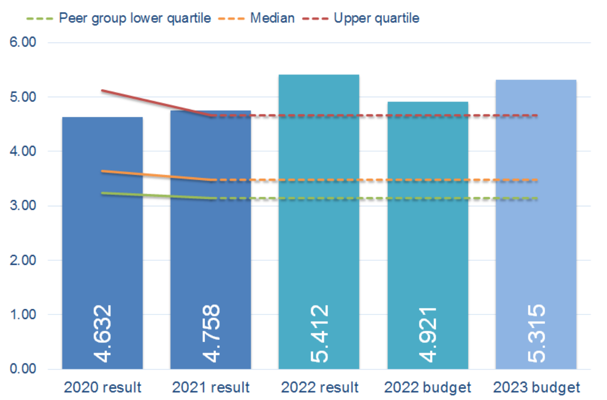
Unit costs

Our social housing cost per unit has increased by £643 to £5,412 (2021: £4,758). Whilst our cost per unit is above the median peer group, our result compares to other upper quartile providers who, like ourselves, hold a significant proportion of their stock in the London area.

Most significantly our cost per unit increase is due to the increased investment in existing stock, and an increase in fire safety remediation works. Excluding the latter, our cost per unit is £5,023 (2021: £4,597).

Our outlook cost per unit is to remain relatively stable. We are conscious however of the impact of high inflation and the uncertainty on the costs and timing of future fire safety remediation works. We do however expect our unit numbers to grow further through new development and pipeline acquisitions increasing the number of overall homes our costs can be spread against. Additionally, we are looking at how we can drive efficiency in the organisation and our cost base more widely.

Social Housing Cost per Unit (£,000)



Efficiency

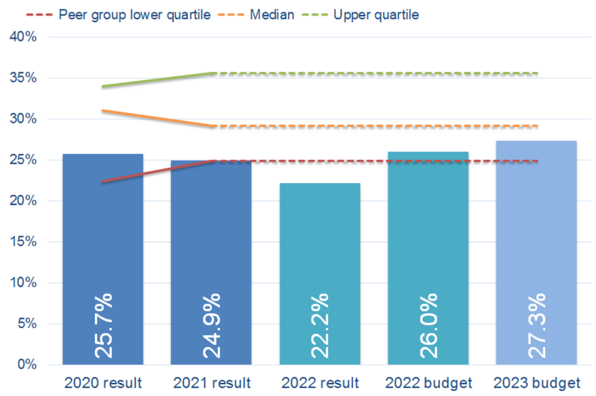
Operating margin, both on social housing lettings and overall, has fallen from our 2020/21 results. This is due to higher fire safety remediation costs in the year (see note 39 to the Financial Statements for details). Excluding these costs each margin has improved from 2020/21 as shown below. Reporting on margins including and excluding these costs ensures we can track the performance and trends of our underlying business.

Metric	2022	2021
Operating Margin – SHL	22.2%	24.9%
Excluding Fire Safety	26.9%	26.1%
Operating Margin – Overall	23.0%	23.2%
Excluding Fire Safety	26.7%	25.2%

Strategic Report: Value for Money

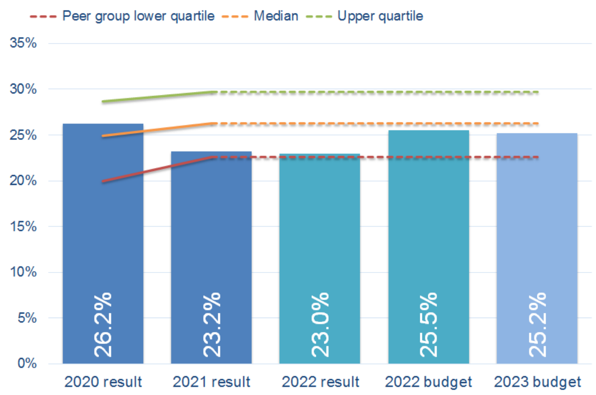
As with other organisations we are facing challenges with rising prices impacting on our cost base and putting pressure on our margins. Our commitment is to provide VFM services to our residents and take a no compromise approach to safety standards in their homes. We regularly review our costs to ensure we are directing our financial resource appropriately to support our corporate objectives.

Operating Margin – Social Housing Lettings



Our expectation is that margins will steadily improve in the medium term once we have completed our fire safety remediation programme. We do however recognise the importance of balancing rising costs with potential future increases in rents and other charges to our residents, particularly in the light of the immediate challenges many of our residents are facing with increases in the cost of living.

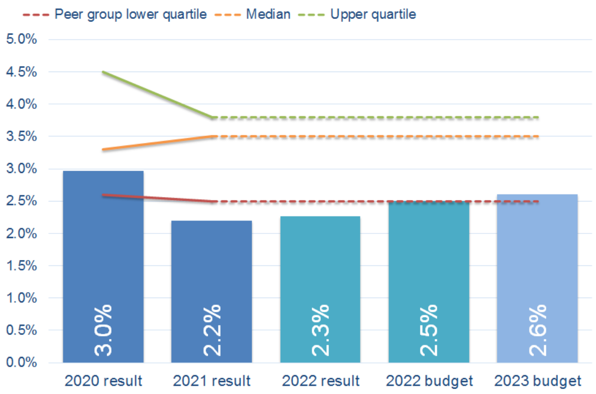
Operating Margin – Overall



Our return on capital employed metric is marginally below our target although shows a small improvement compared to our 2020/21 result. Whilst our result is lower than our overall peer group, it is line with other providers operating in a more defined geographic area including London.

The results are in line with our business plan and our Board support our position and direction of travel.

Return on Capital Employed



Sustainability Report

Strategic Report: Sustainability Report

Our Environmental, Social and Governance (ESG) activities

PA exists to deliver social value to the communities we serve. Our core business and number one priority is to provide high quality homes and associated services to people who cannot afford to buy or rent on the open market. This includes targeted support and opportunities to the people who live in our homes and their families, over and above our core landlord responsibilities.

This objective is underpinned by our governance arrangements, which are designed to ensure ongoing effective service delivery within an appropriate controls assurance framework.

We are also highly conscious of our environmental impact, and the key role that housing associations must play in working towards national and global targets for a brighter environmental future.

We support and are directly involved in current sector work to formalise and standardise ESG reporting. This will enable our key partners and stakeholders to review and compare performance more easily, thus strengthening the links between ESG investment and ESG outcomes over time. PA is one of the early adopters of the ESG-focused 'Sustainability Reporting Standard for Social Housing' devised by the sector, working with the Good Economy.

ESG reporting

In August 2021 we published our first annual ESG outturn report (available from the PA Housing website here: environmental-social-governance-report.pdf (pahousing.co.uk)). This summarised our ESG performance and areas of progress in the 2020/21 financial year, set out where we have more work to do, and confirmed our results against the sector-wide Sustainability Reporting Standard metrics.

This year the report will be augmented with performance information relating to our Sustainable Finance Framework (available from the PA Housing website here: Sustainable Finance Framework 2021 | PA Housing), which supported our successful £400m bond issue in April 2021.

How we are delivering ESG

Since ESG is an integral component of PA's core business operations, this Strategic Report contains a wealth of relevant information about our work, achievements and future ambitions. We recognise that it's important for our partners to understand how work we are doing influences the ESG agenda. The table below signposts readers to the key ESG information available elsewhere in this document.

Environmental	
Investment in our homes including work to improve energy efficiency	Pages 15-16
Sustainable development of new homes and enhanced communities including estates regeneration	Pages 34-35
Work to make our office accommodation more sustainable	Page 35
Social	
Doing the right thing by residents through provision of additional support	Page 13
Work to improve our responsive repairs service	Pages 15-16
Making it easier for residents to contact us and resolve queries	Page 16
Our neighbourhood services	Pages 17-18
Additional community investment initiatives	Page 17
Tenancy sustainment support to residents	Page 21
Learning and development support to employees	Page 31
Our approach to equality, diversity and inclusion	Page 32
Social impact within communities	Page 35
Governance	
Our approach to risk management and the measures we have in place to detect and respond to adverse movements in the operating environment	Pages 11-12
The health and safety compliance regime on our estates	Page 14
Engagement with and accountability to residents	Page 20
Information about our gender and ethnicity pay gaps, and the work we are doing to reduce them	Page 33
Assessment of going concern and the controls we have in place to preserve liquidity	Page 36
Use of financial golden rules to drive financial strategy, aligned to broader corporate objectives	Page 39
Details of our governance arrangements including the internal controls assurance framework	Pages 47-52

Our People

Introduction

Covid-19 continued to influence our work throughout the financial year, but we built on our experiences of the previous year to tackle this challenge in a positive fashion.

Recognising that the switch to a blended home and office working approach had brought a number of benefits that we didn’t want to lose, in April 2021 we introduced updated contracts of employment and associated policies for all our office-based workers. This change recognised that blended working is here to stay, and it gave our managers and their teams the ability to agree a flexible mix of office and remote working in line with service delivery and business needs.

Following on from this, our priority was to make sure that our working practices bounced back to a business as usual approach as quickly as the remaining Covid-19 restrictions allowed. This was achieved, but as the year progressed we saw increasing employee recruitment and retention impacts arising from the evolving UK economic situation. In line with many other employers, attracting and keeping hold of good people has become more difficult, with employees able to pursue a range of career progression opportunities.

Recruitment and retention

2021/22 saw a significant upturn in recruitment activity. To an extent this was to be expected following the Covid-19 impacts on the job market in the previous year, but as has been well documented the market has become challenging for employers. The number of PA employees who left their roles increased by 45% in 2021/22 and, including new roles and those which were recruited to more than once, the number of vacancies increased by 56%. Our average time to fill a vacancy increased by seven days to 27 days.

As has been the case throughout the UK economy, we saw examples of employees moving on to new jobs at significantly increased salaries which we were unable to compete with. The incidences of this were beyond normal career progression expectations, with repeated evidence of sideways moves for significant salary gain among colleagues with in-demand skills.

	2022	2021	2020
Live vacancies	241	154	169
New recruits	152	125	167
Average days to fill vacancy	27	20	21
Leavers	145	100	140

At the start of the year we had made the decision to establish an expanded in-house recruitment team to enhance the quality of our recruitment and reduce reliance on (and cost of) agency recruitment for more specialist roles. This new team was built up over the year and is now starting to deliver tangible results through stronger role marketing, supported by active head-hunting of candidates for key roles. In the latter part of the year this drove an increase to the average number of applications received for each vacancy, an encouraging indicator given the general recruitment climate.

Upgraded recruitment software has been introduced to support the new team; this includes an enhanced experience for candidates and then a stronger onboarding process once an appointment has been made. The aim is to make new recruits feel positive about PA from the moment they decide to apply for a role with us.

Aligned to this, we are working to maximise PA’s broader appeal in the jobs market. We believe we have a strong overall benefits package, including relatively generous pension provisions, the ability to earn additional income based on performance, flexible holiday and volunteering arrangements, and a range of wellbeing initiatives. We also want to make working in the social housing sector an attractive choice for people near the start of their careers, so that we can bring in people with a diverse range of talents and develop them as future leaders.

Learning and Development

PA has a structured approach to employee development. We operate four ongoing development programmes, aimed at different tiers of the business. These programmes are designed to give our people the tools needed for career progression at PA and potentially beyond, covering a range of practical issues, management techniques and softer skills needed for success. Each programme cohort is carefully selected to ensure suitability for the opportunity.

Alongside this, we have invested in new software to modernise our approaches to both learning and development and performance management. This gives our people easier access to the tools they need to support delivery of objectives and expansion of knowledge.

Colleagues benefitting from personal / technical development

524

During 2021/22 our learning and development offering also included support to 23 colleagues who are undertaking professional qualifications, and 17 apprenticeships. In addition, PA participated in the government Kickstart scheme aimed at getting young people into work. This proved to be both hugely successful and educational for us as an employer. We brought 11 people into the business and nine have now progressed into either permanent roles or longer-term apprenticeship positions with us.

Our Kickstart candidates were from a range of backgrounds including several who are neurodiverse, and we found that these colleagues had some fantastic untapped skills that could be utilised. The process has taught us a lot about how we recruit, and how we may need to adapt our approach to broaden our appeal to as diverse a range of candidates as possible.

Looking across the piece, 524 colleagues benefitted from personal and / or technical development opportunities during the year. In addition, 169 ad-hoc training requests were met and eight of our managers accessed external coaching support

Equality, diversity and inclusion ('EDI')

PA's heritage includes a proud history of working to promote EDI – including both the services we provide and the way in which we work. Building on this, during the year we developed our first EDI Strategy to govern our ambitions going forward. The Strategy identifies four pillars of work, with a range of supporting actions to deliver what we want to do:

1	2	3	4
Use our commitment to EDI as a driver for investment in our residents and communities	**Ensure that PA is a vibrant and inclusive place to work, where people can reach their potential regardless of background and experience**	**Harness EDI as a positive force behind our business decisions and ways of working**	**Prioritise and influence partnerships with others who share a similar EDI vision and ethos**
Understanding and responding to the EDI challenges faced by our residents, and targeting our investment to address the issues we identify	Nurturing a sense of belonging for PA's employees, and giving everyone the opportunity to meaningfully participate	Placing EDI at the heart of everything we do, embedding it within our leadership and recognising it as a cross-cutting theme which enables us to make better decisions	Using our influence with and learning from others, to jointly contribute towards a world where EDI is the natural way of doing things

To support delivery of these objectives we have introduced a new specialist EDI Business Partner role. The postholder is charged with permeating the EDI Strategy and actions throughout the business, working with our established cross-departmental EDI Advocates group to drive the agenda forward.

Maximising the diversity of our workforce including at senior management level is a key priority, and we report annually on both our gender and ethnicity pay gaps. Our full 2022 report, based on payroll data as at April 2021, is available on our website: (Gender pay gap report)

Our results are updated for 2021/22 below:

Gender pay gap	2022	2021
Mean	19.9%	18.9%
Median	11.9%	11.7%
Ethnicity pay gap		
Mean	9.9%	9.6%
Median	8.7%	8.7%

This lack of progress is both disappointing and frustrating given the work we have done to improve the diversity of our recruitment into senior roles and promote diverse talent from within. There have been some notable areas of progress and success - our data does show an improving trend in the diversity of candidates being shortlisted for higher paid roles, and our commitment to giving colleagues from minority backgrounds access to external career development mentoring support has borne fruit in some cases. But the overall picture is not changing, and we must therefore redouble our efforts to improve results, supported by our new EDI Strategy.

More broadly, the Strategy identifies other areas where we want to further enhance workforce diversity. Work in relation to the characteristics protected by law remains hugely important, but we also wish to develop our thinking in relation to areas such as social status, educational attainment, and experience of social housing. We believe that this will further improve our ability to work in harmony with the residents we serve, recognising that many talented people from disadvantaged backgrounds do not necessarily have the opportunity to pursue their career and educational ambitions.

The year ahead

Our people-related priorities for 2022/23 and beyond are aligned to our wider corporate strategy. Delivery of our corporate goals is dependent on a stable, motivated and talented workforce. The current economic climate introduces additional risks and challenges around this, and so we must continue to focus on the things we can control to give PA the best possible chance of achieving our ambitions. This will include:

- Enhancement of our recruitment profile and offer to prospective candidates, ensuring focus on attitude and softer skills alongside technical role requirements.
- Ongoing delivery of our formal learning and development programmes in order to continue raising management standards and therefore team performance levels.
- Expansion of our new e-learning platform, including offering access to residents so that they can utilise relevant modules on topics such as employability, budget management and health and wellbeing.
- Enhancing our apprenticeship programme, in line with current skills priorities within the business and including an expanded offer to PA residents.
- Further work on talent mapping, succession planning and development of identified ‘rising stars’.
- Using our EDI Strategy as a mechanism for promoting the positive impacts of a workforce which is truly diverse in its broadest sense, including development of a wider trainee programme for talented people with ambition to pursue a career in social housing.
- Continued effort to improve our gender and ethnicity pay gap performance, with the focus being to improve the diversity of our senior management team.

Strategic Report: Sustainability Report

Building new homes

Our Corporate Plan ambition is to deliver 6,000 good quality and sustainable new social homes over the 10 years to 2030, in areas of high housing need. Our new homes will cater a range of circumstances across social rent, affordable rent, and shared ownership tenures.

In the three years to the end of March 2022 we completed 848 new social homes with a further 18 for market rent.

Of the 317 new homes developed in 2021/22, 208 were in London Boroughs, 95 in Surrey and 14 in the East Midlands.

New homes (social)

317 (2021: 298)

As with others in the sector we have continued to experience development delays due to supply chain issues in the construction sector. We therefore fell short of our target completions and investment in the year.

We remained agile in our approach to new development and this enabled us to take a flexible approach to new opportunities, in particular the acquisition of completed properties through Section 106 agreements.

New homes completed:	2022	2021	2020
Affordable Rent	124	155	145
Social Rent	8	21	-
Shared Ownership	185	116	88
Temporary Housing	-	6	-
Total: Social Housing	**317**	**298**	**233**
Market Rent	-	2	16
Total	**317**	**300**	**249**

Sustainable homes

We have continued to improve the environmental performance of our new build homes, with an objective to exceed carbon reduction standards by at least 35% in all new developments. We have also set aside £300m in our business plan to retrofit existing stock over the next 30 years.

Other acquisitions

In March 2022 we purchased 163 affordable homes from another Registered Provider. The stock, in Elmbridge, is where we already have a significant concentration of homes.

The total investment was £22.8m net of grant, and included social rent, affordable rent and shared ownership properties. Our strong liquidity enabled us to successfully pursue this opportunity which has contributed to our overall growth ambition.

Sales

Our programme reflects a balance between homes for rent and shared ownership. As well as meeting a core social housing need, shared ownership helps us to increase our overall growth capacity through reinvestment of the surpluses we earn from first tranche sales.

Sales revenue in 2021/22 was £19.5m (2021: £12.5m) from the sale of 127 new homes (2021: 86 homes). Our sales volumes were lower than our targets due to the knock-on impact of supply chain issues. We have also continued to experience delays with the sales process more generally.

Hobbs Close, West Byfleet (CGI image)

As at 31 March 2022 we had 174 homes available for sale (2021: 114). 73 of these were either reserved or under offer. Our Board and senior management team closely monitor sales progress and the impact on liquidity.

Sales	2022	2021	2020
New homes sold	127	86	53
Sales proceeds	£19.5m	£12.5m	£8.4m
Surplus	£5.9m	£3.9m	£3.5m
Sales margin	30.0%	31.4%	42.1%

In addition to the above first tranche sales, 51 residents staircased to 100% ownership of their home.

Land and pipeline

Our strategy is to bring forward a mix of rented and shared ownership homes through land led, Section 106 and package contracts across London, Surrey and the East Midlands. We work closely with local authorities on opportunities for land led development.

Development	2022	2021	2020
Homes started on site in the year	638	497	624
Under construction at 31 March 2022	1,094	773	576

At 31 March our development pipelne stood at a further 794 new homes.

Strategic Report: Sustainability Report

Our future development is supported through the allocation of nearly £300m of combined grant funding from the Greater London Authority and Homes England, the latter via our strategic partnership with Accent Housing Group.

Regeneration

During 2021/22 we made significant progress with our regeneration programme, entering into contract with our delivery partner Hill Partnerships Ltd for the redevelopment of the outdated Thames View House building in Walton-on-Thames. The regeneration project will provide 45 high quality homes for social rent, 52 homes for shared ownership and a ground floor community facility which will provide a modern home for a highly valued existing pre-school. The scheme will also provide wider neighbourhood benefits, including improvements to the adjacent local recreation ground, the provision of a car club and upgrades to local transport infrastructure. Demolition works are due to commence in September 2022.

In December 2021 we submitted a planning application for the regeneration of a small existing housing estate and surrounding derelict former industrial land in the Southall, west London. The scheme will create a new neighbourhood, providing 516 new homes, play and amenity spaces, a new public square and ground floor commercial facilities providing services to the wider community. The new homes have been designed to meet the Future Homes Standard for sustainability, including a renewable-energy powered heat and hot water system. Subject to planning consent, the redevelopment will commence in the winter of 2022.

Having completed 238 affordable homes at Trinity Walk through the One Woolwich regeneration programme, we are preparing to commence the next phase of development at Morris Walk North with our development partner Lovell Partnerships Ltd. This phase of development will deliver 129 affordable homes with public and private play and amenity spaces, and a centralised heat and hot water system powered primarily through renewable energy sources.

Our offices

We continue to review how our office spaces works for our colleagues. In 2021/22 we saw a gradual return of colleagues to the offices and to assist we have installed new secure bike sheds to encourage more sustainable travel. We are currently looking to install electric charging points for those colleagues who are enjoying the benefits of an electric vehicle and to ensure we have the facilities in place to make it easier for colleagues to make the switch to these in the future.

Working with our communities

We have created a social impact group, which is a cross-section of colleagues from different teams who are working with the business, residents and our contractors to allow 50 colleagues each year to do something special for the communities we work in. We also offer all colleagues the opportunity to take up to three paid days away from the PA work each year, to undertake volunteering work with charities or in their local communities.

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Strategic Report: Going Concern

Going concern

PA's business activities, its current financial position, and factors likely to affect its future development are set out within the Strategic Report and Financial Statements.

We prepare a 30-year business plan which is updated and approved on at least an annual basis. The most recent business plan was approved by our Board in May 2022. We have long-term debt facilities in place which provide adequate resources to finance committed reinvestment and development programmes, alongside income generated from our day-to-day operations. The business plan shows that we are able to service these debt facilities whilst continuing to comply with lenders' covenants.

As at 31 March 2022 PA held liquidity (comprising cash balances and undrawn committed loan facilities available for immediate drawing) of £362m. Cash balances were £28.6m.

The Board's assessment of going concern involves a number of subjective judgements including, but not limited to:

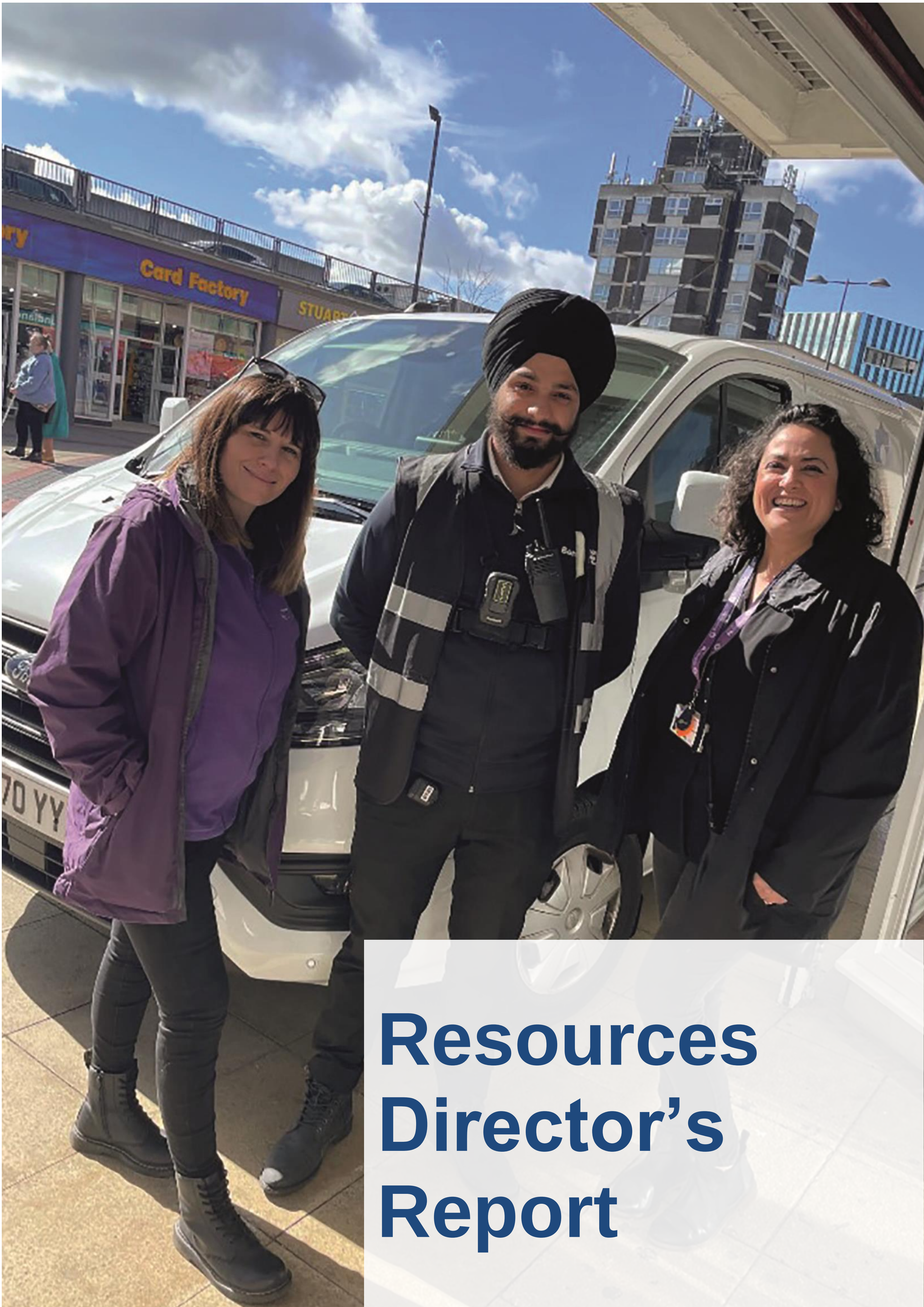
- The property market – budget and business plan scenarios have taken account of delays in handovers, lower numbers of property sales, reductions in sales values and potential conversion to rented homes as a risk mitigation measure.
- Maintenance costs – budget and business plan scenarios have been modelled to take account of cost inflation and delays in maintenance expenditure, with major works being phased into future years.
- Rent and service charge receivable – within scenario planning, arrears and bad debts have been increased to allow for resident difficulties in making payments exacerbated by the costs of living increases. Additionally, the possibility of potential future reductions in rents and / or increases not at maximum permitted levels has been tested.
- Liquidity – treasury policy and maintaining liquidity headroom against committed spend and forecast cash flows in the medium term.
- PA's ability to withstand other adverse scenarios such as higher interest rates, high inflation and increased numbers of empty properties.

In making the assessment the Board has also considered the potential mitigations available to manage the potential impact on PA's cashflows and liquidity.

As well as considering the impact of a number of scenarios on the business plan the Board has also adopted a stress testing framework against the base plan. Stress testing impacts are measured against loan covenants, peak borrowing levels and other headline financial metrics compared to base plan outputs, with potential mitigating actions identified to reduce exposure for all scenarios. This stress testing found that the business plan is robust and PA would remain able to meet its obligations in all but the most extreme of scenarios.

The Board, after reviewing budgets for 2022/23 and the medium to long term financial position as detailed in the 30-year business plan, is of the opinion that, taking account of severe but plausible downsides, the Group and Association have adequate resources to continue in business for the foreseeable future, being a period of at least twelve months after the date on which the report and financial statements are signed.

On this basis, the Board continues to adopt the going concern basis in the financial statements.



Resources Director's Report

Resources Director's Report

It has been a turbulent few years for the social housing sector and the wider UK economy. The economic and socio-political ramifications of Brexit are still unfolding. Grenfell was first and foremost a human tragedy which has quite rightly led to a raising of safety standards with associated costs. Covid-19 affected all our lives and heavily disrupted businesses. The terrible war in Ukraine has the knock-on effect of upsetting global supply chains, with particular impacts on energy, fuel and essential foods. Now we are grappling with an emerging cost of living crisis which is affecting individuals and companies alike.

As a social housing provider PA is particularly attuned to the ways in which rapidly increasing living costs can affect lives. We know that some of our residents are having to make incredibly difficult choices about how to spend their limited incomes, with essentials such as food, utilities and fuel all spiralling in price. This is also concerning PA's employees – even as someone who enjoys a good salary I am acutely aware of the increases to my own household costs, so I know it will be hugely tough for many on lower salaries. And of course there are the business impacts, with heavy price hikes working their way into PA's cost base as and when we renew our supply contracts at the same time as we are working with the government to agree sensible restrictions on our rental income in order to protect residents.

My job is to try to help our Board navigate a path through these choppy waters. PA's inherent financial resilience has helped. This has enabled the Board to make some decisions to help residents, including a cap on service charge increases, a fairer rent deal for shared ownership residents, offering support on energy bills, and electing not to pass on any costs relating to fire safety remediation projects.

These decisions are of course not without financial impact, and in doing the right thing the Board has recognised that there will be a degree of compromise in respect of our short-term financial metrics. However, the longer-term outlook remains strong, although this is of course subject to the UK economy returning to a more steady state in due course.

PA will not be alone in facing these choices and I expect that the sector as a whole will see some degradation to metrics over the next couple of years. We hope that our lenders and investors will continue to show strong support to our sector while we encounter these financial headwinds, and it is incumbent on us to keep our financial stakeholders fully informed about our performance and plans.

Within this context, I am pleased to confirm a set of financial results for 2021/22 which broadly conformed to our plan at the start of the year. We faced some performance issues, most notably in relation to letting our homes and selling new shared ownership homes, and these are improvement priorities for us in the year ahead. Both were linked to process-related challenges which we can address, rather than any fundamental demand problem.

The results also reflect planned increased investment in building safety, most notably relating to fire safety, where we have a small number of estates requiring remediation work alongside an expanded programme of ongoing maintenance. Overhead cost control was good during the year, and capital investment in both existing homes and new build projects was strong.

The above factors have combined to deliver an overall operating margin of 28%. This is slightly below both our historic trend and our medium term projection, illustrating the fact that we see the causal factors as temporary in nature. Again, this is subject to the speed at which the UK economy can recover from its current position, and at the time of writing this outlook is highly uncertain.

The relative short-term volatility being faced by PA and the wider social housing sector was considered by the Regulator of Social Housing through its recent In-Depth Assessment visit. This resulted in a financial viability regrade from V1 to V2. The reasons for this are well understood and they don't cause us to change our financial or wider business strategy.

Our financial outlook is governed by our financial golden rules, and PA's results against these rules are discussed elsewhere in this report. As was the case last year, our Board sees the rules as valid and appropriate in the longer-term but has accepted some short-term deviation while we deliver additional building safety investment. The one exception is on sales, where recent substantial Social Housing Grant allocations have enabled us to recalibrate our future new build tenure mix. This means more emphasis on rented homes and less on shared ownership properties, allowing us to reduce our rule relating to sales turnover from 25 to 20 per cent of total business turnover in the longer term. The difficult economic situation necessitates some compromise on golden rules adherence within our current financial planning, in order to ensure that we continue to maximise investment in our homes and services.

Underpinning our growth ambitions, our liquidity position remains very strong. In the early part of the year we completed a £400m public bond issue (of which £100m was retained for future issuance), and we have worked with our bank lenders to renew certain facilities. The continued faith shown in PA by our lenders and investors is greatly appreciated.

Ending where I started, the current unstable economic climate will continue to influence our financial decisions in the short term. Our rental income will be restricted to a level well below general inflation in the short term. This is the right thing to do but it does mean that we are faced with a real terms reduction in our financial resources. PA's Board, and the wider sector, is thinking carefully about what this will mean for residents and service delivery. We will fully participate in the evolving debate, which to me speaks squarely to the sector's values and ethos.

Whatever the outcome, the next couple of years promise continued financial choices and challenges. Having worked in the social housing sector since 1995 I can confirm that life has never been dull for Finance Directors, but the last few years have certainly taken the levels of interest to new heights. The current climate represents a true test of our business and social purpose credentials, but I firmly believe that PA is well equipped to respond to the challenge.

Simon Hatchman
Executive Director - Resources

Resources Director's Report

Our financial golden rules

Our Board has agreed a set of golden rules which underpin our approach to financial management. Through our financial planning, we ensure that these rules are harmonised with our corporate plan and objectives so that in effect, they comprise the building blocks of our financial strategy. This approach helps us to preserve financial resilience into the long term.

The Board reviews our performance against the golden rules at each Board meeting in the light of external challenges and considers their appropriateness at the start of each financial year. This aligns with our budget setting process and the production of the long term financial and business plan.

In setting the budget for 2021/22 the Board recognised the continued external challenges for PA in the delivery of its ambitions within the constraints of the golden rules. In addition to the external challenges the Board also recognised the need to address the backlog of repairs and planned maintenance and to improve service delivery more generally. This was balanced against the backdrop of the golden rules. For the second year running therefore, it was noted that full compliance with the golden rules may not be achieved. Despite this, Board members were confident that PA would, in the medium term, return to achieving the golden rules as demonstrated in our financial plan, that the rules remained appropriate, and opted not to amend them.

Fire safety remediation costs have again been significant throughout 2021/22. Waking watch and fire cover costs continued on a number of schemes to ensure the safety of our residents while we consider the best solutions to provide safe homes to residents in the longer term. We therefore measure and report on metrics both including and excluding remediation costs where appropriate. This ensures we do not lose sight of our business as usual performance and trends and gives assurance to the Board and other stakeholders that our underlying business remains viable.

Our lenders have supported us during the year in providing a temporary exemption for fire safety remediation costs when calculating loan covenants. Whilst we were confident this year that we would meet the covenant tests without the exemption, this has enabled us to press ahead where we can, and plan for the additional costs over the next few years. This ensures the safety of our residents is not limited through financials restraints. Our interest cover and gearing golden rules are based on the tightest lender covenant for each, to ensure we have significant headroom.

Rule	Target	Result	Met
Operating Margin: Social Housing Lettings	-	22.2%	-
- excluding fire safety remediation costs	> 30%	26.9%	✗
Free Cash	-	£ (8.2m)	-
- excluding fire safety remediation costs	>£10m	£ 0.1m	✗
Interest Cover (loan covenant basis)	>150%	147%	✗
Gearing (loan covenant basis)	<55%	52%	✓
Hedged Debt	>50%	80%	✓
Liquidity	> 18 months	20 + months	✓
Social Housing Grant	No reliance	No reliance	✓
Property Sales as % of turnover	< 25%	11.5%	✓

Resources Director’s Report

Summary results

Group results	2022	2021	2020	2019	2018
Group statement of comprehensive income	£m	£m	£m	£m	£m
Turnover	169.4	156.6	149.6	159.6	164.7
Operating surplus	47.4	41.3	54.6	62.0	65.1
Net interest payable	30.2	27.3	27.3	29.9	33.5
Net surplus after tax	20.2	16.4	28.5	38.8	32.9
Net surplus excluding property sales	6.7	8.4	10.0	27.0	17.2
Group statement of financial position	£m	£m	£m	£m	£m
Property fixed assets net of depreciation and impairment	1,953	1,829	1,736	1,642	1,637
Capital grants	432	428	430	420	443
Net current assets / (liabilities)	60	(7)	65	45	16
Long-term creditors	1,449	1,280	1,281	1,180	1,181
Reserves	588	551	535	506	488
Statistics					
Operating margin (all activities)	28%	26%	37%	39%	40%
Net surplus %	12%	10%	19%	24%	20%
Gearing (debt versus housing assets)	49%	46%	43%	40%	39%
Debt to turnover ratio	5.8:1	5.6:1	5.3:1	4.4:1	4.3:1
Debt per owned property £’000	£46.3	£41.8	£38.3	£34.1	£32.6
Accommodation owned and managed	No.	No.	No.	No.	No.
Rented	19,654	19,442	19,301	19,370	19,860
Shared ownership	1,687	1,538	1,463	1,425	1,345
Managed units including leaseholders	1,951	2,040	1,969	2,254	2,300
Total stock	23,292	23,020	22,733	23,049	23,505

Resources Director's Report

Financial Review (Group results)

Turnover

Turnover has increased from £156.7m in 2021 to £169.4m.

Turnover from social housing lettings, including the amortisation of social housing grant but net of void loss is £144.2m (2021: £139.5m). Income from the first tranche sales of shared ownership homes was £19.5m (2021: £12.5m). Other income was generated from non-social housing activities and other (non-lettings) social housing activities of £5.8m (2021: £4.9m).

Turnover (Group)

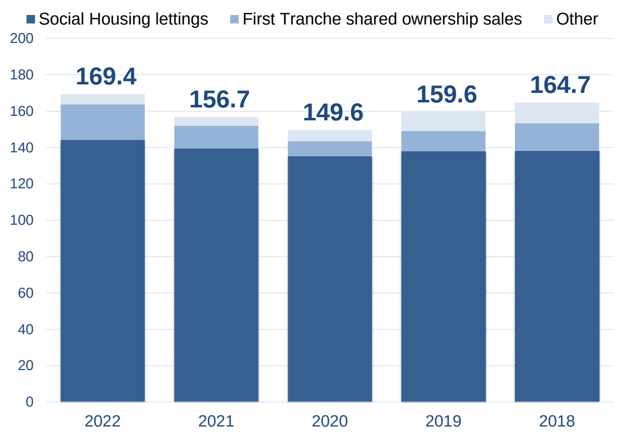
£169m (2021: £157m)

Net rental income has increased by 3.1% year on year. The increase is from a combination of development growth and the acquisition of homes increasing the number of properties generating an income stream, and rent increases. In 2021/22 rents were increased by 1.5%, the maximum permitted under government policy.

Income from service charges to residents has increased to £12.6m in 2021/22 (2021: £11.7m).

During 2021/22 we have continued to experience issues with empty properties and how quickly we are able to re-let these. Losses from such properties were £3.4m (2021: £3.7m); this includes £0.7m of losses on properties completed and awaiting sale and £0.4m on a specific scheme where we are working with the local authority to address occupancy issues.

Turnover £m



Operating Costs

Total operating costs are £116.9m (2021: £111.8m).

Operating costs related to social housing lettings is £112.1m (2021: £104.8m). Excluding depreciation costs and write offs, costs are £93.0m (2021: £83.0m). The year-on-year increase is 12.0%. Excluding fire safety remediation works of £6.9m (2021: £1.6m) the increase is 5.8%.

We experienced an increase in service charge costs in the year from £15.2m to £17.7m. This increase relates to increases in utility costs and management fees charged via third party managing agents. The gap between costs incurred and amounts recoverable from residents has increased in recent years as costs have increased and we have looked to protect residents from the impact of this by capping service charge increases.

Operating costs relating to the repair and maintenance of our social housing were £40.0m (2021: £33.3m). Excluding fire safety remediation costs and related expenditure (note 39 of the financial statements) costs were £33.1m (2021: £31.7m). Increases have been experienced on costs outside of our main contracts through a combination of increases in both volumes of repairs and prices.

Management costs (including salaries and overheads) are £34.8m (2021: £33.1m). Whilst this is an increase on the previous year the costs were in line with our budget expectations.

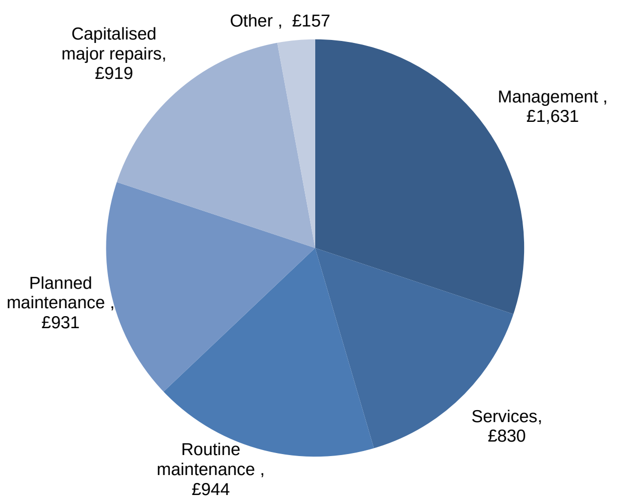
More generally, in the latter part of the year we began to see an increase in costs as high inflation took hold, a trend that we expect to continue into 2022/23.

Operating costs (Group)

£117m (2021: £112m)

Other operating costs outside of our core social lettings business were £4.7m (2021: £7.0m). Costs included a reversal of our fire safety provision of £0.6m (2021: charge £1.5m). No impairment charge was made in 2021/22 (2021: £0.9m).

Cost per unit (social housing lettings) £



Reinvestment in our homes

Investment in our existing homes was £19.6m (2021: £12.7m). £15.0m of this was in relation to replacing roofs, kitchens, bathrooms, windows and doors, heating systems and lifts under our component replacement programme. We committed significant resource in 2021/22 to address the backlog from the previous year as a direct result of Covid-19.

Resources Director's Report

As at 31 March 2022 all our homes met the Decent Homes Standard except for a small number where we were unable to gain access in order to carry out the planned improvement works.

We have invested over £5.0m in replacing fire doors on our schemes. Our approach is "safety first" and we have not looked to recover costs from leaseholders where we have replaced the fire door to their home.

Our capital investment programme included £2.0m directly related to replacement components where the building did not meet fire safety standards and remediation work was required.

Operating Margin

Our operating surplus for the year was £47.4m (2021: £41.3m). This includes a surplus of £13.4m generated from property sales, including first tranche shared ownership sales, staircasing and other property disposals (2021: £8.0m).

Operating Surplus (Group)

£47m (2021: £41m)

Property Sales

The surplus of £5.9m (2021: £3.9m) on first tranche sales of new shared ownership homes was from 127 sales (2020: 86).

Whilst sales volumes were consistent throughout the year, we did fall short of our budgeted overall sales targets. As a result, 174 homes were held for sale at the end of March 2022 (2021: 114), 71 of which had been for sale for longer than six months (2021: 46).

The sales margin achieved was 30% (2021: 32%). Sales prices achieved were in line with our expectations.

Shared ownership sales

127 (2021: 86)

A surplus of £7.6m (2021: £4.1m) has been made from the sale of other properties.

We saw increased activity in shared ownership staircasing transactions in the year, driven by a buoyant sales market in the first part of the year. 73 shared ownership homeowners (2021: 55) further invested in a share of their home, 51 of these fully staircasing to 100% equity in their home (2021: 40). This generated a surplus of £5.0m (2021: £3.2m).

Property sales (No.)	2022	2021
Shared ownership: First tranche	127	86
Voluntary right to buy	-	5
Shared ownership staircasing	73	55
Other	21	14

The Voluntary Right to Buy Midlands pilot drew to a close early in the previous year and therefore no sales were made in 2021/22.

21 other sales completed (2021:14), including 17 right to buy / acquire sales, two voluntary sales and the sale of two small parcels of land.

Financing

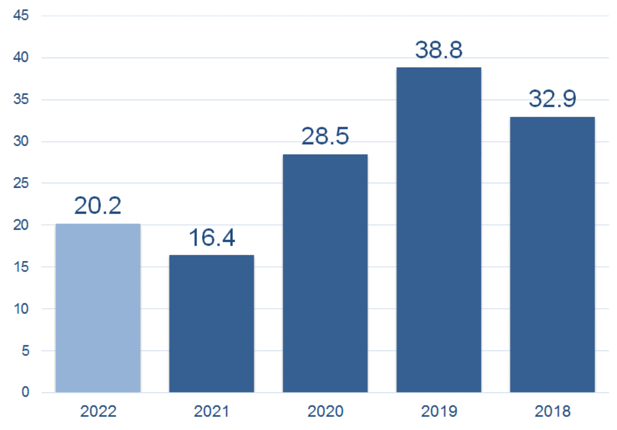
Interest and financing charges after capitalisation were £30.2m (2021: £27.3m). Gross interest on our housing loans including bond issues was £33.4m (2021: £29.8m).

Our overall borrowing increased from £882m to £994m.

Surplus

The surplus before tax for the year is £20.2m (2021: £16.4m).

Surplus before tax £m



New homes

In 2022 our total investment in building and purchasing new homes was £121m (2021: £135m). Grant subsidy was £5.1m (2021: £1.4m) in the year. Our growth model is not reliant on grant receipts, although we have been successful in attracting significant grants in support of the current pipeline.

We completed 317 new homes during the year for rent and shared ownership and purchased a further 167 homes from another registered provider of social housing.

New homes at Copper Corner, Sydenham (CGI image)

Resources Director's Report

Financial Position

The historic cost of our housing properties increased by 6.6 per cent to £1.95bn (2021: £1.83bn) through our development programme and reinvestment in our existing homes.

In 2021/22 we invested £7.0m (2021: £4.9m) in other assets. This included new emergency call telecare systems at our independent living estates and further investment in fire safety equipment.

Stock held of £76.7m (2021: £72.6m) relates to our completed unsold and under construction shared ownership properties and land held for development in our subsidiary companies.

Cash balances including ringfenced funds were £38.1m (2021: £40.8m).

Debtors relating to tenant arrears have fallen to £8.7m (2021; £9.9m). This includes arrears on both current and former tenants and is before any provision for bad debts.

Collateral provided to counterparties shown in current asset investments held fell to £1.4m (2021: £5.8m) as a result of a decrease in the position of our interest rate derivatives portfolio when marked to market. As a result, we recognised £11.6m positive movement in the fair value of financial instruments in other comprehensive income (2021: £11.9m positive). The fair value of derivative financial instruments at 31 March 2022 was £37.1m (2021: £51.5m), included in creditors due after more than one year.

Creditors due within one year have reduced to £64.8m (2021: £134.3m). At 31 March 2021 our short-term debt included £75m borrowed from the Banks of England's Covid Corporate Financing Facility. This was repaid in early 2021/22.

Total loans and borrowing at 31 March 2022 were £994m (2021: £882m). In May 2021 we issued our £400m Sustainable Bond, of which £100m was retained. Overall debt consists of £550m of bonds (2021: £250m) and £444m of bank and other loans (2021: £632m).

The liability on our legacy defined benefit pension schemes is £13.9m (2021: £21.2m). This includes two closed schemes; the Social Housing Pension Scheme (SHPS) and the Local Government Pension Scheme (LGPS).

The SHPS liability decreased from £20.3m at 31 March 2021 to £13.1m at 31 March 2022. Financial markets have been volatile over the last few years which has resulted in a fluctuating liability at the reporting dates. The improved position at 31 March 2022 compared to March 2021 is due to a higher discount rate assumption outweighing the higher inflation rate assumption as a result of movements in the financial markets. The positive asset performance and employer deficit contributions has also contributed to the improved position.

The LGPS liability was £0.7m (2021: £1.0m). Liabilities fell due to changes in financial assumptions although the return on assets was negative in the year. A deficit contribution of £0.5m was made in the year as we look to accelerate our exit from the scheme.

Total net assets were £588m at 31 March 2022 (2021: £551m).

Financial outlook

Our Board and Finance Committee regularly review our financial plan. Our long-term financial outlook is stable and in line with our business model which focuses on core social housing activities and new development.

There are short-term pressures on our operating margin and free cash in the next two years, this includes additional expenditure on our fire safety remediation programme. We are however modelling an improvement in the medium term, although we are conscious that there is still considerable economic uncertainty, in particular high inflation, and rising interest rates.

Our modelling does include the impact of high cost inflation, balanced with our expectations on rent increase to residents as we move into 2023 and 2024. We recognise that the increase in the costs of living will have a significant impact on our residents in the coming years.

We also apply stress testing to our plan linked to our risk register, and prioritised and quantified mitigations have been identified. Overall, the business plan continues to represent a robust and resilient outlook.

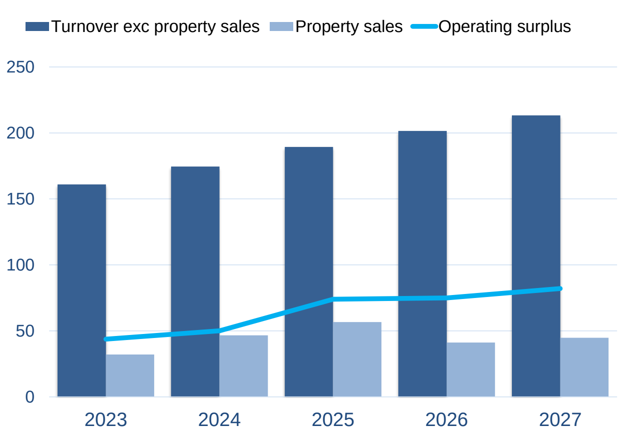
We fully expect to meet the Board's golden rules in the medium term, but in common with the rest of the sector, there are external challenges we need to navigate. Our liquidity position remains strong and we continue to pursue strategic funding opportunities to support our growth plans.

The Board reviewed our financial plan in May 2022. The plan incorporates our ambition to deliver corporate objectives. It reflects our service delivery priorities, in particular:

- Improving our customer satisfaction.
- Maintaining resilience to the external environment.
- Doing everything we need to in respect of the building safety agenda.
- Our commitment to the longer-term net carbon neutral agenda.
- Our agreed 6,000 homes development target.

Our projections are below; these should only be taken as a broad indication given the rapidly evolving operating environment:

Financial outlook (£m)



Resources Director's Report

Treasury and Liquidity

Treasury management

We operate a centralised treasury function which has responsibility for managing our liquidity, interest rate risk and counterparty risk. The treasury policy and annual strategy that underpin these responsibilities are approved each year by the Board.

Our treasury policy takes a risk-based approach to liquidity and interest rate management, with the overriding objective being the avoidance of unacceptable exposure. Surplus cash is invested with approved counterparties (banks and money market funds) in line with strict criteria governing acceptable credit quality and maximum exposure limits, and in line with best practice guidelines of security, liquidity then yield.

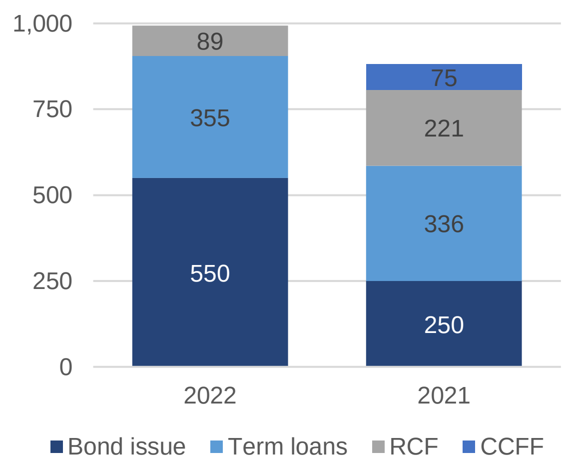
How we are funded

Overall Borrowing

£994m (2021: £882m)

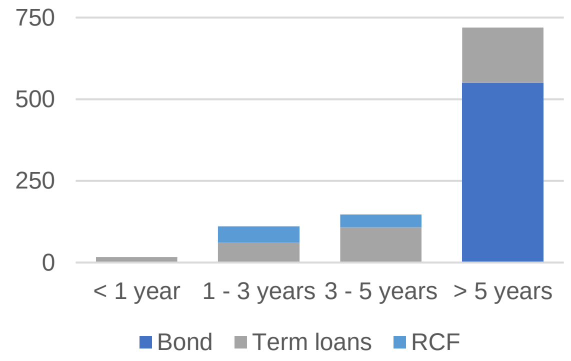
We borrow principally to fund our new build development programme, and the business is funded in pounds sterling through external borrowings (bank loans and capital markets), retained earnings and grant provided by government agencies. PA Housing is the main borrowing vehicle for bank loan borrowings. Our wholly owned subsidiary Paragon Treasury Plc has issued two bonds, one a £300m issue (with a further £100m retained) maturing in 2036, issued within the financial year as a sustainable bond, and a £250m issue maturing in 2047. The proceeds of both issues were on-lent to PA Housing. PA Housing is rated A- (Stable) by Standard & Poors and A3 (Stable) by Moody's.

Funding (£m)



The sustainable bond issue allowed us to reweight our debt portfolio more heavily towards capital markets, to the benefit of extending the maturity profile. Overall external borrowings grew over the year as we continued to invest in our development programme.

Maturity of debt (£m)



Liquidity

At the year-end date we held liquidity (comprising treasury cash balances, and undrawn committed loan facilities available for immediate drawing) of £362m (2021: £262m). Cash balances were £28.6m (2021: £33.1m).

Liquidity

£362m (2021: £262m)

In May 2021 we raised £300m of new debt (with a further £100m retained for future issuance) via a well-subscribed sustainable bond issuance, raising funds for a 15-year term until 2036 at a rate of 2.0%. This gave us substantial capital to invest in our new-build programme as well as other relevant expenditure under the associated sustainable finance framework. Following the issuance, we repaid all remaining borrowings made under the Bank of England's Covid Corporate Financing Facility (CCFF), as well as short-term borrowing drawn under revolving credit facilities. This left us with larger than usual cash balances, which were invested in a mix of bank deposits and money market funds.

As the year progressed, the pace of our new-build programme increasingly gained traction as the impact of Covid restrictions eased. This required more working capital, and meeting these needs saw our cash balances become steadily more normalised. Later in the year we started to draw again on revolving credit facilities, but utilisation remained limited as at 31 March 2022.

Looking forward we anticipate that cash outflows will build further during 2022-24, as the business will be investing more heavily in fire safety remediation works in addition to maintaining the new build programme. We also expect some of our costs to rise as the impact of high inflation levels is felt. Further ahead we will be starting to invest more heavily in our existing stock where we have identified a need to improve its energy efficiency. Nevertheless, our strong liquidity position on the back of the bond issue gives us substantial scope to

Resources Director’s Report

continue to invest in new and existing stock in support of our corporate plan.

Exposure to interest rate movements

The ever-declining interest rate environment has clearly now finally run its course given current inflation levels and outlook. We locked in higher levels of fixed-rate cover early in the year as a result of the bond issue, which has reduced our exposure to rising interest rates over the short-term.

Fixed rate cover rose to 80 per cent at March 2022 (2021: 62 per cent), which included £110m of standalone interest rate swaps (2021: £160m), with an aggregate value when marked-to-market of £37.7m negative (2021: £53.3m negative).

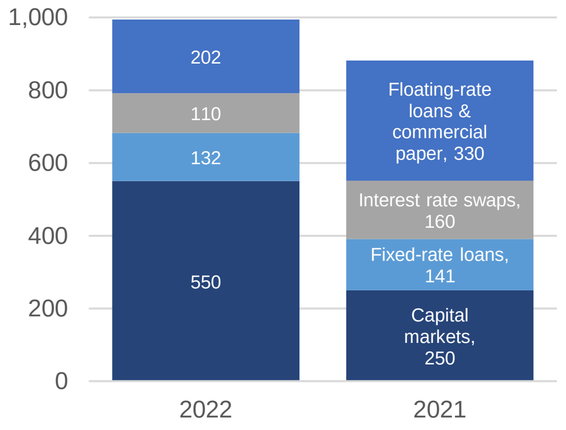
The improvement in market value reflects the significantly stronger interest rate outlook prevailing at the March 2022. The weighted average cost of our outstanding borrowings at 31 March 2022 remained static at 3.4 per cent (2021: 3.4 per cent).

Fixed Rate Cover

80% (2021: 62%)

All bank loan borrowings and interest rate swaps which had previously been linked to LIBOR were transitioned to the SONIA benchmark effective from 1 January 2022 or earlier. The transition has not materially affected the nature of our interest rate exposures.

Interest Rate Risk (£m)



Financial covenants

Our primary financial covenants are based on interest cover, asset cover and gearing ratios.

All were met comfortably at the March 2022 test date, and our business plan indicates long term headroom going forward.

Value for Money

Efficient treasury operations directly support our aim to provide quality and energy efficient homes that are affordable for our customers in the communities we serve.

During the year we arranged new funding that has helped reduce exposure to rising interest rates, whilst ensuring the business retains a strong financial footing to support delivery of our corporate plan.

Sustainable Bond Issue

The proceeds of our sustainable bond issuance in May 2021 are being utilised in accordance with our Sustainable Finance Framework, which directly promotes development of new-build social housing properties that achieve an EPC performance of ‘A’ or ‘B’.

The framework also encompasses expenditure on retro-fitting of older properties to improve their energy performance in line with carbon reduction targets, and on wider estate sustainability measures such as provision of charging points for electric vehicles. As at the year-end we had allocated £107m of the initial £300m proceeds to qualifying projects that met the framework criteria.

The Board's Report and Governance

The Board's Report and Governance

Legal Status

Paragon Asra Housing Limited is incorporated in the United Kingdom and registered with the Financial Conduct Authority under the Co-operative and Community Benefits Societies Act 2014 and with the Regulator of Social Housing as a social housing provider.

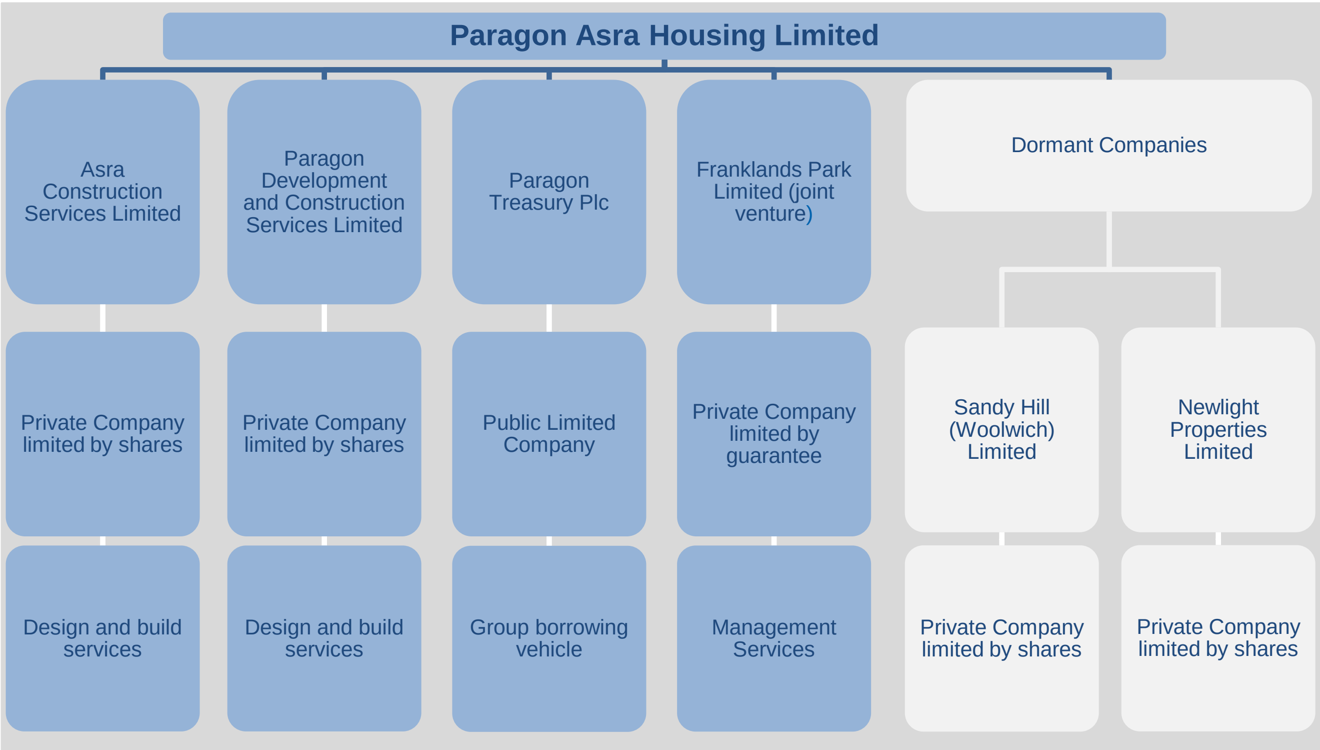
Paragon Asra Housing Limited trades as and is known as PA Housing (UK trademark).

Paragon Asra Housing Limited is a Public Benefit Entity, as defined in Financial Reporting Standard 102, and applies the relevant paragraphs of FRS 102 for Public Benefit Entities.

The principal activity of the Group is the management and development of social housing, operating in London, the South East and the Midlands.

Group Structure

PA Housing's governance arrangements are built around a simple organisational structure. PA Housing is the main asset holding entity. Other active entities apart from our joint venture company are two construction companies which deliver property construction services to the parent company, and Paragon Treasury Plc which has accessed bond finance from the capital markets and has on-lent the proceeds to PA Housing. The dormant companies are retained for possible future use.



Franklands Park Limited is a joint venture company in which PA Housing retains a 50 per cent interest. The principal activity of Franklands Park Limited is the management of an estate in Addlestone. A share of the company's results has not been included in the Group figures on the grounds of materiality. Franklands Park Limited's latest published results for the year ended 31 March 2022 show a profit for the year of £7k (2021: £7k) and net assets of £17k (2021: £9k).

The Board's Report and Governance

Code of governance

The Board maintains effective governance arrangements that deliver its aims and objectives in a transparent and accountable manner.

The Rules of the Association remain its principal document of constitution and they regulate various matters including the Board, its powers and its role. The rules were reviewed in 2021/22 and a partial amendment made. This was approved by the Board on 27 January 2022 and registered with the FCA on 8 March 2022.

The Board regularly reviews and approves its standing orders, scheme of delegations, code of conduct, financial regulations and Committee terms of reference.

The Board complies with the National Housing Federation's 2020 Code of Governance and the 2012 Code of Conduct.

The Board meets frequently to determine strategy and policy and to monitor the performance of PA Housing.

Board

Composition

PA Housing is governed by a Board of between five and 12 Board members including the Chief Executive. Two current Board members are residents of PA Housing.

As at the 31 March 2022, the Board comprised eight non executive members and the Chief Executive.

Each Board member holds one fully paid up share of £1 except for the Chief Executive, who is not a shareholder. Four shareholders are not Board members.

Board members are paid a fee for their services. The People Committee has sole responsibility for recommending to the Board the structure and level of fee and takes advice from independent advisors as required when undertaking reviews of the fee structure. These reviews are benchmarked against levels for comparable organisations and are designed to ensure that PA Housing is able to recruit and retain high calibre Board members. There have been no changes to Board member remuneration in the year.

Board Effectiveness

The Board is committed to the highest standards of governance and is responsible for setting the strategic direction and to govern, control and scrutinise the financial management of the Group.

During 2021/22 the regulator conducted an In-Depth Assessment of PA concluding in early 2022. The governance remained at G1, the highest possible grading, as a result of the assessment.

The Board completed its annual review of combined and individual Board member performance during the year. This includes self assessment a review of the skills matrix and peer appraisals. The following themes are embedded in the review:

- Measures to ensure that the focus on residents remains a core part of Board business.
- Ongoing self-challenge as to what governance excellence looks like in an evolving world.
- Further work to embed equality, diversity, and inclusion within the Board's operations.

Board members undertake individual and collective training and development activity to further enhance their skills and experience, and to consider wider sector issues. Board members' learning is shared through regular 'horizon scanning' and "away day" sessions at Board and Committee meetings.

The Board and its Committees comprise members from a diverse range of backgrounds and with the range of skills, knowledge and experiences appropriate for their needs. Following the most recent review of Board performance and effectiveness, membership of the Board and its mix of skills, knowledge and experience is considered to remain appropriate for PA Housing to deliver its Corporate Plan.

PA Housing is committed to developing a culture in which equality, diversity and inclusion is integral to all of its activities, including the recruitment and development of Board and Committee members. PA Housing aims to achieve a culture that respects and values differences and eliminates discrimination in all areas. The Board will participate in externally delivered training in the Summer of 2022. Of the eight Board members (excluding the Chief Executive), three members were female and five male.

All Board and Committee members are required to declare any interests annually and otherwise at meetings where potential issues may arise.

The Group maintains Directors' and Officers' liability insurance for its Board members and officers, which is renewed annually. The Board is given access to independent professional advice when it so requires.

The Board's Report and Governance

Committees

During the year the Board delegated authority to five permanent Committees. The Committee structure was reviewed in the year with the creation of a new permanent Finance Committee. The remaining Committees were reviewed, and the terms of reference updated. Roles, responsibilities and accountabilities are set out in standing orders and scheme of delegations, reviewed and approved annually by the Board.

Each Committee comprises between three and six non-executive Board members with the exception of the Customer Committee which comprises of up to four non-executive Board members, four resident co-optees and three other co-optees.

Audit and Risk Committee

The Audit and Risk Committee oversees internal control, risk and management procedures, as well as reviewing the annual financial statements and external audit recommendations. It also provides challenge and scrutiny, ensures fair and balanced financial and proportionate risk management arrangements, and manages a risk profile in accordance with our strategy and risk appetite.

Finance Committee

The Finance Committee is now a permanent Committee and replaces the Financing Group. The role of the Committee is to oversee and provide assurance to the Board in respect of financial activities. This includes review of financial performance, budgeting, business planning and stress testing, treasury and new financings and value for money.

Investment Committee

The Investment Committee replaced the Development and Assets Committee during the year. It provides assurance to the Board in respect of investment decisions and oversees and scrutinises the development and sales programme and investment in our existing assets. The Committee reviews progress and performance on all aspects of housing development, sales and marketing activity. It approves development schemes and asset investment appraisals within its delegations.

Customer Committee

The Customer Committee replaced the Customer Services Committee during the year. It oversees and provides assurance to the Board on our services to customers. Its focus is on all aspects of the effective and efficient operational delivery of services, ensuring feedback from residents and other stakeholders and promoting high standards.

People Committee

The People Committee replaced the Nominations and Remuneration Committee during the year. It oversees and provides assurance to the Board on our people and governance. It considers Board structures and appointments, working arrangements and remuneration of Board members, the Chief Executive and Executive Directors. It provides scrutiny and support in reviewing all people related policies and strategies including Equality, Diversity and Inclusion.

The Board's Report and Governance

Meetings, attendance, and remuneration

Attendance records of the non-executive Board and Committee members at meetings during the year are shown below. For members who either retired or were appointed during the year, the record shows attendance versus the maximum number of meetings each member could have attended. The record includes attendance for all meetings where Committees names and terms of reference have been updated.

Current Board member annual remuneration is £20,000 for the Chair, £15,500 for the Deputy Chair, £13,000 per Committee Chair and £11,000 per member.

Remuneration shown in the table below is inclusive of expenses paid. Total expenses of £1,573 (2021: £1,432) were reimbursed to non-executive Board members during the year. Remuneration of committee members who are not Board members is not disclosed.

	Board	Audit and Risk Committee	Finance Committee	Investment Committee	Customer Committee	People Committee	Remuneration 2021/22 £	Remuneration 2020/21 £
Board Members								
Stephen Amos	5 of 6	1 of 1	4 of 5	3 of 3			13,123	13,000
Andrew Carrington	6 of 6	2 of 3	5 of 5	3 of 3			12,667	5,500
Kim Francis	6 of 6	2 of 3		3 of 3		1 of 1	11,263	5,500
Kathleen Harris Leighton	6 of 6				3 of 3		11,583	5,500
Rahul Jaitly	6 of 6	4 of 4			2 of 3	0 of 1	11,184	5,500
Curtis Juman	6 of 6	4 of 4	4 of 5			3 of 3	15,083	12,000
Katherine Lyons	6 of 6	3 of 4				2 of 3	13,424	12,601
Anne Turner	6 of 6	1 of 1	5 of 5	1 of 2	1 of 1	3 of 3	19,343	13,000
Dilip Kavi (Chief Executive) [1]	6 of 6			3 of 3	2 of 2	3 of 3		
Retired								
Hattie Llewelyn-Davies	1 of 1						3,333	20,223
Christopher Cheshire	1 of 1				1 of 1		2,167	13,300
Seetle Patel	1 of 2						2,944	7,176
David Edwards (retired 20/21)								7,882
David Hunter (retired 20/21)								6,500
Committee Members								
Joan Swift (resident)					3 of 3			
Ruth Mitchell (independent)					2 of 2			
Stephen Cooper (independent)					2 of 2			
Stephen Cunningham					3 of 3			
Timothy Hill (independent) [2]				3 of 3				

[1] The remuneration of the Chief Executive who is also a Board member is included in notes to the financial statements.
[2] Timothy Hill is a Board member of Asra Construction Services Limited and Paragon Asra Development and Construction Services Limited, subsidiaries companies of PA Housing.

The Board's Report and Governance

Compliance with the Governance and Financial Viability Standard

PA Housing confirms its compliance with the Governance and Financial Viability Standard of the Regulator of Social Housing. The Board has assessed its compliance with the standard during the year with reference to the current position and activities of the Group.

Statement of Internal Control Assurance

The PA Housing Board has overall responsibility for establishing and maintaining the system of internal control. As with all systems of internal control, it is designed to manage rather than eliminate all risk of failure to achieve business objectives and can therefore provide reasonable and not absolute assurance against material misstatement or loss. The system of internal control is subject to continuing review and development.

Charitable and Political Donations

The Group has made charitable donations of £13,800 (2021: £53,066) during the year. No political donations were made during the year (2021: Nil).

Annual Review of the effectiveness of the System of Internal Control

The Board delegates responsibility for the annual review of the effectiveness of the system of internal control to the Audit and Risk Committee (ARC). The ARC receives the Chief Executive's annual report on internal controls. ARC takes account of any changes needed to maintain the effectiveness of the management and control process for risk and fraud. ARC met four times during the course of the year. Assurance over the control environment was obtained from the following main sources:

Risk Management

An effective risk management framework sits at the heart of the system of internal control. The Board confirms that the process for identifying, evaluating and managing the significant risks faced by the organisation is ongoing, the process has been in place throughout the year and up to the date of approval of the annual report and accounts and is regularly reviewed by the Board.

ARC receives risk management reports at each meeting and approves the risk register on behalf of the Board. Risk Management reports include the top strategic risks, operating environment analysis, a risk trigger report and risk assurance register. Board receive risk management reports tailored to their specific business requirements. During the year the risk appetite matrix and the business plan stress testing scenarios including mitigation modelling (linked to the strategic risks and risk trigger report) were refreshed. Risk Management processes were subject to outsourced audit review during the year.

The external credit rating process in support of PA's public bond issue also takes into account the strength of our governance and risk management arrangements. PA holds two A rated credit assessments.

Internal Audit Service

The prime responsibility of the internal audit service is to provide the Board with assurance on the adequacy and effectiveness of the internal control system, including risk management and governance. Internal audit also plays a valuable role in helping management to improve systems of internal control and so to reduce the potential effects of any significant risks faced. Internal Audit is delivered by the in-house team with an element of outsourced support. The Head of Risk Management has direct access to ARC and may meet with the Committee and Committee Chair privately.

ARC reviews the findings arising from all Internal Audit Reports and is provided with progress reports on the implementation of agreed recommendations for improvement to the point of conclusion.

The Head of Risk Management provides an annual report and overall assurance opinion on the system of internal control based on the Internal Audit work performed during the year and management response to that work. The 2021/22 Internal Audit annual report identified no material concerns.

The internal audit process was subject to an external advisory review in May 2022.

Fraud Management

All probity policies were refreshed during the year. There is an established code for integrity and bribery and PA Housing operates a zero tolerance approach to any instances of fraud or corruption. There is an Anti-Fraud Policy in place covering prevention, detection and reporting of fraud and the recovery of assets. A Fraud Response Plan is also maintained along with a register of identified incidents.

The Anti-Fraud Policy includes publication of an externally hosted confidential whistleblowing hotline service that colleagues can use to report any concerns of an act of fraud of corruption. There were no material issues reported through this service during the year.

ARC reviews the fraud and loss register and reflects the information contained within it in its assessment of the control environment.

Information and Financial Reporting Systems

Financial reporting procedures include a long-term financial plan, detailed annual budgets, detailed treasury reports, value for money reporting and regular management accounts which are reviewed by the Board.

Any issues raised in the external audit management letter issued at conclusion of the annual audit are dealt with to the satisfaction of both the external auditors and ARC with progress tracked to the point of conclusion.

Key performance indicators and business objectives set as part of the performance management framework are regularly reviewed by the Board to assess progress and outcomes. Performance targets are also linked to the PRP framework.

Director and Leadership Self Assessment and Certification

The Executive Management Team provides assurance that internal controls and risk management are operating effectively in their directorate through completion of an annual assurance statement and self assessment against a range of internal controls. The Leadership Team also undertakes a twice-yearly self assessment and certification of the key control environment on a departmental basis.

Other assurance providers

Additional assurance is provided from a range of external sources to compliment the internal systems and processes including the key areas of treasury, ICT, development, asset management, housing services and governance.

Control Environment and Procedures

Governance arrangements are subject to continuing review and development to ensure they remain fit for purpose. Board and sub-Committee membership is reviewed annually in line with the membership policy terms. A Board recruitment exercise was under way following the year end. Compliance with the chosen code of governance and the Regulatory Framework is reviewed annually.

A revised regulatory judgement of G1 / V2 was awarded following In Depth Assessment. The regulator obtained continued assurance that PA's governance arrangements enable it to adequately control the organisation and to continue meeting its objectives whilst noting that increased investment in existing homes impacts interest cover performance and numbers of new home sales are increasing.

The Board retains responsibility for a defined range of issues covering strategic, operational, financial, and compliance matters and new investment projects. The Board disseminates its requirements to employees through a framework of policies and procedures.

The Board confirms that there is an ongoing process for identifying, evaluating and managing significant risks faced by PA Housing and for preventing, detecting, investigating and insuring against fraud. This process has been in place throughout the year under review, up to the date of the annual report, and is regularly reviewed. The Board has not identified any weaknesses sufficient to cause material misstatement or loss, which require disclosure in the financial statements.

Statement of Board's responsibilities in respect of the Board's report and financial statements

The Board is responsible for preparing the Board's Report, Strategic Report, and the financial statements in accordance with applicable law and regulations.

Co-operative and Community Benefit Society law requires the Board to prepare financial statements for each financial year. Under those regulations the Board have elected to prepare the financial statements in accordance with UK Accounting Standards FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

The financial statements are required by law to give a true and fair view of the state of affairs of the group and the association and of the income and expenditure of the group and the association for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the group's and the association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless it either intends to liquidate the group or the association.

The Board is responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the association and enable them to ensure that its 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 2019. It is responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the association and to prevent and detect 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 UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of information to the auditor

Each of the persons who are a director at the date of approval of this report confirms that:

a) so far as each director is aware, there is no relevant audit information of which the Group's auditor is unaware; and

b) each director has taken all the steps that they ought to have taken in their duty as a director in order to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Approved by the Board and signed on its behalf by:

JA Gregory

Jacqueline Gregory
Company Secretary

29 September 2022

Independent Auditor's report to the members of Paragon Asra Housing Limited

Opinion

We have audited the financial statements of Paragon Asra Housing Limited ("the group and association") for the year ended 31 March 2022 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Reserves, Statement of Cash Flows and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view, in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, of the state of affairs of the group and the association as at 31 March 2022 and of the income and expenditure of the group and the association for the year then ended;
- comply with the requirements of the Co-operative and Community Benefit Societies Act 2014; and
- have been prepared in accordance with the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2019.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group and the association in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

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

In our evaluation of the Board's conclusions, we considered the inherent risks to the group's business model and analysed how those risks might affect the group's and the association's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

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

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

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

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

- Enquiring of directors and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board and audit committee minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

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

As required by auditing standards, and taking into account possible pressures to meet loan covenants / regulatory performance targets we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that income from property sales is recorded in the wrong period and the risk that Group management may be in a position to make inappropriate accounting entries. We did not identify any additional fraud risks.

In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of some of the Group-wide fraud risk management controls.

We also performed procedures including:

- Identifying journal entries and other adjustments to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included those posted and approved by the same user, those posted to revenue in period 12 and 13 and those posted to unusual accounts.
- Assessing significant accounting estimates for bias.
- Detailed testing over revenue recognition around the year-end date.

Identifying and responding to risks of material misstatement related to compliance with laws and regulations

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

Independent Auditor's report to the members of Paragon Asra Housing Limited

discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

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

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

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

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation including related co-operative & community benefit society legislation, taxation legislation, pensions legislation and specific disclosures required by housing legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the need to include significant provisions. Whilst the Company is subject to many other laws and regulations, we did not identify any others where the consequences of non-compliance alone could have a material effect on amounts or disclosures in the financial statements.

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

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

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

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

Other information

The association's Board is responsible for the other information, which comprises the Board's Annual Report, the Statement on Internal Control Assurance and Compliance with the Governance and Financial Viability Standard. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

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

Matters on which we are required to report by exception

Under the Co-operative and Community Benefit Societies Act 2014 we are required to report to you if, in our opinion:

- the association has not kept proper books of account; or
- the association has not maintained a satisfactory system of control over its transactions; or
- the financial statements are not in agreement with the association's books of account; or
- we have not received all the information and explanations we need for our audit.

We have nothing to report in these respects.

Board's responsibilities

As explained more fully in their statement set out on page 53, the association's Board is responsible for: the preparation of financial statements which give a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and 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 it either intends to liquidate the group or the association or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities

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

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

Independent Auditor's report to the members of Paragon Asra Housing Limited

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

This report is made solely to the association in accordance with section 87 of the Co-operative and Community Benefit Societies Act 2014 and section 128 of the Housing and Regeneration Act 2008. Our audit work has been undertaken so that we might state to the association those matters we are required to state to it 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, for our audit work, for this report, or for the opinions we have formed.

Harry Mears
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
30 September 2022

Financial Statements

Financial Statements
Statement of Comprehensive Income

	Note	Group 2022 £'000	Group 2021 £'000	Association 2022 £'000	Association 2021 £'000
Turnover	2	169,422	156,648	169,444	156,891
Cost of sales	2	(13,673)	(8,545)	(13,673)	(8,545)
Operating costs	2	(116,857)	(111,838)	(116,843)	(111,815)
Surplus on disposal of fixed assets and investments	6	7,562	4,089	7,562	4,089
Movement in fair value of investment properties	15	939	1,000	939	1,000
Operating Surplus	2	47,393	41,354	47,429	41,620
Surplus on sale of other fixed assets		-	106	-	106
Interest receivable	9	22	59	22	59
Interest and financing costs	10	(30,223)	(27,288)	(30,223)	(27,288)
Movement in fair value of financial instruments	27	3,209	2,462	3,209	2,462
Gift aid receivable		-	-	1,275	-
Surplus before tax		20,401	16,693	21,712	16,959
Taxation	11	(240)	(258)	(16)	(15)
Surplus for the year after tax		20,161	16,435	21,696	16,944
Other comprehensive income					
Movement in fair value of hedged financial instruments	27	11,577	11,905	11,577	11,905
Actuarial gain / (loss) on defined benefit pension schemes	34	4,706	(12,287)	4,706	(12,287)
Total comprehensive income for the year		36,444	16,053	37,979	16,562

The turnover and operating surplus for the current year all relate to continuing activities.

The notes on pages 63 to 100 form part of these financial statements.

Financial Statements
Statement of Financial Position

	Note	Group 2022 £'000	Group 2021 £'000	Association 2022 £'000	Association 2021 £'000
Fixed Assets					
Intangible assets and goodwill	12	(6,085)	(6,705)	(6,085)	(6,705)
Tangible fixed assets – housing properties	13	1,953,333	1,828,570	1,961,475	1,835,228
Tangible fixed assets – other	14	23,452	18,855	23,452	18,855
Investment properties	15	23,237	21,468	23,237	21,468
Investments	16	309	359	309	359
Investment in subsidiaries	17	-	-	13	13
		1,994,246	1,862,547	2,002,401	1,869,218
Current Assets					
Stock	18	76,742	72,648	64,744	55,978
Debtors	19	6,313	8,316	19,278	25,980
Current asset investments	20	1,407	5,807	1,407	5,807
Cash and cash equivalents		38,080	40,775	37,465	38,847
		122,542	127,546	122,894	126,612
Creditors: amounts falling due within one year	21	(63,010)	(134,343)	(64,280)	(134,378)
Net current assets / (liabilities)		59,532	(6,797)	58,614	(7,766)
Total assets less current liabilities		2,053,778	1,855,750	2,061,015	1,861,452
Creditors: amounts falling due after more than one year	22	(1,449,347)	(1,279,814)	(1,449,347)	(1,279,814)
Provision for liabilities	33	(2,716)	(3,298)	(2,716)	(3,298)
Net assets excluding pension liability		601,715	572,638	608,952	578,340
Pension liability	34	(13,880)	(21,247)	(13,880)	(21,247)
Total net assets		587,835	551,391	595,072	557,093
Capital and Reserves					
Called up share capital	32	-	-	-	-
Income and expenditure reserve		367,467	340,723	374,704	346,425
Cash flow hedge reserve		(17,352)	(28,929)	(17,352)	(28,929)
Revaluation reserve		237,642	239,519	237,642	239,519
Restricted reserve		78	78	78	78
		587,835	551,391	595,072	557,093

The notes on pages 63 to 100 form part of these financial statements.

The financial statements on were approved by the Board on 29 September 2022 and signed on its behalf by:

A Turner

Anne Turner
Chair

Curtis Juman
Chair of
Audit and Risk Committee

J A Gregory

Jacqueline Gregory
Company Secretary

Financial Statements

Consolidated Statement of Changes in Reserves

Group	Income and exp. reserve £'000	Cash flow hedge reserve £'000	Revaluation reserve £'000	Restricted reserve £'000	Total £'000
At 1 April 2021	340,723	(28,929)	239,519	78	551,391
Surplus for the year	20,161	-	-	-	20,161
Change in fair value of hedged financial instruments	-	11,577	-	-	11,577
Actuarial gain on defined benefit pension scheme	4,706	-	-	-	4,706
Difference between the depreciation on historic cost of properties and actual depreciation charge for the year	1,181	-	(1,181)	-	-
Difference between the gain or loss on disposal of housing properties calculated at historic cost and carrying value	696	-	(696)	-	-
At 31 March 2022	367,467	(17,352)	237,642	78	587,835

Group	Income and exp. reserve £'000	Cash flow hedge reserve £'000	Revaluation reserve £'000	Restricted reserve £'000	Total £'000
At 1 April 2020	335,073	(40,834)	241,021	78	535,338
Surplus for the year	16,435	-	-	-	16,435
Change in fair value of hedged financial instruments	-	11,905	-	-	11,905
Actuarial (loss) on defined benefit pension scheme	(12,287)	-	-	-	(12,287)
Difference between the depreciation on historic cost of properties and actual depreciation charge for the year	1,181	-	(1,181)	-	-
Difference between the gain or loss on disposal of housing properties calculated at historic cost and carrying value	321	-	(321)	-	-
At 31 March 2021	340,723	(28,929)	239,519	78	551,391

The notes on pages 63 to 100 form part of these financial statements.

Financial Statements

Association Statement of Changes in Reserves

Association	Income and exp. reserve £'000	Cash flow hedge reserve £'000	Revaluation reserve £'000	Restricted reserve £'000	Total £'000
At 1 April 2021	346,425	(28,929)	239,519	78	557,093
Surplus for the year	21,696	-	-	-	21,696
Change in fair value of hedged financial instruments	-	11,577	-	-	11,577
Actuarial gain on defined benefit pension scheme	4,706	-	-	-	4,706
Difference between the depreciation on historic cost of properties and actual depreciation charge for the year	1,181	-	(1,181)	-	-
Difference between the gain or loss on disposal of housing properties calculated at historic cost and carrying value	696	-	(696)	-	-
At 31 March 2022	374,704	(17,352)	237,642	78	595,072

Association	Income and exp. reserve £'000	Cash flow hedge reserve £'000	Revaluation reserve £'000	Restricted reserve £'000	Total £'000
At 1 April 2020	340,266	(40,834)	241,021	78	540,531
Surplus for the year	16,944	-	-	-	16,944
Change in fair value of hedged financial instruments	-	11,905	-	-	11,905
Actuarial (loss) on defined benefit pension scheme	(12,287)	-	-	-	(12,287)
Difference between the depreciation on historic cost of properties and actual depreciation charge for the year	1,181	-	(1,181)	-	-
Difference between the gain or loss on disposal of housing properties calculated at historic cost and carrying value	321	-	(321)	-	-
At 31 March 2021	346,425	(28,929)	239,519	78	557,093

The notes on pages 63 to 100 form part of these financial statements.

Financial Statements

Consolidated Statement of Cash Flow

	Note	2022 £'000	2021 £'000
Net cash generated from operating activities	29	43,214	47,778
Cash flow from investing activities			
Interest received		22	59
Grants received		5,075	1,365
Purchase and enhancement of housing properties		(145,659)	(120,653)
Purchase of other tangible fixed assets		(6,961)	(4,895)
Purchase of investment properties		(1,388)	(242)
Proceeds from sale of tangible fixed assets		16,340	9,767
Proceeds from sale of other tangible fixed assets		-	112
		(89,357)	(66,709)
Cash flow from financing activities			
Taxation paid		(15)	(10)
Interest paid		(30,224)	(27,288)
Decrease in bank deposits with a maturity in excess of 24 hours		4,400	7,970
Financing			
Housing loans and bond finance received	30	455,000	495,000
Housing loans repaid	30	(342,499)	(414,387)
Net change in cash and cash equivalents		(2,695)	(5,424)
Cash and cash equivalents at beginning of the year		40,775	46,199
Cash and cash equivalents at end of year		38,080	40,775

The notes on pages 63 to 100 form part of these financial statements.

Notes to the Financial Statements

1 Accounting Policies

1.1 Basis of Preparation

These financial statements are prepared in accordance with Financial Reporting Standard 102 – the applicable financial reporting standard in the UK and Republic of Ireland (FRS 102) and the Statement of Recommended Practice: Accounting 2018 and comply with the Accounting Direction for Private Registered Providers of Social Housing 2019.

In preparing the separate financial statements of the parent company, advantage has been taken of the following disclosure exemptions available in FRS 102:

- only one reconciliation of the number of shares outstanding at the beginning and end of the period has been presented as the reconciliations for the Group and the parent company would be identical;
- no cash flow statement has been presented for the parent company.

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

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

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 1.35.

Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments and investment property.

1.2 Basis of consolidation

The Group accounts comprise those of Paragon Asra Housing Limited (the association) together with its subsidiaries, in accordance with the requirements of FRS 102. Intercompany transactions and balances between Group companies are therefore eliminated in full. A list of subsidiary undertakings of the association is included in the notes to these financial statements.

1.3 Segmental reporting

There are publicly traded securities across all of the geographical locations the association operates within and therefore there is a requirement to disclose information about the Group operating segments under IFRS 8. Segmental information is disclosed in note 3 and as part of the analysis of housing properties in note 13. Information about income, expenditure and assets attributable to material operating segments is presented on the basis of the nature and function of housing assets held by the Group rather than by geographical location. As permitted by IFRS 8 this is appropriate on the basis of the similarity of the services provided, the nature of the risks associated, the type and class of customer and the nature of the regulatory environment across all of the geographical locations where the association operates. The Board does not routinely receive segmental information disaggregated by geographical location or segmental information of income or costs below operating surplus.

1.4 Going Concern

The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The Group prepares a 30-year business plan which is updated and approved on an annual basis. The most recent business plan was approved in May 2022. The Group has in place long-term debt facilities which provide adequate resources to finance committed reinvestment and development programmes, along with the Group's day to day operations and shows that it is able to service these debt facilities whilst continuing to comply with lenders' covenants. As at 31 March 2022 the Group had available cash balances of £29m and a further £333m of secured but undrawn loan facilities that could be drawn at short notice.

The Board's assessment of going concern involves a number of subjective judgements. In making the assessment the Board has also considered the potential mitigations available to manage the potential impact on its cashflows and liquidity.

As well as considering the impact of a number of scenarios on the business plan the Board also adopted a stress testing framework against the base plan. The stress testing impacts were measured against loan covenants and peak borrowing levels compared to agreed facilities, with potential mitigating actions identified to reduce expenditure for all scenarios. This stress testing found that the business plan is robust and does not affect the group's ability to meet its obligations.

The Board, after reviewing the Group and Association budgets for 2022/23 and the Group's medium term financial position as detailed in the 30-year business plan, is of the opinion that, taking account of severe but plausible downsides, the Group and Association have adequate resources to continue in business for the foreseeable future being a period of at least twelve months after the date on which the report and financial statements are signed.

On this basis, the Board continues to adopt the going concern basis in the financial statements.

1.5 Turnover

Turnover is measured at the fair value of the consideration received or receivable and excludes Value Added Tax (where applicable).

Rental income

Rental income (net of void loss) is recognised on an accruals basis for the period to which it relates as opposed to the date on which the rent is charged. For schemes managed by agents, income is shown as rent receivable and management fees payable to agents are included in operating costs.

Supporting People

Where the association receives Supporting People grants from London boroughs and county councils, grants received and costs incurred in the provision of support services have been included in the Statement of

Comprehensive Income. Any excess of cost over the grant received is borne by the association where it is not recoverable from tenants.

Service charges receivable

The association operates both fixed and variable methods for calculating and charging service charges to its tenants and leaseholders. Expenditure is recorded when a service is provided and charged to the relevant service charge account or to a sinking fund. Income is recorded based on the estimated amounts chargeable.

Managed services

Management fees receivable and reimbursed expenses are shown as income and included in management services. Costs of carrying out the management contracts and rechargeable expenses are included in operating costs.

First tranche sales of low-cost home ownership housing properties developed for sale

Income from first tranche sales is recognised at the point of legal completion of the sale.

Proceeds from the sale of land and property

Income from land and property disposals is recognised at the point of legal completion of the sale.

1.6 Supported housing schemes

In respect of supported housing schemes owned by the Group where the managing agents suffer the risks and have control of benefits, the income and expenditure and related current assets and liabilities are not included in these financial statements.

1.7 Pensions

Defined contribution pension scheme

The association participates in the defined contribution scheme of the Social Housing Pension Scheme and Aegon. The assets of the schemes are held separately from those of the Association in an independently administered fund. Contributions to the defined contribution pension scheme are charged to the Statement of Comprehensive Income in the year in which they become payable.

Defined benefit pension schemes

The association has previously participated in two defined benefit pension schemes which are now closed to new members. The disclosure in the accounts follows the requirements of Section 28 of FRS 102 in relation to multi-employer funded schemes.

The assets of the schemes are held separately from those of the association. The difference between the fair value of the assets held in the defined benefit pension schemes and the schemes liabilities measured on an actuarial basis using the projected unit method is recognised in the Statement of Financial Position as a pension asset or liability as appropriate. The carrying value of any resulting pension scheme asset is restricted to the extent that the association is able to recover the surplus either through reduced contributions in the future or through refunds from the scheme.

Local Government Pension Scheme (LGPS) - Surrey County Council

The Surrey County Council Pension Fund is a multi-employer scheme administered by Surrey County Council under the regulations governing the Local Government Pension Scheme, a defined benefit scheme.

Social Housing Pension Scheme (SHPS)

SHPS is a multi-employer scheme which provides benefits to non-associated employers. The scheme is classified as a defined benefit scheme. From 1 April 2018 the scheme liability was accounted for adopting a full FRS 102 valuation.

Other pension agreements

PA has the following agreement in respect of a legacy pension scheme.

Local Government Pension Scheme (LGPS) - Elmbridge Borough Council

Under the terms of the transfer agreement with Elmbridge Borough Council, PA Housing makes additional payments each year as its contribution to the past service deficit at 31 March 1998. These are recognised as a liability on the Statement of Financial Position at the net present value of future payments. The unwinding of the discount is recognised as finance cost in the Statement of Comprehensive Income in the period it arises

1.8 Interest Payable

Interest payable is charged to the Statement of Comprehensive Income over the term of the debt using the effective interest rate method so that the amount charged is at a constant rate on the carrying amount

Interest is capitalised on borrowing to finance developments to the extent that it accrues in respect of the period of development if it represents either:

- interest on borrowings specifically financing the development programme after deduction of interest on social housing grant in advance; or
- interest on borrowings of the association as a whole after deduction of interest on social housing grant in advance to the extent that they can be deemed to be financing the development programme.

Other interest payable is charged to the Statement of Comprehensive Income in the period it relates to.

1.9 Finance issue costs

Arrangement fees (and other up front direct transaction costs), for both fixed and floating facilities, are calculated at facility level and are apportioned across all interest periods using the effective interest rate method. FRS 102 paragraph 11.20 requires that the unamortised fee balance is netted off against the loan liability.

1.10 Taxation

The tax expense for the period comprises current and deferred tax.

The charge for taxation is based on surpluses arising on certain activities which are liable to tax. The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date. All taxation charges are in line with UK tax legislation.

Deferred tax balances are recognised in respect of all timing differences that have originated, but not reversed by the Statement of Financial Position date, except:

- the recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits
- any deferred tax balances are reversed, if and when all conditions for retaining associated tax allowances have been met; and
- where timing differences relate to interests in subsidiaries and joint venture and the Group can control their reversal, and such reversal is not considered probable in the foreseeable future.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax.

1.11 Value added tax (VAT)

Members of the Group are independently registered for VAT as required.

VAT is charged on some income and the Group is able to only partly recover VAT it incurs on expenditure. Thus irrecoverable VAT is a cost to the Group and consequently the financial statements include VAT to the extent it is suffered by the Group and not recoverable from HM Revenue and Customs. VAT recovered is included within expenditure and is credited to the Statement of Comprehensive Income.

1.12 Negative Goodwill on fair value exchanges

Negative goodwill, being the excess of fair value of the underlying separable net assets over the fair value of the consideration, is shown as part of intangible fixed assets.

An amount equal to the fair value of the non-monetary assets acquired is released to the Statement of Comprehensive Income commensurately with the recovery of the non-monetary assets acquired, whether through depreciation or sale.

1.13 Goodwill and Negative Goodwill on non-exchange transactions

For non-exchange transactions (acquisitions in the social housing sector that are in substance a gift of one business to another), the fair value of the gifted recognised assets and liabilities is recognised as a gain or loss in the Statement of Comprehensive Income in the year of transaction.

1.14 Housing properties and depreciation

General needs properties, sheltered housing and shared ownership properties are stated at cost or deemed cost valuation less depreciation.

Cost for housing properties includes the cost of acquiring land and buildings, construction costs including internal equipment and fittings, directly attributable development administration costs, cost of capital employed during the development period and expenditure incurred in respect of improvements to and extension of existing properties to the extent that it enhances the economic benefit derived from the assets. Directly attributable development administration costs are the labour costs of the Group's own employees arising directly from the construction or acquisition of the property and the incremental costs that would have been avoided, only if the property had not been constructed or acquired.

Expenditure on major refurbishment to properties is capitalised where the works increase the net rental stream over the life of the property. An increase in the net rental stream may arise through an increase in the net rental income, a reduction in future maintenance costs, or a subsequent extension in the life of the property. All other repair and replacement expenditure arising through normal wear and tear to properties is charged to the Statement of Comprehensive Income in the year in which it occurs.

1.15 Deemed cost

From 1 April 2014, Paragon Community Housing Group as a predecessor organisation to Paragon Asra Housing Limited changed its accounting policy from recording housing properties at valuation or cost, to being recorded at historic cost. Paragon Asra Housing Limited took the FRS 102 transition option to elect to measure certain items of property, plant and equipment (PPE) at fair value and use that fair value as the deemed cost of those assets at that date. For these items there is a revaluation reserve and any unamortised grant was released to reserves as this constitutes a revaluation that triggered the performance method of grant recognition to be used.

To determine the deemed cost at 31 March 2014, Paragon Community Housing Group engaged independent valuation specialist Savills UK Limited to value housing properties on an EUV-SH basis.

1.16 Depreciation of housing property

Housing land and property is split between land, structure and other major components that are expected to require replacement over time.

The useful economic life of a property has been deemed to commence at:

- the completion of major refurbishment work after purchase; or
- completion of building work for new build properties; or
- date of purchase if no major refurbishment works take place

Land is not depreciated on account of its indefinite useful economic life.

Assets in the course of construction are not depreciated until they are completed and ready for use to ensure that they are depreciated only in periods in which economic benefit is expected to be consumed.

The Group separately identifies the major components which comprise its housing properties, and charges depreciation to write down the cost of each component to its estimated residual value, on a straight-line basis, over its estimated useful economic life. Components are depreciated from the year following replacement.

The major components of its housing properties and their useful economic lives are as follows:

Building structure	60-125 years
Roofs	50-80 years
Kitchens	20-25 years
Bathrooms	30-37 years
Windows and doors	30-40 years
Heating and boilers	15-25 years
Lifts	25 years
Rewiring	30 years
Enveloping works	50 years

Leasehold properties are depreciated over the length of the lease, except where the expected useful economic life of properties is shorter than the lease. In these instances the lease and building elements are depreciated separately over their expected useful economic lives.

Any difference between historic cost depreciation and depreciation calculated on deemed cost is transferred between the revaluation reserve and income and expenditure reserve.

In 2021/22 the useful economic lives of roofs was reviewed. As a result the useful economic lives has been amended from 50 years to between 50 and 80 years. The impact in the 2021/22 financial statements is a reduction of the depreciation charge from £1.5m under the previous policy to £0.2m.

1.17 Shared ownership properties and staircasing

Under low cost homeownership arrangements, the association disposes of a long lease on low-cost homeownership housing units for a share ranging between 25% and 75% of value. The buyer has the right to purchase further proportions, and up to 100%, based on the market valuation of the property at the time each purchase transaction is completed.

Low cost homeownership properties are split proportionately 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 related sales proceeds, included in turnover. The remaining element, 'staircasing element', is classed as PPE and included in completed housing property at cost less any provision for impairment. Sales of subsequent tranches are treated as a part disposal of PPE. Such staircasing sales may result in capital grant being deferred or abated and any abatement is credited in the sale account in arriving at the surplus or deficit.

1.18 Allocation of costs for mixed tenure and shared ownership developments

Costs are allocated to the appropriate tenure where it is possible to specify which tenure the expense relates to. Where it is not possible to relate costs to a specific tenure, costs are allocated on a floor area or unit basis depending on the appropriateness for each scheme.

1.19 Impairment

An assessment of whether indicators of impairment exist is carried out at each reporting date. If such an indicator exists as defined in FRS 102.27 'Impairment of Assets', an assessment is carried out to determine if an impairment is required. Any impairment in an income generating unit is recognised by a charge to the Statement of Comprehensive Income.

An impairment loss occurs when the carrying amount of an asset or cash generating unit exceeds its recoverable amount. The recoverable amount is taken to be the higher of the fair value, less costs to sell or value in use of an asset or cash generating unit. The assessment of value in use may involve considerations of the service potential of the assets, or cash generating units concerned, or the present value of future cash flows to be derived from them, appropriately adjusted to account for any restrictions on their use.

Cash generating units are defined as schemes except where its schemes are not sufficiently large enough in size or where it is geographically sensible to group schemes into larger cash generating units.

1.20 Other tangible fixed assets

Other tangible fixed assets, other than investment properties, are stated at historic cost or deemed cost valuation less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Costs are added to the carrying amount of an item of fixed assets if the replacement part is expected to provide incremental future benefits. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to the Statement of Comprehensive Income during the period in which they are incurred.

1.21 Depreciation of other tangible fixed assets

Depreciation on other assets is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method. The estimated useful lives range is as follows:

Freehold office premises	10-50 years
Leasehold office premises	10-25 years
Plant and machinery	2-4 years
Fixtures, fittings and equipment	2-25 years
IT equipment	3-4 years
Motor vehicles	3-5 years

Depreciation commences at the start of the first full year after the asset comes into economic use and a full year is depreciated in the year of disposal.

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted prospectively if appropriate, if there is an indication of a significant change since the last reporting date.

The asset category of freehold office premises has certain assets recorded at deemed cost, as the association took the FRS 102 transition option to elect to measure this class of PPE at fair value at 31 March 2014 and use that fair value as the deemed cost of those assets at that date. To determine the deemed cost at 31 March 2014, Savills UK Limited was engaged as independent valuation specialists.

1.22 Investment properties

Properties that are held to earn commercial/market rate rentals or for capital appreciation, or both, and not held for social benefit are treated as investment properties and accounted for in accordance with Section 16 of FRS 102. Investment properties are accounted for at fair value and are valued at each reporting date and derived from the current market rents and investment property yields for comparable real estate, adjusted if necessary for any difference in the nature, location or condition of the specific asset. No depreciation is provided for investment properties under construction as they are stated at cost. Changes in fair value are recognised in the Statement of Comprehensive Income.

1.23 Investments

Investments are stated at fair value.

1.24 Stock

Stock represents work in progress and completed shared ownership properties and properties for outright sale. Shared ownership properties are split between fixed and current assets, with the element relating to the expected first tranche sale being treated as a current asset along with completed properties for outright sale. Stock is stated at the lower of cost and net realisable value. Cost comprises acquisition costs, materials, direct labour, direct development overheads and capitalised interest. Net realisable value is based on estimated sales proceeds after allowing for all further costs to completion and selling costs.

1.25 Basic financial instruments

Debtors

Rent and service charge debtors and other debtors are recognised initially at transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. If the arrangement constitutes a financing transaction, it is measured at the present value of future payments discounted at a market rate. At the end of each reporting period the recoverable value of rental and other receivables is assessed for objective evidence of impairment. When assessing the amount to impair it reviews the age profile of the debt and the class of debt. Any losses arising from impairment are recognised in the Statement of Comprehensive Income in operating costs.

Creditors

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

Holiday pay accrual

A holiday pay accrual is recognised to the extent of any unused holiday entitlement which has accrued at the reporting date and is carried forward to future periods. This is measured at the undiscounted salary cost of future holiday entitlement accrued at the reporting date. An asset, calculated in a similar manner, is recognised to the extent that holiday entitlement accrued at the reporting date is exceeded by the holiday taken.

Sinking Funds

Unexpended amounts collected from leaseholders for major repairs on leasehold schemes and any interest received are included as leasehold sinking funds in creditors.

Loans and short term deposits

All loans and short term deposits held by the association meet the criteria to be classified as basic financial instruments as set out in accordance with FRS 102. These instruments are initially recorded at the transaction price, less any transaction costs (historic cost) and subsequently measured at amortised cost, using the effective interest rate method so that the amount recognised is at a constant on the carrying amount. If the adjustment is not material the financial instruments are stated on the Statement of Financial Position at historic cost. Loans that are payable or receivable within one year are not discounted.

Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position consists of cash at bank, in hand, deposits and short term investments with an original maturity of three months or less.

Financial liabilities and equity

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form.

1.26 Government and other grants

Grants received in relation to completed assets that were presented at deemed cost on 31 March 2014 have been accounted for using the performance model as required by the Housing SORP 2018. In applying this model, such grant has been presented as if it were originally recognised as income within the Statement of Comprehensive Income in the year it was receivable and is therefore included within brought forward reserves.

Grant received from 1 April 2014 in relation to newly acquired or existing housing properties and those housing properties remaining at historic cost are accounted for using the accrual model as set out in FRS 102 and the Housing SORP 2018. Grant is carried as deferred income in the Statement of Financial Position and released to the Statement of Comprehensive Income on a systematic basis over the useful economic lives of the asset for which it was received. In accordance with Housing SORP 2018 the useful economic life of housing property structure, at 100-125 years, has been selected. Where a grant is received specifically for components of a housing property, the grant is recognised in income over the expected useful life of the component.

Where Social Housing Grant funded property is sold, the grant becomes recyclable and is transferred to a recycled capital grant fund or disposal proceeds fund until it is reinvested in a replacement property. If there is no requirement to recycle or repay the grant on disposal of the assets, any unamortised grant remaining within creditors is released and recognised as income within the Statement of Comprehensive Income.

All other government grants are recognised using the accrual model and are classed as either a grant relating to revenue or a grant relating to assets. Grants relating to revenue are recognised in income on a systematic basis over the period in which related costs for which the grant is intended to compensate are recognised. Where a grant is receivable as compensation for expense or losses already incurred or for the purpose of giving immediate financial support with no future related costs, it is recognised as revenue in the period in which it becomes receivable.

Grants received from non-government sources are recognised as revenue using the performance model.

1.27 Recycled Capital Grant Fund

The Group has the option to recycle social housing grant, which would otherwise be repayable, for re-use on new developments. If unused within a three year period, it will be repayable to the either the Homes and Communities Agency or Greater London Authority (for London grant) with interest. Any unused recycled capital grant held within the fund which is older than two years is disclosed in the Statement of Financial Position under 'creditors due within one year'. The remainder is disclosed under 'creditors due after more than one year'.

1.28 Disposal Proceeds Fund

From 7 April 2017, no new net proceeds of disposals have been recognised in the Disposals Proceeds Fund. The balance held will be repaid or the grants utilised against future developments as agreed with Homes England and the Greater London Authority.

1.29 Hedge accounting

Interest rate swaps relate to fixing variable rate interest and are therefore designated as cash flow hedges.

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable transaction, which could affect profit or loss. They are measured at fair value at each reporting date. Gains and losses on cash flow hedges which are highly effective are recognised in other comprehensive income and accumulated in the cash flow hedge reserve. Any ineffective portion of a gain or loss on cash flow hedges is recognised in surplus or deficit.

In order to apply hedge accounting, an economic relationship must exist between the hedged item and the hedging instrument. The Group must formally designate and document the hedging relationship at inception so that the risk being hedged, the hedged item, the hedging instrument and the risk management objective for undertaking the hedge are clearly identified. It is also required to determine and document the causes of hedge ineffectiveness.

In a cash flow hedge, if the hedged future cash flows are no longer expected to occur, the amount that has been accumulated in the cash flow hedge reserve is reclassified from the cash flow hedge reserve to surplus or deficit immediately.

All of the Group's stand-alone swaps satisfy the above criteria and the Group has chosen to test the effectiveness of its hedges annually. For ineffective hedges the movement in fair value has been recognised in the surplus or deficit.

1.30 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that a transfer of economic benefit will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

1.31 Onerous leases

Where the unavoidable costs of a lease exceed the economic benefit expected to be received from it, a provision has been made for the present value of the obligations under the lease.

1.32 Reserves

Cash Flow Hedge reserve

The cash flow hedge reserve represents the hedged cash flows that are expected to affect surplus or deficit over the period to maturity of the interest rate swaps.

Revaluation reserve

The revaluation reserve is created from surpluses on asset revaluations on use of deemed cost at 31 March 2014.

Restricted reserve

The restricted reserves are reserves to be spent for the sheltered tenants' benefit.

1.33 Leases

Operating lease rentals are charged to the Statement of Comprehensive Income on a straight-line basis over the period of the lease.

1.34 Contingent liabilities

A contingent liability is recognised for a possible obligation, for which it is not yet confirmed that a present obligation exists which could lead to an outflow of resources, or for a present obligation that does not meet the definitions of a provision or a liability as it is not probable that an outflow of resources will be required to settle the obligation, or when a sufficiently reliable estimate of the amount cannot be made.

A contingent liability exists on grant repayment which is dependent on the disposal of related property.

Notes to the Financial Statements

1.35 Key estimates and judgments

In preparing these financial statements, key judgments have been made in respect of the following:

Impairment

Factors taken into consideration in reaching the decision as to whether there are indicators of impairment of tangible assets were:

- Evidence from the governance monitoring of schemes throughout the planning and construction stage, including supplier and contractor viability issues, site contamination and major enabling works.
- Evidence of changes from financial monitoring of scheme performance from its inception (in terms of IRR, NPV analysis and comparison of spend to budget) until the economic benefits are realised.
- Evidence from the Asset Management team for completed schemes under management, including works required from stock condition surveys, identification of obsolescence and circumstances such as long term voids.
- Changes in political and other macro-economic environment with direct or indirect impact on the asset and the expected future financial performance of the asset. This would include a change in government policy, a reduction in market value of a property where a resident has a right to acquire and a reduction in the demand for a property.

Triggers for impairment have been identified for specific cash generating units and an impairment review has been performed. As a result, no charge or reversal has been recognised in 2021/22 (2021: £0.9m). The total impairment charge at 31 March 2022 was £5.6m (2021: £5.6m). Further information is provided in note 13.

Provisions

Provisions are included where there is a constructive or legal obligation at the year end reporting date. For housing properties the Government guidance relating to combustible materials, fire risk and protection, and regulatory compliance is monitored to determine the extent of any remedial work. There are significant complexities in determining the remedial work required and the associated costs the provision represents the best estimate of these costs at the year end.

Provisions for fire safety works at the 31 March 2022 were £2.4m (2021: £2.7m)

A provision is made for an onerous lease on a commercial property which is sublet. At 31 March 2022 the provision was £0.3m (2021: £0.3m).

Further information is provided in note 33.

Recoverability of the cost of properties for sale

The anticipated cost to complete on a development scheme is based on anticipated construction costs, effective rate of interest on loans during the construction period, legal costs and other costs. Based on the costs to complete the recoverability of the cost of properties for sale is then determined. This judgment is also based on the best estimate of sales value based on economic conditions within the area of development. The source of these calculations is taken from internal investment appraisals produced from the knowledge and experience of the Development team and reviewed and approved by the Development and Assets Committee.

At the 31 March 2022, the cost of properties is expected to be fully recoverable. Further information is provided in note 18.

Defined benefit pension obligation

The critical underlying assumptions in relation to the estimate of the pension defined benefit scheme obligation have the ability to significantly influence the value of the liability recorded and the annual defined benefit expense. Underlying assumptions include the standard rates of inflation, mortality, discount rate and anticipated future salary and pension increases.

The defined benefit net pension liability at 31 March 2022 was £13.9m (2021: £21.2m).

Further information is given in note 34.

Apportionment of costs on a property basis for disposal of properties

The allocation of costs that cannot be assigned to a specific property is based on proportion of floor area of the property.

Allocation of shared ownership costs between current and fixed assets

The allocation is calculated based on the estimated first tranche sales percentage from the schemes investment appraisal.

Categorisation of fixed assets

The categorisation of fixed assets as housing properties, investment properties and other fixed assets is based on the use of the asset.

Basis of capitalisation for projects

Costs capitalised include direct staff costs and associated costs of development. Indirect central costs incurred are capitalised and estimated based on the costs that would not have been incurred had there been no development. Decisions on whether to capitalise costs include whether income will be generated or increased, and if the life of the assets is extended.

Costs capitalised in 2022 were £1.4m (2021: £1.3m).

Derivative financial instruments

Interest rate swaps are held at fair value using the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates. The fair value at 31 March 2022 was £37.1m (2021: £51.5m) Further information is provided in notes 27 and 28.

Depreciation

Tangible fixed assets, other than investment properties, are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as information surrounding the condition of the asset, annual stock survey results, historic investment, resident feedback, comparative information such as the Decent Homes Standard and future use of the asset are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

For housing property assets, the assets are broken down into components based on management's assessment of the properties. Individual useful economic lives are assigned to these components (note 1.16).

The total depreciation charge – housing properties in 2022 including accelerated depreciation on component replacements was £19.1m (2021: £21.8m).

Depreciation on other fixed assets in 2022 was £2.4m (2021: £2.0m).

Investment properties

Investment properties consist of commercial and market rent properties not held for social benefit. They are measured at cost on initial recognition and subsequently carried at fair value. There is an inevitable degree of judgement involved in that each property is unique and value can only ultimately be reliably tested in the market itself.

At the 31 March 2022 investment properties were revalued using external third-party valuers. In 2022 an upward movement of £0.9m was recognised (2021: £1.0m). The fair value of investment properties at 31 March 2022 was £23.2m (2021: £21.5m).

Further information is provided in note 15.

Rental and other trade receivables

The estimate for receivables relates to the recoverability of the balances outstanding at the reporting date. A review is performed on an individual debtor basis to consider whether each debt is recoverable. For rental related balances, experience shows that the longer a debt is outstanding the greater likelihood it is that the debt will not be recovered in full. A sliding scale of impairment of the carrying value of the debt is applied according to the relationship between the individual amount of the debt and the weekly charges for occupation of the home.

A provision for bad debts of £4.3m was included at 31 March 2022 (2021: £5.5m).

Further information is provided in note 19.

Other Debtors

Other debtors are provided on a case by case basis when evidence of impairment exists. When assessing impairment management consider factors including current credit rating of the debtor, the ageing profile of debtors and historic experience of cash collection and future expected losses. No impairment of other debtors has been recognised at 31 March 2022 (2021: nil).

Notes to the Financial Statements

2 Turnover, cost of sales, operating costs, and operating surplus

Group 2022	Turnover £'000	Cost of Sales £'000	Operating costs £'000	Other operating items £'000	Operating surplus/ (deficit) £'000
Social housing lettings (Note 3)	144,157	-	(112,141)	-	32,016
Other social housing activities					
First tranche shared ownership sales	19,523	(13,673)	-	-	5,850
Managed services	728	-	(532)	-	196
Charges for support services	21	-	-	-	21
Community investment	-	-	(586)	-	(586)
Development administration	-	-	(1,373)	-	(1,373)
Goodwill amortisation	620	-	-	-	620
Fire safety works provision	-	-	576	-	576
Impairment	-	-	-	-	-
Other	1,858	-	(1,078)	-	780
Surplus on disposal of housing fixed assets	-	-	-	7,562	7,562
	166,907	(13,673)	(115,134)	7,562	45,662
Non-social housing activities					
Market rented	1,030	-	(486)	1,014	1,558
Other non-social housing lettings	1,086	-	(462)	-	624
Commercial properties	399	-	(775)	(75)	(451)
Other	-	-	-	-	-
	2,515	-	(1,723)	939	1,731
Total	169,422	(13,673)	(116,857)	8,501	47,393

Group 2021	Turnover £'000	Cost of Sales £'000	Operating costs £'000	Other operating items £'000	Operating surplus/ (deficit) £'000
Social housing lettings (Note 3)	139,517	-	(104,790)	-	34,727
Other social housing activities					
First tranche shared ownership sales	12,453	(8,545)	-	-	3,908
Managed services	662	-	(234)	-	428
Charges for support services	22	-	-	-	22
Community investment	-	-	(727)	-	(727)
Development administration	-	-	(1,312)	-	(1,312)
Goodwill amortisation	622	-	-	-	622
Fire safety works provision	-	-	(1,500)	-	(1,500)
Impairment	-	-	(870)	-	(870)
Other	1,120	-	(976)	-	144
Surplus on disposal of housing fixed assets	-	-	-	4,089	4,089
	154,396	(8,545)	(110,409)	4,089	39,531
Non-social housing activities					
Market rented	991	-	(361)	120	750
Other non-social housing lettings	839	-	(249)	-	590
Commercial properties	422	-	(767)	880	535
Other	-	-	(52)	-	(52)
	2,252	-	(1,429)	1,000	1,823
Total	156,648	(8,545)	(111,838)	5,089	41,354

Notes to the Financial Statements

Turnover, cost of sales, operating costs, and operating surplus (continued)

Association 2022	Turnover £'000	Cost of Sales £'000	Operating costs £'000	Other operating items £'000	Operating surplus/ (deficit) £'000
Social housing lettings (Note 3)	144,157	-	(112,141)	-	32,016
Other social housing activities					
First tranche shared ownership sales	19,523	(13,673)	-	-	5,850
Managed services	728	-	(532)	-	196
Charges for support services	21	-	-	-	21
Community investment	-	-	(586)	-	(586)
Development administration	-	-	(1,373)	-	(1,373)
Goodwill amortisation	620	-	-	-	620
Fire safety works provision	-	-	576	-	576
Impairment	-	-	-	-	-
Other	1,880	-	(1,064)	-	816
Surplus on disposal of housing fixed assets	-	-	-	7,562	7,562
	166,929	(13,673)	(115,120)	7,562	45,698
Non-social housing activities					
Market rented	1,030	-	(486)	1,014	1,558
Other non-social housing lettings	1,086	-	(462)	-	624
Commercial properties	399	-	(775)	(75)	(451)
Other	-	-	-	-	-
	2,515	-	(1,723)	939	1,731
Total	169,444	(13,673)	(116,843)	8,501	47,429

Association 2021	Turnover £'000	Cost of Sales £'000	Operating costs £'000	Other operating items £'000	Operating surplus/ (deficit) £'000
Social housing lettings (Note 3)	139,517	-	(104,790)	-	34,727
Other social housing activities					
First tranche shared ownership sales	12,453	(8,545)	-	-	3,908
Managed services	662	-	(234)	-	428
Charges for support services	22	-	-	-	22
Community investment	-	-	(727)	-	(727)
Development administration	-	-	(1,312)	-	(1,312)
Goodwill amortisation	622	-	-	-	622
Fire safety works provision	-	-	(1,500)	-	(1,500)
Impairment	-	-	(870)	-	(870)
Other	1,363	-	(953)	-	410
Surplus on disposal of housing fixed assets	-	-	-	4,089	4,089
	154,639	(8,545)	(110,386)	4,089	39,797
Non-social housing activities					
Market rented	991	-	(361)	120	750
Other non-social housing lettings	839	-	(249)	-	590
Commercial properties	422	-	(767)	880	535
Other	-	-	(52)	-	(52)
	2,252	-	(1,429)	1,000	1,823
Total	156,891	(8,545)	(111,815)	5,089	41,620

Notes to the Financial Statements

3 Income and expenditure from lettings

Group and Association	General needs £'000	Supported housing & housing for older people £'000	Shared ownership £'000	2022 £'000	2021 £'000
Income from social housing lettings activities					
Rents receivable net of identifiable service charges	104,626	14,305	7,320	126,251	122,477
Service charges receivable	6,242	4,432	1,886	12,560	11,701
Amortisation of social housing grant	4,015	817	514	5,346	5,339
	114,883	19,554	9,720	144,157	139,517
Expenditure on social housing lettings activities					
Services	10,618	5,237	1,858	17,713	15,207
Management	33,572	878	366	34,816	33,104
Routine Maintenance	17,524	2,597	42	20,163	17,666
Planned maintenance	16,103	3,396	200	19,699	15,363
Major repairs	175	-	-	175	280
Rent losses from bad debts	(32)	119	(8)	79	834
Depreciation of housing properties	16,908	1,778	-	18,686	18,156
Write off of components	271	180	-	451	3,649
Lease costs	309	50	-	359	-
Other costs	-	-	-	-	531
Total expenditure on social housing lettings activities	95,448	14,235	2,458	112,141	104,790
Operating surplus from social housing lettings activities	19,435	5,319	7,262	32,016	34,727
Rent losses from voids	1,715	1,019	694	3,428	3,690

Notes to the Financial Statements

4 Units of stock

Group and Association	2022	Other movements	Sales	Acquired	New development	2021
Social Housing: Owned and managed						
General needs: Social rent	13,037	(33)	(16)	115	8	12,963
General needs: Affordable rent	2,566	2	(1)	11	124	2,430
Intermediate rent	395	-	-	-	-	395
Supported housing: Social rent	118	(4)	-	13	-	109
Supported housing: Affordable rent	192	-	-	-	-	192
Shared ownership	1,687	3	(51)	12	185	1,538
Housing for older people	2,251	(4)	(2)	12	-	2,245
Temporary housing	34	-	-	-	-	34
	20,280	(36)	(70)	163	317	19,906
Social Housing: Managed not owned						
General needs: Social rent	276	(38)	-	-	-	314
General needs: Affordable rent	64	(101)	-	-	-	165
Supported and Housing for older people: Social rent	30	-	-	-	-	30
	370	(139)	-	-	-	509
Social Housing: Owned and managed by others						
General needs: Social rent	55	-	-	-	-	55
General Needs: Affordable rent	19	-	-	-	-	19
Intermediate rent	35	-	-	-	-	35
Supported housing: Social rent	547	(7)	-	-	-	554
Supported housing: Affordable rent	45	-	-	-	-	45
	701	(7)	-	-	-	708
Total social housing units owned and / or managed	21,351	(182)	(70)	163	317	21,123
Leaseholder properties	1,555	46	-	4	-	1,505
Non Social Housing: Owned and managed						
Student accommodation	20	-	-	-	-	20
Market rent	117	(6)	-	-	-	123
Health worker accommodation	223	-	-	-	-	223
	360	(6)	-	-	-	366
Non Social Housing: Managed not owned						
Market rent	26	-	-	-	-	26
Total Housing	23,292	(143)	(69)	167	317	23,020
Other						
Homes under construction	1,094	638	-	-	(317)	773
Garages	2,038	(6)	-	-	-	2,044
Commercial	11	-	-	-	1	10
Held for re-development	140	16	-	-	-	124

Notes to the Financial Statements

5 Operating surplus on ordinary activities before taxation

	Group 2022 £'000	Group 2021 £'000	Association 2022 £'000	Association 2021 £'000
Operating surplus on ordinary activities before taxation is after charging/(crediting):				
Depreciation of housing properties (note 3)	18,686	18,156	18,686	18,156
Write off of replaced components (note 3)	451	3,649	451	3,649
Depreciation of other tangible fixed assets (note 14)	2,364	1,983	2,364	1,983
Impairment (note 2)	-	878	-	878
Amortisation of social housing grant (note 3)	(5,346)	(5,339)	(5,346)	(5,339)
Operating lease payments	678	386	678	386
Auditor's remuneration (excluding VAT):				
In their capacity as auditors	97	84	65	62
In respect of other services	-	7	-	7

6 Surplus on disposal of housing fixed assets

Group and Association	Shared ownership subsequent tranches £'000	Other sales £'000	Right to buy / acquire sales £'000	Total 2022 £'000	Total 2021 £'000
Proceeds of sale	10,627	394	5,319	16,340	9,767
Less: cost of sale	(5,477)	(109)	(2,988)	(8,574)	(5,564)
Grant recycled	(132)	-	(72)	(204)	(114)
Surplus	5,018	285	2,259	7,562	4,089

Notes to the Financial Statements

7 Directors and senior staff emoluments

The key management personnel are defined as the members of the Board and the Executive Team (including the Chief Executive) as disclosed on page 4.

Aggregate Emoluments (including pension contributions and benefits in kind):

Group and Association	2022 £'000	2021 £'000
Executive directors' emoluments	820	798
Executive directors' pension contributions	103	90
Non-Executive directors' emoluments	111	128
	1,034	1,016
Emoluments paid to the highest paid Director (excluding pension contributions, but including benefits in kind)	226	227

The highest paid director refers to the Chief Executive. The basic salary (before salary exchange) was £225,000 (2021: £225,000).

During 2021/22 the Chief Executive was an ordinary member of a defined contribution pension on the same terms available to all staff. No contributions were made to any individual pension arrangements.

Full time equivalent number of staff (including the executive directors) whose remuneration payable (including compensation for loss of office, benefits in kind and pension contributions) was between:

Group and Association	2022 number	2021 number
£60,000 to £70,000	12	14
£70,001 to £80,000	11	12
£80,001 to £90,000	5	4
£90,001 to £100,000	2	4
£100,001 to £110,000	4	3
£110,001 to £120,000	3	1
£120,001 to £130,000	-	1
£190,001 to £200,000	-	1
£210,001 to £220,000	1	2
£220,001 to £230,000	2	-
£260,001 to £270,000	1	1
Total	41	43
Included above due to redundancy	1	1

Notes to the Financial Statements

8 Employee information

Group and Association	2022 £'000	2021 £'000
Staff costs including directors:		
Wages and salaries	23,082	22,460
Social security costs	2,276	2,182
Costs of defined contribution schemes	1,669	1,543
Pension deficit reduction charge	3,181	3,188
	30,208	29,373
	Number	**Number**
Average number of full-time equivalent persons (including the directors) employed during the year:	652	625

The average number of full-time equivalent persons employed is calculated by comparing the contracted hours to a standard working week on a monthly basis.

9 Interest receivable and similar income

	Group 2022 £'000	Group 2021 £'000	Association 2022 £'000	Association 2021 £'000
Interest receivable and similar income	22	59	22	59

10 Interest payable and financing costs

	Group 2022 £'000	Group 2021 £'000	Association 2022 £'000	Association 2021 £'000
Housing loans interest	13,983	15,750	13,983	15,750
Bond interest	14,581	9,021	-	-
Amortisation of debt issue fees	639	688	639	688
Pension unwinding cost	23	28	23	28
Interest rate swap obligation	4,859	5,021	4,859	5,021
Amortisation of inception element of swaps	(41)	31	(41)	31
Net interest on net defined benefit liability	427	249	427	249
Other loans from Group undertakings	-	-	14,581	9,021
RCGF interest	17	7	17	7
	34,488	30,795	34,488	30,795
Less: Capitalised	(4,265)	(3,507)	(4,265)	(3,507)
	30,223	27,288	30,223	27,288
Non-cash accounting transactions under FRS102 included above	921	921	921	921

Interest rates charged on housing loans varied between 0.38% and 10.62% including lending margins.

Interest is capitalised on properties under construction using the weighted average interest rate during the year for the overall debt portfolio (and after the effect of interest rate derivatives) of 3.4% (2021: 3.4%).

Notes to the Financial Statements

11 Taxation

	Group 2022 £'000	Group 2021 £'000	Association 2022 £'000	Association 2021 £'000
UK corporation tax				
Current tax on surplus for year	240	258	16	15
Tax on surplus on ordinary activities	240	258	16	15
Current tax reconciliation				
Surplus on ordinary activities before tax	20,401	16,693	21,712	16,959
Tax charge at 19% (2021: 19%)	3,876	3,172	4,125	3,222
Non taxable charitable activities	(3,636)	(2,914)	(4,109)	(3,207)
	240	258	16	15

12 Intangible assets and goodwill

Group and Association	**Negative goodwill £'000**
At 1 April 2021	6,705
Amortisation of goodwill	(620)
At 31 March 2022	6,085

Negative goodwill arose when the fair value of assets arising from the acquisition of a business was in excess of the fair value of the consideration given. An amount equal to the fair value of the non-monetary assets acquired is being released to the profit and loss account commensurately with the recovery of the non-monetary assets acquired, whether through depreciation or sale.

13 Tangible fixed assets: Housing properties

Group	Housing properties held for letting £'000	Housing properties in the course of construction £'000	Completed shared ownership housing properties £'000	Shared ownership in the course of construction £'000	Total £'000
Cost or valuation					
At 1 April 2021	1,617,360	130,006	199,618	54,568	2,001,552
Additions	-	67,698	-	35,535	103,233
Acquisition from another provider	27,448	-	766	-	28,214
Transfers and adjustments	1,558	73	(1,279)	(439)	(87)
Disposals	(1,828)	-	(5,588)	(26)	(7,442)
Component replacement	19,625	-	-	-	19,625
Components written off	(2,893)	-	-	-	(2,893)
Schemes completed	18,627	(18,627)	23,063	(23,063)	-
At 31 March 2022	1,679,897	179,150	216,580	66,575	2,142,202
Depreciation					
At 1 April 2021	164,073	-	3,356	-	167,429
Charge for the year	18,686	-	-	-	18,686
Components written off	(2,442)	-	-	-	(2,442)
Eliminated on disposal	(226)	-	(131)	-	(357)
At 31 March 2022	180,091	-	3,225	-	183,316
Impairment					
At 1 April 2021	2,771	1,201	-	1,581	5,553
Charge for the year	-	-	-	-	-
At 31 March 2022	2,771	1,201	-	1,581	5,553
Net book value					
At 31 March 2022	1,497,035	177,949	213,355	64,994	1,953,333
At 31 March 2021	1,450,516	128,805	196,262	52,987	1,828,570

Notes to the Financial Statements

Tangible fixed assets: Housing properties (continued)

Association	Housing properties held for letting £'000	Housing properties in the course of construction £'000	Completed shared ownership housing properties £'000	Shared ownership in the course of construction £'000	Total £'000
Cost or valuation					
At 1 April 2021	1,618,297	133,317	199,618	55,753	2,006,985
Additions	-	69,182	-	35,536	104,718
Acquisition from another provider	27,448	-	766	-	28,214
Transfers and adjustments	1,557	73	(1,279)	(439)	(88)
Disposals	(1,828)	-	(5,588)	(26)	(7,442)
Component replacement	19,625	-	-	-	19,625
Components written off	(2,893)	-	-	-	(2,893)
Schemes completed	18,627	(18,627)	23,063	(23,063)	-
At 31 March 2022	1,680,833	183,945	216,580	67,761	2,149,119
Depreciation					
At 1 April 2021	162,848	-	3,356	-	166,204
Charge for the year	18,686	-	-	-	18,686
Components written off	(2,442)	-	-	-	(2,442)
Eliminated on disposal	(226)	-	(131)	-	(357)
At 31 March 2022	178,866	-	3,225	-	182,091
Impairment					
At 1 April 2021	2,771	1,201	-	1,581	5,553
Charge for the year	-	-	-	-	-
At 31 March 2022	2,771	1,201	-	1,581	5,553
Net book value					
At 31 March 2022	1,499,196	182,744	213,355	66,180	1,961,475
At 31 March 2021	1,452,678	132,117	196,262	54,172	1,835,228

	Group 2022 £'000	Group 2021 £'000	Association 2022 £'000	Association 2021 £'000
The net book value of housing properties may be further analysed:				
Freehold	1,731,906	1,682,402	1,740,047	1,689,060
Long leaseholds	220,226	144,882	220,226	144,882
Short leaseholds	1,202	1,286	1,202	1,286

Notes to the Financial Statements

Tangible fixed assets: Housing properties (continued)

Group and Association	2022 £'000	2021 £'000
Work to properties:		
Improvements to existing properties capitalised	21,408	12,731
Planned maintenance and major works expenditure included in the Statement of Comprehensive Income (note 3)	19,367	15,643

Interest capitalisation:		
Interest capitalised in the year	4,265	3,507
Cumulative interest capitalised	37,572	33,307
Rate used for capitalisation	3.4%	3.4%

16,806 properties (2021:16,662) have been pledged to secure borrowings of the Group. The Group is not permitted to pledge these assets as security for other borrowings or to sell them to another entity without the prior consent of the relevant lender.

14 Tangible fixed assets: Other

Group and Association	Freehold offices £'000	Leasehold office £'000	Fixtures, fittings and equipment £'000	Computers and office equipment £'000	Motor vehicles £'000	Total £'000
Cost						
At 1 April 2021	10,867	674	8,263	4,912	187	24,903
Additions	12	-	6,280	669	-	6,961
Disposals	-	-	-	-	-	-
At 31 March 2022	10,879	674	14,543	5,581	187	31,864
Depreciation						
At 1 April 2021	1,735	452	1,351	2,430	80	6,048
Charge for the year	170	41	1,282	849	22	2,364
Eliminated on disposal	-	-	-	-	-	-
At 31 March 2022	1,905	493	2,633	3,279	102	8,412
Net book value						
At 31 March 2022	8,974	181	11,910	2,302	85	23,452
At 31 March 2021	9,132	222	6,912	2,482	107	18,855

Notes to the Financial Statements

15 Investment properties

Group and Association	Market Rented Completed £'000	Market Rented Under construction £'000	Commercial Completed £'000	Commercial Under construction £'000	Total £'000
At 1 April 2021	18,666	-	2,798	4	21,468
Transfers and reclassification	(558)	-	4	(4)	(558)
Additions	-	-	-	1,388	1,388
Movement in fair value	1,014	-	(75)	-	939
At 31 March 2022	19,122	-	2,727	1,388	23,237

Commercial properties were revalued at 31 March 2022 by Jones Lang LaSalle Ltd, Chartered Surveyors, valuations have been based on capitalising the rental values using suitable yields (between 6% and 9%) depending on the nature of the individual asset.

Market rent properties, which are all freehold or long leasehold, were revalued at 31 March 2022 by Savills. Individual properties have been valued at market values with vacant possession with a discount applied, based on stock location, type and quality.

16 Investments

Group and Association	2022 £'000	2021 £'000
Other loans	309	359
	309	359

The above investments have been provided as a mortgage to an NHS Trust as part of joint partnership arrangements. They are measured at fair value with the future cash receipts discounted to net present value.

17 Investments in subsidiaries

Association	2022 £'000	2021 £'000
Cost at 1 April and 31 March	13	13
	13	13

18 Stock

	Group 2022 £'000	Group 2021 £'000	Association 2022 £'000	Association 2021 £'000
Completed				
Shared ownership completed units	18,678	10,051	18,678	10,051
Under construction				
Shared ownership properties	45,357	45,218	45,357	45,218
Commercial properties	709	709	709	709
Land held for development	11,998	16,670	-	-
	58,064	62,597	46,066	45,927
Total	76,742	72,648	64,744	55,978

19 Debtors

	Group 2022 £'000	Group 2021 £'000	Association 2022 £'000	Association 2021 £'000
Due within one year:				
Rent and service charge arrears	6,925	9,915	6,925	9,915
Less: provision for bad debts	(4,315)	(5,470)	(4,315)	(5,470)
	2,610	4,445	2,610	4,445
Other debtors	838	843	723	705
Prepayments and accrued income	2,865	3,028	2,865	3,028
Amounts owed by Group undertakings	-	-	13,080	17,802
	6,313	8,316	19,278	25,980

The recoverable amount of debtors and other trade receivables is equivalent to the cash amount.

20 Current asset investments

Group and Association	2022 £’000	2021 £’000
Collateral	1,407	5,807

At the request of the counterparties, cash collateral has been lodged with Santander and NatWest to secure mark to market positions with swap counterparties.

Notes to the Financial Statements

21 Creditors: amounts falling due within one year

	Group 2022 £'000	Group 2021 £'000	Association 2022 £'000	Association 2021 £'000
Loans and borrowings (note 26)	17,070	85,523	17,070	85,523
Trade creditors	2,287	380	1,769	380
Corporation tax	240	258	17	15
Taxation and social security	605	588	605	588
Accruals and deferred income	26,088	30,974	24,800	27,953
Recycled capital grant fund (note 24)	4,078	3,332	4,078	3,332
Disposal proceeds fund (note 25)	1,673	1,673	1,673	1,673
Pension deficit contributions	95	93	95	93
Deferred capital grant	5,625	5,344	5,625	5,344
Amounts owed to Group undertakings	-	-	3,299	3,299
Other creditors	182	334	182	334
Rent and service charges received in advance	5,067	5,506	5,067	5,506
Interest rate swaps (note 28)	-	338	-	338
	63,010	134,343	64,280	134,378

The average time taken to pay trade creditors is 47 days (2021: 44 days).

22 Creditors: amounts falling due after more than one year

	Group 2022 £'000	Group 2021 £'000	Association 2022 £'000	Association 2021 £'000
Loans and borrowings (note 26)	971,247	791,032	971,247	791,032
Loan premium	-	11	-	11
Bond premium	2,354	3,410	2,354	3,410
Pension deficit contributions (note 34)	574	631	574	631
Recycled capital grant fund (note 24)	5,209	4,745	5,209	4,745
Deferred capital grant	426,035	422,203	426,035	422,203
Amounts held on behalf of leaseholders	6,261	5,801	6,261	5,801
Other creditors	590	529	590	529
Derivative financial instruments (note 28)	37,077	51,452	37,077	51,452
	1,449,347	1,279,814	1,449,347	1,279,814

Notes to the Financial Statements

23 Deferred Capital Grant

Group and Association	2022 £'000	2021 £'000
Gross grant		
At 1 April 2021	512,851	509,660
Grants received during the year	5,075	1,365
Grants recycled	(1,193)	(653)
Grants utilised	-	2,878
Other movements	(32)	-
Grant transferred from / (to) other registered providers	5,411	(399)
At 31 March 2022	522,112	512,851
Amortisation		
At 1 April 2021	85,304	80,074
Released to income	5,352	5,344
Released on disposal	(204)	(114)
At 31 March 2022	90,452	85,304
Net book value	431,660	427,547

Deferred capital grants were government grants received from Homes England and predecessor organisations and other local authorities.

24 Recycled Capital Grant Fund

Group and Association	2022 £'000	2021 £'000
At 1 April 2021	8,077	9,858
Grants recycled	1,193	654
Interest accrued	17	7
Allocated to new build developments	-	(2,442)
At 31 March 2022	9,287	8,077
Amounts included where repayment may be required	4,078	3,332

25 Disposal Proceeds Fund

Group and Association	2022 £'000	2021 £'000
At 1 April 2021	1,673	2,110
Grant utilised	-	(437)
At 31 March 2022	1,673	1,673
Grant due for repayment	1,673	1,673

Notes to the Financial Statements

26 Loans and borrowings

Maturity of debt: Group and Association	2022 £'000	2021 £'000
Bank Loans		
Between one year and two years	68,086	66,461
Between two years and five years	129,761	217,625
In more than five years	197,092	229,314
Total (note 22)	394,939	513,400
In one year or less, or on demand (note 21)	16,460	5,917
	411,399	519,317
Other loans		
Between one year and two years	15,714	596
Between two years and five years	8,066	23,566
In more than five years	8,229	8,433
Total (note 22)	32,009	32,595
In one year or less, or on demand (note 21)	610	79,606
	32,619	112,201
Bonds		
In more than five years	550,000	250,000
Total (note 22)	550,000	250,000
Total loans and borrowings	994,018	881,518
Loan issue costs	(5,701)	(4,952)
Total loans and borrowings	988,317	876,566

Net debt at 31 March 2022 was £953.5m (2021: £837.4m) after adjusting for bond discount of £2.4m credit (2021: £3.4m credit) and deducting liquid asset balances held of £38.1m (2021: £40.7m).

The Group has committed borrowing facilities of £1,325m (2021: £1,111m) primarily raised through the debt and capital markets. As at 31 March 2022, £994m (2021: £882m) was drawn.

Loans are secured by specific charges on housing properties granted to the relevant lenders.

At 31 March 2022 undrawn committed loan facilities were £331m (2021: £229m). Of the drawn loan facilities, £796m (80 per cent) (2021: £551m, 63 per cent) was borrowed at fixed rates including the effect of interest rate swaps as detailed in note 28.

The weighted average cost of borrowings during the year was 3.4% (2021: 3.4%).

Notes to the Financial Statements

27 Financial Instruments

The carrying values of the financial assets and liabilities are summarised by category below:

	Group 2022 £'000	Group 2021 £'000	Association 2022 £'000	Association 2021 £'000
Financial Assets				
Measured at fair value through the Statement of Comprehensive Income:				
- Cash and cash equivalents	38,080	40,775	37,465	38,847
Measured at discounted amount receivable:				
-Fixed asset investments (note 16)	309	359	309	359
Measured at undiscounted amount receivable:				
-Rent arrears and other debtors (note 19)	6,313	8,316	19,278	25,980
Total	44,702	49,450	57,052	65,186

	Group 2022 £'000	Group 2021 £'000	Association 2022 £'000	Association 2021 £'000
Financial liabilities				
Measured at fair value and designated in a hedging relationship (note 28)	37,077	51,452	37,077	51,452
Financial liabilities measured at fair value	1,414,566	1,304,102	1,414,566	1,304,102
Financial liabilities measured at fair value through the Statement of Comprehensive Income	54,457	1,411,958	55,949	1,412,233
Total	1,506,100	2,767,512	1,507,592	2,767,787

Financial assets comprise cash and cash equivalents, tenant debtors, amounts owed by Group undertakings and other debtors. Financial liabilities comprise bank loans, trade creditors, accruals, amounts owed to Group undertakings, sinking fund balances, taxation and social security and other creditors.

Financial assets and liabilities measured at amortised cost comprise housing loans and bond issuance.

PA Housing's objectives, policies and processes for managing capital are included in the Report of the Board of management.

Risks arising on financial instruments

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, interest rate risk and market risk.

Credit risk

Credit risk is managed by the treasury team in accordance with the Board approved treasury management policy. The security of principal sums invested ranks above seeking the highest possible return on the investment. Surplus funds are invested only with approved counterparties that meet minimum credit rating thresholds detailed in the treasury management policy, with maximum exposure levels set for each counterparty.

Housing loans are secured by specific charges on housing properties and are repayable at varying rates of interest.

Notes to the Financial Statements

Financial Instruments (continued)

Liquidity risk

Liquidity risk is managed by the treasury team in accordance with the Board approved treasury management policy. The policy requires that sufficient cash balances be maintained to cover the next two months' net cash requirement and sufficient liquidity to cover the next 18 months' net liquidity requirement.

The treasury team monitors available liquidity resources on an ongoing basis to ensure compliance with liquidity policy goals as well as the longer-term growth aspirations of the business. Apart from working capital and capital expenditure requirements, the nature of the Group's debt portfolio requires regular repayments of bank term loan principal to certain lenders. It is considered that PA Housing has sufficient financial resources to make these repayments, and therefore the risk of being unable to meet financial obligations to these lenders is considered to be low.

The maturity profile of debt has been structured to reflect the long term nature of the assets and to achieve a balanced profile of scheduled repayments of loan principal. As at 31 March 2022 76% (2021: 55%) of borrowings were due to mature in more than five years.

Interest rate risk

Operations are financed through a mixture of retained reserves, government grant, other public subsidies to support development activities and loan borrowings.

The interest rate strategy is reviewed annually and aims to achieve a conservative balance between fixed and variable debt at an acceptable level of risk and cost.

Covenant compliance and sensitivity analysis of interest rates are monitored on a regular basis.

Market risk

The treasury management function is responsible for developing and implementing an appropriate financial strategy to ensure the business holds the required level of liquidity to fund its capital investment programme and day to day operating activities.

Close monitoring of financial covenants against the business plan to assess risk scenarios is completed on a regular basis.

Disaggregation of the Statement of Financial Position

Given the nature of the Group's operations the key assets are housing properties and stocks. These assets are connected to the loans and borrowings, as they are secured against these financial liabilities (note 26).

The Group's income, expense, gains and losses in respect of financial instruments are summarised below:

	Group 2022 £'000	Group 2021 £'000	Association 2022 £'000	Association 2021 £'000
Interest income and expense				
Total interest income for financial assets at amortised cost	22	59	22	59
Total interest expense for financial liabilities at amortised cost	(30,223)	(27,288)	(30,223)	(27,288)
Fair value gains and losses				
On financial assets (including listed investments) measured at fair value:				
Gain on fair value of financial instruments	3,209	2,444	3,209	2,444
Other gains	-	18	-	18
	3,209	2,462	3,209	2,462
Gain on fair value of hedged financial instruments	11,577	11,905	11,577	11,905

Notes to the Financial Statements

28 Derivative Financial Instruments

Group and Association	Current 2022 £'000	Current 2021 £'000	Non Current 2022 £'000	Non Current 2021 £'000
Derivatives that are designated and effective as hedging instruments carried at fair value				
Liabilities				
Interest rate swaps	-	-	17,493	29,070
Non-hedged instruments carried at fair value				
Liabilities				
Interest rate swaps	-	338	19,584	22,382
	-	338	37,077	51,452

Interest rate swaps are valued at present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Interest Rate Swap Contracts

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at 31 March:

Interest rate swap contracts designated as hedges of variable interest rate risk recognised financial liabilities

	Average contract fixed interest rate		Notional principal value		Fair value effective hedges		Fair value ineffective hedges	
	2022 %	2021 %	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Outstanding receive floating rate pay fixed contracts								
0 - 1 years	-	0.04	-	50,000	-	-	-	-
1 - 5 years	-	-	-	-	-	-	-	-
Over 5 years	4.50	4.50	110,000	110,000	17,493	29,070	19,584	22,382
At 31 March	4.50	3.11	110,000	160,000	17,493	29,070	19,584	22,382

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is three months' SONIA. The Group will settle the difference between the fixed and floating interest rate on a net basis. The above interest rate swap contracts are designated as hedges against variable rate interest rate risk associated with the Group's floating rate borrowings in accordance with FRS102, with varying degrees of effectiveness. The hedged cash flows are expected to occur and to affect surplus or deficit over the period to maturity of the interest rate swaps

A gain of £11,577k (2021: gain £11,905k) was recognised in other comprehensive income representing the effective components of the swaps. The ineffective components, representing the excess of the fair value of hedging instruments over the change in the fair value of expected cash flows, totalled a gain of £3,209k in aggregate (2021: gain £2,444k) and were recognised in surplus or deficit.

As at 31 March 2022 the Group had eight (2021: eight) cash flow hedges and no further interest rate swaps callable by the counterparty which do not qualify for hedge accounting (2021: one). The hedge relationships are consistent with the Group's risk management objectives for undertaking hedges.

The Group considers that an economic relationship exists between the hedging instrument (interest rate swap) and the hedged item (floating rate loan) in that the values of the hedged item and hedging instrument are expected typically to move in opposite directions in response to movements in the same risk, the hedged risk, over the life of the hedge.

The objective of the hedge is to mitigate the changes in future cash flows stemming from the inherent variability in the floating rate interest payments due under the relevant floating rate loan.

Notes to the Financial Statements

Derivative Financial Instruments (continued)

In accordance with chapter 12 of FRS 102, hedge accounting has been applied to the following swap contracts:

	2022	2021
	£'000	£'000
Santander £10m 4.84% 25 June 2026	1,141	2,200
Lloyds £20m 4.48% 26 February 2032	4,925	7,345
Lloyds £10m 4.70% 5 October 2032	2,829	4,084
Lloyds £20m 4.79% 4 January 2036	7,566	10,253
Lloyds £15m 4.39% 5 November 2037	5,576	7,576
Santander £10m 4.32% 4 July 2038	3,772	5,110
Lloyds £15m 4.44% 13 May 2038	5,858	7,887
RBS £10m 3.90% 4 October 2050	5,410	6,997
	37,077	51,452

The following swap contract does not qualify for hedge accounting

	2022	2021
	£'000	£'000
RBS £50m 0.037% 8 August 2029 (callable)	-	338

Notes to the Financial Statements

29 Cash flow from operating activities

Group	2022 £'000	2021 £'000
Surplus for the financial year	20,161	16,435
Adjustments for non cash items:		
Net fair value gain recognised in the SoCI	(2,798)	(2,165)
Change in value of investment properties	(939)	(1,000)
Depreciation charge on other fixed assets	2,364	1,983
Depreciation charge on housing properties	18,686	18,156
Write off of components	451	3,649
Impairment	-	870
Amortisation of grant on housing properties	(5,352)	(5,339)
Amortisation negative goodwill	(620)	(622)
Adjustment for pension funding	(2,661)	(2,847)
Decrease in debtors	2,003	3,627
Increase in creditors	1,006	7,627
(Increase) in stock	(4,094)	(17,088)
Transfers to stock	(646)	-
Other provisions	(582)	1,500
Grant received (non cash)	(5,413)	-
Movement in investments	(50)	-
Adjustment for investing or financing activities		
(Surplus) on sale of tangible fixed assets	(7,562)	(4,089)
(Surplus) on sale of other fixed assets	-	(106)
Interest payable	30,223	27,288
Interest receivable	(22)	(59)
Loan arrangement fees	(1,181)	(300)
Taxation	240	258
Net cash generated from operating activities	43,214	47,778

30 Reconciliation of net cash flow to movement in net debt

Group	2022 £'000	2021 £'000
Decrease in cash in the year	2,695	5,424
Other changes	(637)	595
Loans and bond finance received	455,000	495,000
Loans repaid	(342,499)	(414,387)
Loan arrangement fees	(1,181)	(300)
Change in net debt	113,378	86,332
Net debt at 1 April	839,214	752,882
Net debt at 31 March	952,592	839,214

Notes to the Financial Statements

31 Analysis of changes in net debt

	At beginning of the year £'000	Cash Flows £'000	Other Changes £'000	At the end of the year £'000
Cash at bank and short term investments	(40,775)	2,695	-	(38,080)
Housing loans due within one year	85,523	(85,523)	17,070	17,070
Housing loans due after one year	545,996	(101,977)	(17,070)	426,949
Bond finance	250,000	300,000	-	550,000
Loan and bond arrangement fees	(4,952)	(1,181)	432	(5,701)
Loan premium	12	-	(12)	-
Bond discount	3,410	(1,005)	(51)	2,354
	839,214	113,009	369	952,592

32 Called up share capital

Association	2022 Number	2021 Number
Allotted, issued and fully paid:		
At 1 April	15	14
Allotted during the year	-	4
Cancelled during the year	(3)	(3)
At 31 March	12	15

The shares of the Association, each of £1.00 nominal value, carry no rights to a dividend or provision for redemption or a distribution on winding up. The members are entitled to a vote at annual and special meetings of the Association.

33 Provisions

Group and Association	Fire safety works £'000	Onerous contract £'000	Total £'000
Balance at 1 April 2021	2,976	322	3,298
Provisions during the year	1,200	-	1,200
Released during the year	(1,776)	(6)	(1,782)
Balance at 31 March 2022	2,400	316	2,716

The fire safety works provision relates to an estimate of costs at the year end date for remedial work to fulfil our responsibilities and compliance with government guidance relating to combustible materials and fire risk and protection.

There remains significant complexity in determining remedial work required and the associated costs, including mitigation through negotiations with, and recovery of costs from original contractors, and access to government grants. The provision of £2.4m at the 31 March 2022 relates to one scheme where we have contracted for phase one of works to commence in 2022/23. For other schemes where non-compliant materials and / or defects have been identified the costs or liability could not be identified with any certainty at the 31 March 2022 and no provision has been included. Where schemes are non-compliant however we have taken action to mitigate risks and ensure the safety of the residents.

The onerous lease relates to a lease on a commercial property which is sublet. The provision is our best estimate of discounted future losses over the term of the lease.

Notes to the Financial Statements

34 Pension Schemes

The Group participates in the defined contribution pension scheme of the Social Housing Pension Scheme and has previously participated in defined benefit pension schemes which are now closed to new members.

No liability is provided for the impact of McCloud or GMP rulings for historic transfers on the grounds of materiality.

Summary statement of pension scheme disclosures: Defined Benefit	**2022**	**2021**
Group and Association	**£'000**	**£'000**
Creditors due within one year – Net Present Value of obligation		
Defined Benefit – Surrey County Council (Elmbridge Borough Council)	95	93
Creditors due after more than one year – Net Present Value of obligation		
Defined Benefit – Surrey County Council (Elmbridge Borough Council)	574	631
Pension Liability		
Defined Benefit – Surrey County Council	733	958
Defined Benefit – Social Housing Pension Scheme	13,147	20,289
	13,880	21,247
Statement of Comprehensive Income		
Finance Costs:		
Surrey County Council - Net Interest Cost	14	39
Social Housing Pension Scheme - Net Interest Cost	413	210
Surrey County Council (Elmbridge Borough Council) - Finance Cost	23	28
	450	277
Operating Costs:		
Social Housing Pension Scheme - Expenses	69	69
Surrey County Council (Elmbridge Borough Council) - Operating Cost	15	20
	84	89
Other Comprehensive Income		
Surrey County Council - Actuarial (loss) / gain	(262)	248
Social Housing Pension Scheme – Actuarial gain / (loss)	4,968	(12,535)
	4,706	(12,287)

Notes to the Financial Statements

34a Defined Contribution Scheme

The Group participates in the defined contribution schemes of the Social Housing Pension Scheme (SHPS) and Aegon which all colleagues are eligible to join. SHPS is also used as the Auto Enrolment scheme for colleagues. Members contribute a minimum of 3% of salary and the employer contributes twice the member rate up to a maximum of 10%.

Group and Association	2022 £'000	2021 £'000
Contributions	1,669	1,543

34b Defined Benefit Scheme: Surrey County Council Pension Fund (Elmbridge Borough Council) (Closed to New members)

Under the terms of the transfer agreement with Elmbridge Borough Council (EBC), PA Housing makes additional payments each year as its contribution to the past service deficit as at 31 March 1998.

Payments are adjusted annually on 1 April in line with the increase specified in the Pensions Increase (Review) Order and are payable until March 2030. Contributions paid in the year were £93k (2021: £93k) By making these payments to EBC the Council accepts responsibility for meeting PA Housing's payments due to the Pension Fund in respect of that past service deficit.

As the scheme is in deficit and PA Housing has agreed to a payment to EBC to contribute to funding the deficit PA Housing recognised a liability for this obligation. The amount recognised is the net present value of the deficit reduction contributions payable under the agreement that relates to the deficit. The unwinding of the discount rate is recognised as a finance cost.

Reconciliation of opening and closing creditors **Group and Association**	**2022** **£'000**	**2021** **£'000**
At 1 April	724	769
Contributions paid	(93)	(93)
Operating charge	15	20
Finance charge	23	28
At 31 March	669	724
Net Present Value of creditor		
Due within one year	95	93
Due after more than one year	574	631
	669	724

Assumptions	**2022** **% per annum**	**2021** **% per annum**
Rate of discount	3.50	3.50

Notes to the Financial Statements

34c Defined Benefit Scheme: Surrey County Council Pension Fund (Closed to new members)

The Surrey County Council Pension Fund is a multi-employer scheme administered by Surrey County Council under the regulations governing the Local Government Pension Scheme (LGPS), a defined benefit scheme. The most recent comprehensive actuarial valuations of the plan assets and the present value of the defined benefit obligations were carried out at 31 March 2019. PA Housing's contribution to the LGPS was £500,000 (2021: £560,000).

	2022 £'000	2021 £'000
Reconciliation of present value of plan liabilities		
At the beginning of the year	15,644	12,955
Interest cost on defined benefit obligations	307	293
Changes in financial assumptions	(864)	2,807
Changes in demographic assumptions	(66)	154
Other experience	37	(177)
Benefits paid	(547)	(388)
At the end of the year	14,511	15,644
Reconciliation of fair value of plan assets		
At the beginning of the year	14,686	11,229
Interest income on plan assets	293	254
Return on assets excluding amounts included in net interest	(1,155)	3,031
Employer contributions	500	560
Benefits paid	(547)	(388)
At the end of the year	13,777	14,686
Composition of plan assets		
Equities	2,893	11,161
Bonds	10,608	2,350
Property	138	734
Cash	138	441
Total plan assets	13,777	14,686
Equities	21%	76%
Bonds	77%	15%
Property	1%	5%
Cash	1%	3%

Principal actuarial assumptions used at the reporting date	**2022 % pa**	**2021 % pa**
Pension increase rate	3.20%	2.85%
Salary increase rate	4.10%	3.75%
Discount rate	2.70%	2.00%

Mortality	**Males (years)**	**Females (years)**
Current Pensioners	22.1	24.5
Future Pensioners*	23.1	26.2

* Figures assume members aged 45 as at the last formal valuation date.

Notes to the Financial Statements

34c Defined Benefit Scheme: Surrey County Council Pension Fund (Closed to new members) (continued)

	2022 £'000	2021 £'000
Amounts recognised in the Statement of Financial Position		
Fair value of plan assets	13,777	14,686
Present value of plan liabilities	(14,511)	(15,644)
Net pension scheme liability	(734)	(958)
Amounts recognised in the Statement of Comprehensive Income		
Interest cost on defined benefit obligations	307	293
Interest income on plan assets	(293)	(254)
	14	39
Analysis of actuarial gain / (loss) recognised in Other Comprehensive Income		
Return on assets excluding amounts included in net interest	(1,155)	3,031
Changes in assumptions underlying the present value of the scheme liabilities	893	(2,783)
	(262)	248

34d Defined Benefit Scheme: Social Housing Pension Scheme (Closed to new members)

The company participates in the Social Housing Pension Scheme (the Scheme), a multi-employer scheme which provides benefits to some 500 non-associated employers. The Scheme is a defined benefit scheme in the UK.

The Scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator and Technical Actuarial Standards issued by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension schemes in the UK.

The last completed triennial valuation of the scheme for funding purposes was carried out as at 30 September 2020. This valuation revealed a deficit of £1,560m. A Recovery Plan has been put in place with the aim of removing this deficit by 31 March 2028.

The Scheme is classified as a 'last-man standing arrangement'. Therefore the company 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.

For financial years ending on or before 28 February 2019, it was not possible for the company to obtain sufficient information to enable it to account for the Scheme as a defined benefit scheme, therefore the company has accounted for the Scheme as a defined contribution scheme.

For financial years ending on or after 31 March 2019, it is possible to obtain sufficient information to enable the company to account for the Scheme as a defined benefit scheme.

For accounting purposes, a valuation of the scheme is carried out with an effective date of 30 September each year. The liability figures from this valuation are rolled forward for accounting year-ends from the following 31 March to 28 February inclusive.

The latest accounting valuation was carried out with an effective date of 30 September 2021. The liability figures from this valuation were rolled forward for accounting year-ends from the following 31 March 2022 to 28 February 2023 inclusive.

The liabilities are compared, at the relevant accounting date, with the company's fair share of the Scheme's total assets to calculate the company's net deficit or surplus.

Notes to the Financial Statements

34d Defined Benefit Scheme: Social Housing Pension Scheme (Closed to new members) (continued)

	2022 £'000	2021 £'000
Reconciliation of present value of plan liabilities		
At the beginning of the year	105,312	86,163
Expenses	69	69
Interest cost on defined benefit obligations	2,264	2,026
Actuarial losses / (gains) due to scheme experience	5,813	(1,544)
Actuarial (gains) / losses due to change in demographic assumptions	(1,621)	380
Actuarial (gains) / losses due to changes in financial assumptions	(7,857)	20,245
Benefits paid and expenses	(1,938)	(2,027)
At the end of the year	102,042	105,312
Reconciliation of fair value of plan assets		
At the beginning of the year	85,023	76,082
Interest income on plan assets	1,851	1,816
Experience on plan assets excluding amounts included in net interest	1,303	6,546
Employer contributions	2,656	2,606
Benefits paid	(1,938)	(2,027)
At the end of the year	88,895	85,023

Composition of plan assets	2022 £'000	2021 £'000
Global equity	17,059	13,551
Absolute return	3,566	4,693
Distressed opportunities	3,181	2,455
Credit relative value	2,954	2,675
Alternative risk premia	2,931	3,202
Fund of hedge funds	-	10
Emerging markets debt	2,587	3,432
Risk sharing	2,927	3,095
Insurance linked securities	2,073	2,042
Property	2,400	1,766
Infrastructure	6,333	5,669
Private debt	2,279	2,028
Opportunistic illiquid credit	2,987	2,162
High yield	766	2,546
Opportunistic credit	316	2,331
Cash	302	1
Corporate bond fund	5,930	5,023
Liquid credit	1	1,015
Long lease property	2,287	1,666
Secured income	3,312	3,536
Liability driven investment	24,805	21,608
Currency hedging	(348)	-
Net current assets	247	517
Total plan assets	88,895	85,023

None of the fair values of the assets shown above include any direct investments in the employer's own financial instruments or any property occupied by, or other assets used by the employer.

Notes to the Financial Statements

34d Defined Benefit Scheme: Social Housing Pension Scheme (Closed to new members) (continued)

Principal actuarial assumptions used at the reporting date	**2022 % pa**	**2021 % pa**
Discount rate	2.79	2.17
Inflation (RPI)	3.57	3.28
Inflation (CPI)	3.19	2.86
Salary growth	4.19	3.86
Allowance for commutation of pension for cash at retirement	75% of maximum allowance	75% of maximum allowance

Mortality assumptions adopted at 31 March 2022 imply the following life expectancies at age 65:	**Males (years)**	**Females (years)**
Retiring in 2022	21.1	23.7
Retiring in 2042	22.4	25.2

	2022 £'000	**2021 £'000**
Present values of defined benefit obligation, fair value of assets and defined benefit liability		
Fair value of plan assets	88,895	85,023
Present value of plan liabilities	(102,042)	(105,312)
Net pension scheme liability	(13,147)	(20,289)
Amounts recognised in the Statement of Comprehensive Income		
Net interest expense	413	210
Expenses	69	69
	482	279
Analysis of actuarial gain / (loss) recognised in Other Comprehensive Income		
Experience on plan assets excluding amounts included in net interest	1,303	6,546
Experience on the plan liabilities	(5,813)	1,544
Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation – gain / (loss)	1,621	(380)
Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation – gain / (loss)	7,857	(20,245)
	4,968	(12,535)

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 given the current level of uncertainties, 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.

Notes to the Financial Statements

35 Operating lease obligations

At 31 March 2021 the Group was committed to non-cancellable operating lease minimum future payments for each of the following periods:

	Land and buildings	
Group and Association	**2022 £'000**	**2021 £'000**
Operating leases which expire:		
Less than 1 year	776	415
Within 1 to 5 years	2,248	1,807
After 5 years	1,368	1,224
	4,392	3,446

36 Capital Commitments

	Group and Association 2022 £'000	Group and Association 2021 £'000
Expenditure contracted for but not provided in the financial statements	216,566	108,677
Expenditure authorised by Board but not contracted for	209,594	164,710
	426,160	273,387

Commitments will be funded by cash reserves, the draw down of existing loan facilities and Social Housing Grant. There is no reliance on Social Housing Grant and proceeds from sales receipts on shared ownership sales to finance commitments at 31 March 2022 however.

37 Contingent Liabilities

PA Housing receives grant from Homes England and from the Greater London Authority, which is used to fund the acquisition and development of housing properties and their components.

The grants are accounted as deferred income and amortised to the Statement of Comprehensive Income over the life of the asset. The amount amortised represents a contingent liability and will be recognised as a liability when the properties funded by grant are disposed or when the properties cease to be funded by social housing. Grants amortised to date at 31 March 2022 are £90.5m (2021: £85.3m).

38 Related Party Transactions

Other related parties

Key management personnel are the Executive Management Team and the non-executive Board members.

Two non-executive Board members are residents of PA Housing. All transactions are carried out on an arms length basis on normal terms and the members do not participate in decisions that could result in a conflict of interest. Transactions during the year were:

- Shared ownership leaseholder – Service charges of £1,726 were charged in the year (2021: Rents and service charges of £5,024) with a debit balance of £292 at 31 March 2022 (credit balance of £79).
- Social rented tenant - Rents of £4,207 (2021: £4,145) were charged in the year with a credit balance of £174 at 31 March 2022 (2021: £174).

The Pension Trust, as administrator of the Social Housing Pension Scheme, and Surrey County Council, as administrator of the Local Government Pension Scheme, are both considered to be related parties. Transactions with these entities are as set out in note 34.

Anne Turner (Board chair) is also a member of the Social Housing Pension Scheme Employer Committee nominated and elected by participating employers. PA Housing participates in the scheme.

Remuneration paid to non executive Board members is disclosed in the Corporate Governance section of the Financial Statements.

Remuneration paid to the Executive Management Team is disclosed in note 7 of the Financial Statements.

There have been no other transactions between PA Housing and key management personnel (including their related parties) during the year.

Notes to the Financial Statements

Transactions with non-regulated entities

Asra Construction Services Limited (ACSL) and Paragon Development and Construction Services Limited (PDCSL) provide design and build development services to PA Housing. They are not registered providers and are therefore classified by the Regulator of Social Housing as non-regulated entities.

Service Level and Framework Agreements are in place between PA Housing and, ACSL and PDCSL. Development services are provided by ACSL and PDCSL to PA Housing. Finance services are provided by PA Housing. These are recharged by PA Housing at cost with an appropriate transfer pricing mark-up applied.

ACSL and PDCSL recharge PA Housing with design and build costs for development services carried out. ACSL and PDCSL have no employees.

Paragon Treasury Plc (PTP) has secured funding through the capital markets and on-lends these funds to PA Housing. All intra-group transactions have taken place in the normal course of business.

Aggregate costs recharged for the year ended 31 March 2022 are as follows:

	2022				2021			
	ACSL	**PDCSL**	**PTP**	**PAH**	**ACSL**	**PDCSL**	**PTP**	**PAH**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
ACSL recharges	-	-	-	34,336	-	-	-	32,007
PAH finance recharge	265	-	-	-	243	-	-	-
PDCSL recharges	-	-	-	746	-	-	-	3,877
PTP interest recharge	-	-	-	14,581	-	-	-	9,021
PTP cost recharge	-	-	-	96	-	-	-	17
Debtor/(Creditor) balances	(4,281)	(5,423)	-	9,703	(9,003)	(5,420)	-	14,423

39 Fire Safety Remediation costs

During the year the following expenditure is included in costs which is directly attributable to fire safety remediation works where the properties and buildings are deemed not compliant with health and safety requirements. This expenditure is over and above our business as usual expenditure (either planned or routine) and is used to exclude costs for year on year comparison of financial metrics, golden rules, and lender covenant calculations where applicable and agreed with lenders.

	Group and Association 2022 £'000	**Group and Association 2021 £'000**
Revenue expenditure (included in note 3 planned maintenance costs)		
Fire remediation works	2,577	50
Waking watch and fire safety cover costs	4,279	1,592
	6,856	1,642
Capital expenditure		
Fire Safety remediation – components (included in note 13)	1,283	-
Fire Safety equipment – other fixed assets (included in note 14)	743	260
	2,026	260
Provisions (included in note 2)		
Additional provision in the year	1,200	1,500
Released in the year	(1,776)	-
	(576)	1,500
Total fire safety remediation expenditure	8,306	3,402

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