Financial Statements
for the year ended **31 March 2023**

Paragon Asra
PA Housing

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

2022/23 *Highlights*

Fixed rate interest cover
86%

Liquidity
£297m

£58.5m
Spent on improving and maintaining homes

Properties with EPC rating A-C
73%

Operating margin (all activities)
22%

Benefit gains for customers
£4.41m

Turnover
£181m

New homes sold
148

Housing assets
£2.11bn

Borrowing
£1.09bn

Rent arrears
4.3%

New homes built
284

Social housing cost per unit
£5,540

Homes owned and/or managed
23,993

Contents

Board members, Executive and Advisors

Group Board

Suki Kalirai – Group Chair (appointed as Group Chair designate from 1 September 2022 and Group Chair from 1 October 2022)

Andrew Carrington

Kim Francis

Kathleen Harris-Leighton

Rahul Jaitly

Katherine Lyons

Anne Turner (resigned as interim Group Chair 30 September 2022, continues as Board member)

Joanna Banfield (appointed 3 July 2023)

Susan Goldsmith (appointed Board member designate 3 July 2023 and Board member from 1 August 2023)

Tim Hill (appointed 1 August 2023)

Tim Jennings (appointed 3 July 2023)

Tom Vaughan (appointed 3 July 2023)

Other Board members in the year:

Dilip Kavi (resigned as Board member 8 December 2022)

Steve Amos (resigned 31 July 2023)

Curtis Juman (resigned 31 July 2023)

Executive Team

Michael McDonagh – Chief Executive (interim from 13 December 2022, permanent from 20 February 2023)

Charles Ellis – Executive Director of Asset Management (interim from 13 February 2023, permanent from 1 June 2023)

Simon Hatchman – Executive Director - Resources

Suzannah Taylor – Executive Director of Development (from 1 June 2023)

Vacant – Executive Director – Customer

Vacant – Executive Director – Corporate Services and Transformation

Other Executive Team members in the year:

Dilip Kavi - Chief Executive (to 31 March 2023)

Adil Rashid – Executive Director of Development and Assets (from 1 December 2022 to 31 May 2023)

Chris Whelan - Executive Director of Business Development and Sales (retired 31 December 2022)

Ian Watts – Executive Director of Customer Services (to 31 March 2023)

Company Secretary and Registered Office

Jacqueline Gregory
Case House
85 – 89 High Street
Walton on Thames
Surrey
KT12 1DZ

Auditor

KPMG LLP
1 Snow Hill
Snow Hill Queensway
Birmingham
B4 6GH

Solicitor

Devonshires Solicitors LLP
30 Finsbury Circus
London
EC2M 7DT

Chair and Chief Executive Statements

Chair's statement

Welcome to our Annual Report covering the year to 31 March 2023. It has been a busy and challenging year for PA Housing and for the social housing sector generally as we increase our focus to improve services for our residents.

I took over as Chair on 1 October 2022 following an extensive induction, which included meeting more than 50% of our staff, many contractors and crucially visiting our estates and talking to our residents both informally and formally through the residents' groups. From these discussions and from the data arising from the resident surveys carried out in the year it was clear to me that the actions discussed in our 2022 Annual Report about the focus needed to improve declining resident satisfaction was not working well enough, with only just over half of residents believing PA Housing provided a good service. The biggest single issue for residents was the timeliness and satisfactory completion of repairs.

PA Housing is not unique in this respect, and the wider social housing sector faces increased scrutiny from residents and stakeholders around service delivery standards. The work carried out by the Housing Ombudsman on specific complaint cases and feedback from the local authorities we work with was helpful. However, colleagues both on the Board and at all levels of PA Housing agreed that our service standards were not good enough and were determined to make significant changes to make this happen in a more effective manner.

Accordingly, we have moved rapidly since then and we have:

- Established a new and broader leadership team commencing from June 2023, including splitting the customer and asset management activities into two distinct teams to recognise the importance of these services to our residents. This further increases focus and clarity over service improvement.
- Appointed a new CEO, Mike McDonagh, who brings a fresh and innovative outlook which is driving the cultural change we need to undertake.
- Reduced the layers of middle management to aid quicker and responsive decision making.
- Increased by 30% the number of customer facing roles interfacing with our residents.
- Introduced a new Damp and Mould Team, De-escalation Team and Disrepair Team.
- Appointed a new responsive maintenance contractor for our properties in London and the South East after listening to the feedback of our residents. This is critical as the day-to-day repairs service is the most common touchpoint with PA Housing for most of our residents, so the quality of this service is the number one driver of how residents feel about us.

We recognise that the improvement process will take time and we will face challenges along the way, but we are approaching this work with a sense of optimism and determination, shared by our key stakeholders who are key partners in making this happen and we have seen green shoots of recovery.

As a Board we are reinforcing the message that we must become a truly resident-centric organisation and we are playing our part in this by significantly increasing our direct dialogue with residents. This helps us to better understand the issues they face and their service priorities. We have also taken the opportunity to replace retiring Board Members with five new appointees, all of whom have multiple sector experiences (as well as having social housing experience) so that we may bring a fresh and broader thinking to help innovate, support, and challenge the Executive Team as they move forward at pace with their approach.

All of this internal change is taking place against a backdrop of the most extreme recent pressure in the wider UK economy. The pressure on costs is running well ahead of revenue, this impacts our residents most in their cost of living. This has had a knock-on impact on the social housing sector, and we have all found ourselves in more constrained times. The cost of borrowing, increased labour costs, and increased supply chain costs are resulting in margins for housing associations nearly halving. The government understandably intervened to limit our 2023/24 rent increases at a level below general inflation for most of our regulated tenure homes, meaning we have been faced with a mismatch against our cost base, which is experiencing extreme levels of inflation in some areas such as energy supply costs. This acts as a brake on investment in the short term, although our financial plans continue to make full provision for essential building safety work and Decent Homes compliance. There will be further challenges whether it be the decarbonisation needs or new topics like aerated concrete.

We are, therefore, ever more conscious of the value for money aspect of operating our business. In this regard it is worth noting that the reorganisation, while substantially increasing our customer facing resources, is running at a lower staff cost than the previous organisation. As ever, that will not be enough savings to do everything we want to do in the time we would like to do it. We do see a way through this, and we have undertaken work to develop a stable and resilient financial model which will allow increased investment in our homes and services once we move beyond the current economic challenges. In the meantime, the financial results set out in this report are in line with the expectations which were set by the Board as we navigated our way through the choppy economic waters. We maintain a tight financial control framework and a strong liquidity position, and our financial strategy will enable delivery of our priorities.

These will focus on core service delivery, maintaining a simple business model within which high standards can be achieved for our residents. We will continue to build homes but not at the pace previously planned, and fewer of these homes will be for shared ownership sale as we

Chair's statement

work to reduce exposure to market risk. We will gear up for significant energy-efficiency investment in our homes, and where capacity allows, we will undertake wider estate renewal projects to modernise the places where our residents live their lives. Underpinning all this, we need to develop a highly motivated and highly performing workforce who can offer the right service standards.

Factoring this all into our planning is work that will lead to a new 5-Year Corporate Plan which we will share in early 2024.

We are also going through some planned changes to our Board membership, as long-standing Board colleagues come towards the end of their tenure. Anne Turner preceded me as interim Chair and I am extremely grateful for her support and guidance as I came into the business. Equally, Curtis Juman (our Vice-Chair), Steve Amos and Katie Lyons, having served their permissible time as Board Members, are standing down in a phased way as we introduce the new cohort of five Board Members which I referenced earlier. Our Board Members have all put in many hours of dedicated service, over and above expectation to support the Executive on key projects, and all can look back with pride at the service they have given to PA Housing over the years. My thanks and gratitude go to them all.

This final element is hugely important. The people who work for PA Housing have been through a difficult period, but I know from talking to many of them that they share my passion and determination to turn things around and create a much stronger organisation. I am grateful for the resilience they have shown, and for the positive way they have welcomed me and other new faces into the business. We have some talented people here with some great ideas to move us forward. One of the roles of the Board working with the senior leadership team is to create an environment where that passion and ambition is nurtured and harnessed to help drive us forward.

Suki

Chief Executive's statement

I was appointed as PA Housing's new Chief Executive in December 2022, initially on an interim basis, and I knew I was coming into an organisation which was looking to change and improve.

In my first few weeks I spent a lot of time visiting our estates and talking to residents. They told me that we do a lot of things well. We have teams who offer additional support to residents who need it, including helping with access to the benefits system and providing short-term emergency funding when residents face real hardship. We run some great community investment programmes, for example helping residents to get off the ground with their own small business ideas. And our investment programmes to install new components such as kitchens and bathrooms into our homes are popular, with residents feeling the standards are high and the operatives are good people to deal with.

But I was also told that we have several challenges to deal with, and that residents feel we let ourselves down on the basics. Routine queries can take too long to resolve, leading to frustration, and there is a sense that we don't have a culture of strong personal ownership of residents' issues. Our communication with residents is not proactive enough, and they feel that we don't always hold our contractors to account on their behalf. Central to this, our repairs service has been struggling and residents have been left waiting for repairs to their homes.

I also spoke to our colleagues at all levels of the business, and across all locations. They recognised many of the same issues as residents did and they spoke about the changes they would like to see. Our colleagues want to do their best for residents but at times they feel impeded by our processes and ways of working, our IT systems and our internal communications. They also want strong, clear, and supportive leadership which gives a real sense of what our business priorities are and what our direction of travel is.

This rich insight from residents and colleagues is critical in understanding what our service delivery challenges are and what we need to do about them. We have begun a period of rapid and significant change to improve our service standards. This has included reallocation of our people resources to best meet residents' requirements. To give a few examples, we have doubled the number of Neighbourhood Coordinators to reduce patch sizes and enable stronger customer relationships across all tenures. We have increased our Surveying team to strengthen the quality controls around our homes and hold contractors to account. And we have created a new Escalations team which is empowered to resolve more serious service failure cases quickly and ensure that lessons are learned.

We have started to manage our supplier relationships more professionally, making it clear what our expectations are and what level of service our residents deserve. When this doesn't happen, we are prepared to take appropriate action and we have terminated contracts which were not performing as they should.

Turning to building safety, we are working to achieve certainty on cost and timing for the small number of estates which require significant remediation work to address historic fire safety compliance issues. We have made positive progress on this since the end of the 2022/23 financial year, and we are engaging with the original building contractors to achieve an agreed position across the piece and get on with the work. In the meantime, we continue to fund waking watch services where necessary to keep residents safe and assured.

On the new build side we are working proactively to resolve a small number of sites where the contractors have run into financial difficulty. This involves appointment of new contractors to finish off the projects as quickly as possible, so that we can provide much needed new affordable homes in areas of high demand.

It is fair to say that my first few months at PA Housing have passed extremely quickly. We are an organisation which is in a state of transition and we are trying to change at pace, so that the improvement priorities we have identified are achieved as quickly as possible. Inevitably this process always entails a number of challenges and issues to tackle, bringing a varied menu of work to get through. Our people will be a crucial component of this journey and we are working to develop a vibrant working environment where we openly discuss challenges and solutions, with residents at the heart of our decision making and our actions.

The report and financial statements which follow share more details about where we are as a business and where we are working to get to. The numbers themselves represent a solid outturn position in the context of more challenging economic headwinds, which have impacted on the sector.

Working with our Board, we have made appropriate financial decisions to navigate through this period while developing a medium-term financial plan which is focused on creation of additional capacity to invest more in our homes, estates and services.

My thanks go to all residents and colleagues who have welcomed me into PA Housing and helped me to start moving us in a new direction. I have also engaged with a range of corporate stakeholders including the Regulator of Social Housing, the Housing Ombudsman, our key local authority partners and our lenders and investors. Their input has been invaluable, and it will continue to shape the journey we are on.

Strategic Report

Strategic Report: Our Strategy

About Us

PA Housing ('PA') is a provider of social housing with 23,993 homes in London, Surrey, and the Midlands. Our main offices are in Walton-on-Thames and Leicester.

Our purpose is to deliver great services to our residents, to provide safe and quality homes 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 and continues to be at the forefront of equality and diversity within the housing sector.

Our Operating Model and Corporate Plan

We are a not-for-profit community benefit society and our surplus is used to continually reinvest in our residents' homes to provide safe and affordable housing.

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.

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

Whilst our primary focus is to provide great services to our residents, we are continuing to grow through a combination of building new homes, the redevelopment and regeneration of neighbourhoods, and the acquisition of existing homes from other providers.

During the year PA appointed a new Chair and Chief Executive. We launched our new operating model on 1 June 2023 which sees our colleagues reorganised into new teams that are focussed on providing better services and communication with residents.

We have also recruited five new Non-Executive Board Members who joined PA in July and August 2023 as a number of our Board members were due to retire. We have reset our strategic priorities and objectives and we are in the process of drafting a new Corporate Plan which we will be publishing in the Autumn.

Delivering future improvement

Our focus on our core services will enable us to drive improvements for our residents. The environment in which we operate continues to change with higher expectations from our residents. The regulation of the social housing sector will change in 2023/24 with the introduction of the new consumer standards.

The Social Housing (Regulation) Act 2023 received Royal Assent in July 2023 and we welcome the proposals that reinforce our own commitment to provide homes that are decent, safe and well maintained, and that residents receive quality landlord services and are treated with fairness and respect.

The proposed new consumer standards are:

- The Safety and Quality Standard
- The Transparency, Influence and Accountability Standard
- The Neighbourhood and Community Standard
- The Tenancy Standard

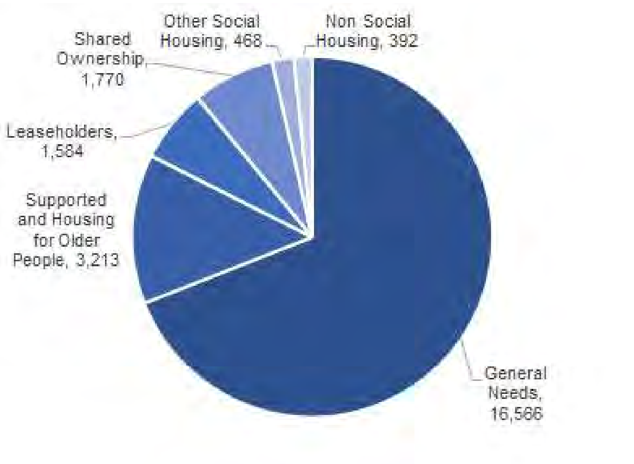
Strategic Report: Safety and Quality

Our residents' homes

We own and / or manage nearly 24,000 homes in over 60 local authorities within our core operating areas in London, Surrey, and the East Midlands. 35% of our homes are in London, 23% in Elmbridge and 17% in Leicester.

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 123 market rented properties and 223 properties for healthcare workers at King's Mill hospital in Nottinghamshire.

Homes by tenure



Safety of our residents in their homes

The safety of our residents in their homes is a top priority for PA and we commit significant resource and financial capacity to ensure all homes are safe to live in.

We recognise that we have had some service failures in this area, and in November 2022, the Housing Ombudsman published a report confirming severe maladministration by PA in respect of our response to the resident's reports regarding a leak into their property. PA fully accepted the findings of the Housing Ombudsman and we have implemented changes in response to the lessons learned from this case. They include: ensuring that all complaints responses are reviewed by a manager or Head of Service before being sent to customers; improvements in the timeliness and quality of complaint responses; accurate logging of all customer contact by all colleagues on PA Housings systems; introduction of two complaints specialists in the repairs service; training for complaints handlers and service area investigators, and changing our repairs contractors.

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.

Damp and Mould

In December 2022, the Regulator of Social Housing asked all Registered Providers to set out their approach to tackling damp and mould. We reported eight category one cases which is the highest category. All of these cases have now been successfully rectified.

We have set up a dedicated Damp and Mould Team who assess reports of condensation and damp and mould in order to take action and prevent it from returning in the future.

Stock condition and Decent Homes

As at 31 March 2023, we had 107 homes that did not meet the Decent Homes standard. This included 13 residents who refused works to be carried out. 83 homes failed due to delays with loft insulation upgrades, six related to damp and mould with the remaining properties requiring other planned works. By July 2023 we had completed works to 70 homes with other works scheduled to be carried out. We are also working with residents to arrange access to their home to carry out works.

92% of homes and schemes have been surveyed for stock condition in the last five years. Our target is to complete all overdue surveys by December 2023. Our aim is also to bring forward surveys to ensure we are identifying investment work at an early stage to achieve the Decent Homes Standard.

Progress with Fire Safety remediation

PA has five remaining schemes where significant fire safety remediation works are required. Progress is being made although on a number of these schemes the position remains quite complex with ongoing negotiations with the original build contractors on technical agreement and contractual liability. We are also liaising with fire safety experts to ensure the best course of action for remediating the buildings.

Works have commenced on one scheme in Northampton which is due to complete by December 2024. The other schemes are located in Brent, Greenwich, Woolwich, and Leicester. We expect works to commence on these schemes in the next 12 months. Where required we continue to provide 24 hour waking watch and fire cover arrangements with regular inspections to ensure the safety of our residents.

In addition to the above we have a further 18 directly managed blocks where fire remediation works are required. Works have either commenced or are planned to commence, with the majority of works estimated to be complete by the end of 2024.

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

Compliance

Fire Safety

As at 31 March 2023 there were 16 fire risk assessments beyond the one- or two-yearly review periods. This equated to less than 1% of the overall number of fire risk assessments and these were all the responsibility of third parties. All risk assessments were completed by the end of May 2023.

Strategic Report: Safety and Quality

There was one high risk task outstanding at 31 March 2023. This was a task for a third party to complete and we received confirmation that this had been completed in April 2023.

Gas Safety

At 31 March 2023 40 (of 15,892) gas safety checks were overdue. At the end of July 2023, 39 had been completed with legal action being taken to gain access into the one outstanding. We use Gas Safe Registered contractors to undertake this work on behalf of PA. 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 2023, 1,030 (of 19,758) properties had an electrical test over five years old due to delays and non-access. At the end of June 2023 performance had improved from 94.8% to 99.7% of homes with a certificate.

Key Indicators (% complete)	2023	2022
Fire risk assessments	99.1%	99.1%
Electrical testing	94.8%	97.6%
Gas safety checks	99.8%	98.3%
Legionella risk assessments	100.0%	100.0%
Asbestos surveys	97.6%	96.7%

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 focus in the coming years is to maximise investment in our homes and estates, in line with stock condition information and wider estates renewal aspirations.

In 2022/23 we invested £16.7m in replacement of components in our homes (2022: £19.6m).

Works completed (no. of homes)	2023	2022
Roofs	70	106
Kitchens	574	521
Bathrooms	382	340
Windows and doors	431	556
Heating and boilers	991	883
Lifts	8	7

We have invested £3.0m in decorating communal areas and associated repairs and £0.2m on aids and adaptations to meet the needs of our residents.

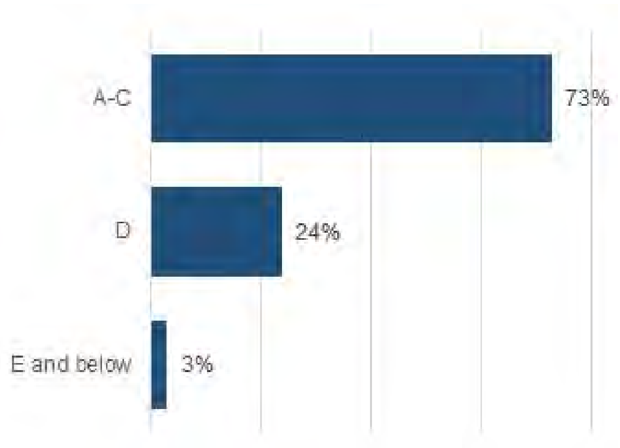
Energy efficiency and sustainability

At the end of March 2023 73% of our residents' homes had an EPC rating at band C or above (2022: 63%). Our target for 2023/24 is to increase this to 77% which equates to an additional 900 homes.

We will attain EPC band C or better for all homes by 2030. In 2023/24 our programme includes retrofit works to increase the number of properties to reach band C. This will include loft insulation works to 588 homes and more extensive fabric first works to 40 homes.

We have secured government funding of £1.2m under the Social Housing Decarbonisation Fund wave 2, with PA Housing contributing a further £2.3m. This will improve the energy efficiency of 100 homes in Leicester and will complete in August 2024.

Property EPC ratings

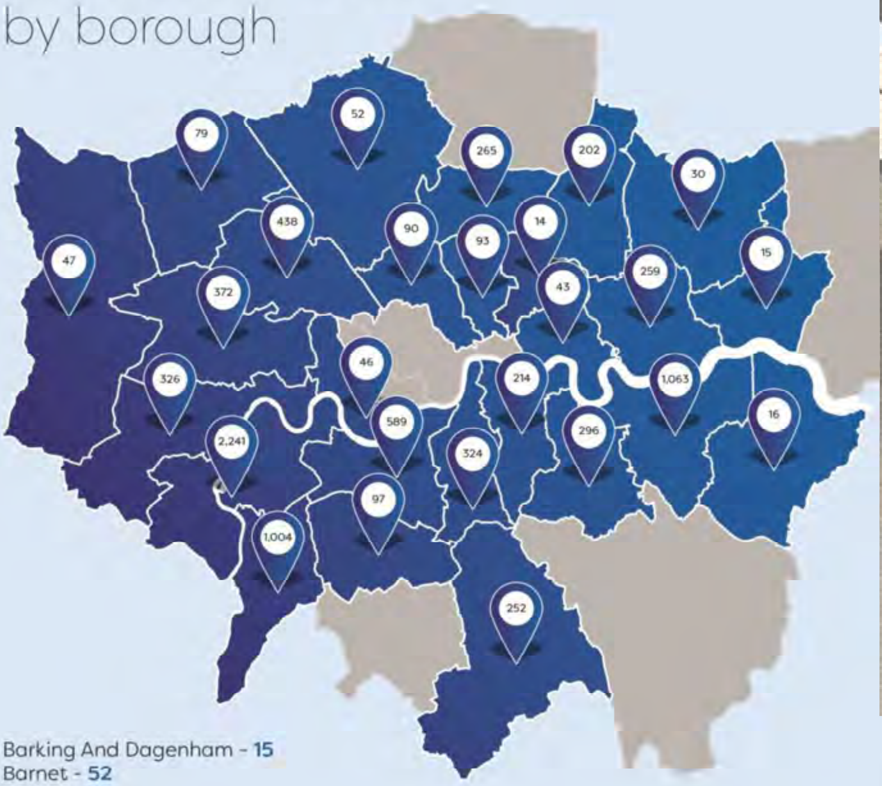


Responsive repairs

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. We saw a marked drop in satisfaction in London and the South East in 2022/23 and saw a reduction in the number of repairs completed on time, reducing from 87% in 2021/22 to 79% in 2022/23. This was however against a backdrop of a 21% increase in the number of repairs being raised and a 25% increase in the number of calls to our Repairs Hub.

In response to this we have changed our contractor in London and the South East and have expanded our in-house maintenance service to include our homes in Nottinghamshire. We have combined our contact hubs into one centralised team.

Our London homes by borough



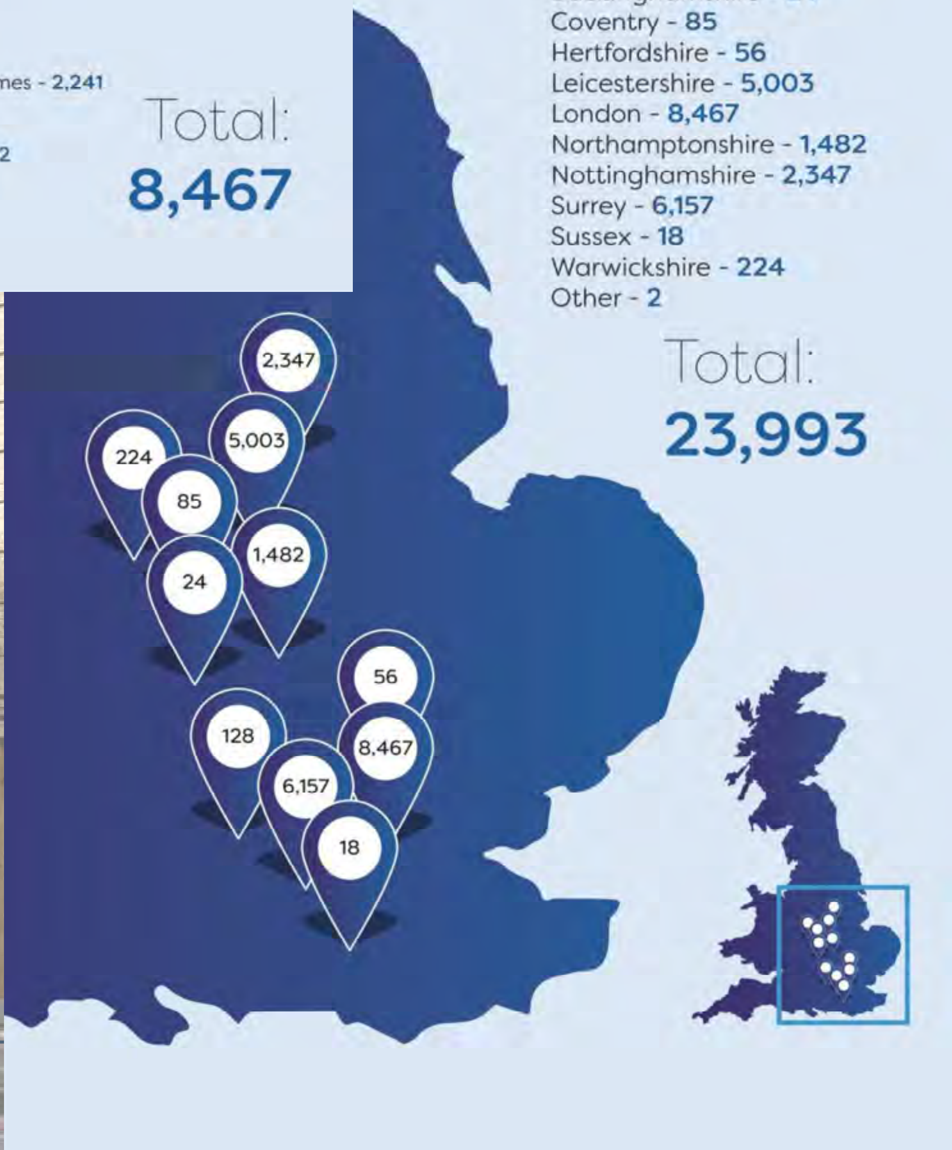
Barking And Dagenham - **15**
Barnet - **52**
Bexley - **16**
Brent - **438**
Camden - **90**
Croydon - **252**
Ealing - **372**
Greenwich - **1,063**
Hackney - **14**
Hammersmith And Fulham - **46**
Haringey - **265**
Harrow - **79**
Hillingdon - **47**
Hounslow - **326**
Islington - **93**
Kingston upon Thames - **1,004**
Lambeth - **324**
Lewisham - **296**
Merton - **97**
Newham - **259**
Redbridge - **30**
Richmond upon Thames - **2,241**
Southwark - **214**
Tower Hamlets - **43**
Waltham Forest - **202**
Wandsworth - **589**

Total:
8,467

Our homes by county

Berkshire - **128**
Buckinghamshire - **24**
Coventry - **85**
Hertfordshire - **56**
Leicestershire - **5,003**
London - **8,467**
Northamptonshire - **1,482**
Nottinghamshire - **2,347**
Surrey - **6,157**
Sussex - **18**
Warwickshire - **224**
Other - **2**

Total:
23,993



Strategic Report: Residents and their Neighbourhoods

Transparency, Influence and Accountability

Diverse needs and engaging with residents

We are changing the way in which we work to get closer to our residents and understand their needs. We have implemented this as a direct result of listening to what our residents want. Our new operating model will focus on better services and communication with residents. Our data will assist in us understanding the diverse needs of our residents but more importantly our approach will be to truly get to know our residents and their families who live behind the front door. We will have more colleagues operating in smaller patches so they can spend more time with our residents.

Our approach to resident involvement is changing and we are always looking for new residents to be involved. Our Resident Assembly is the voice of our residents and they help us to keep heading in the right direction. They share their own experiences and those of others they speak to so we can make changes to the way we do things.

Information about our services

We have learnt from our mistakes and we will become more transparent with our information on our services. We have already begun to implement a more collaborative approach to working with residents either individually or collectively on service charges. Where we are carrying out works to our residents' homes, we are fully engaging with them on the impact to them and expected timescales for the completion, keeping residents informed at each stage.

Performance information

During 2022/23 we piloted the collection of the new Tenant Satisfaction Measures. This feedback has already allowed us to shape our future service to the needs of our residents. Our approach in 2023/24 will be to expand on this and we will collect information face to face from our residents and hear their feedback firsthand. This, coupled with our suite of other performance measures, will ensure we can act quickly to change our services. We regularly publish our performance information on our website to be fully transparent with our residents and other stakeholders.

Complaints

In 2022/23 we received 2,275 complaints which was a 58% increase on the previous year. We received three findings of severe maladministration in the year from the Housing Ombudsman Service. Our focus is to ensure we have the people and processes in place to prevent other residents having a similar experience.

Our neighbourhoods and communities

Safer neighbourhoods

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.

In 2022/23 we attended 165 Neighbourhoods on Tour events and four community action days across our regions alongside local councillors, policing teams, and other support agencies.

62% of our neighbourhoods achieved our internal gold standard on quality, but we know we need to do more. We have new cleaning and grounds maintenance contractors in place with whom we are working closely to ensure we are providing a good quality service and value for money on service charges.

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.

Strategic Report: Residents and their Neighbourhoods

Investing in communities

Our community investment team has continued to support residents and improve the lives of others in the local communities. This can range from providing new benches through to complete makeovers of outside living spaces. We provide financial assistance though our Community Fund which is managed by a group of residents, and our colleagues and contractors often give up their time for free to help the local communities.

Tackling Anti-Social Behaviour and domestic abuse

Our Tenancy Solutions team works to give residents advice and guidance, offering practical support on anti-social behaviour and domestic abuse. As things return to normal after the pandemic, we have seen cases of serious anti-social behaviour get into court and sanctions awarded. Delays and backlogs remain with the courts, however.

Over the last year we have seen an increase in domestic abuse cases. We continue to work with other agencies, such as the police, social services, local authorities, and domestic abuse advisors, to protect and support victims and ensure perpetrators are brought to justice.

Tenancy

We 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 residents claim over £4.4m 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.

Strategic Report: People and Culture

Our People

Introduction – New ways of working

Our primary focus across the business is to do better for our residents by improving services, being easier to deal with, keeping our estates in good order, and investing more where capacity allows. All of this is driven by the people who work for PA Housing, and so we must also make sure that we are investing in our colleagues and developing a team which can meet the challenges that lie ahead.

In the final quarter of the financial year we consulted with colleagues on a new operating model. This was designed to directly address the areas where our services need to improve. Key objectives were to de-layer tiers of management, speed up decision making, move from a hierarchical style of management to a matrix model, and to increase resources in key customer facing teams. The proposal included the following to strengthen our customer service approach:

- Doubled the number of Neighbourhood Coordinators, therefore halving the patch sizes from an average of 800 homes to 400. Introduced a tenure-neutral approach to patch management.
- Devolved more authority to the Neighbourhood Coordinators, so that we get things done more quickly and develop stronger local relationships with our residents.
- Increased the number of Surveyors to strengthen our approach to asset investment and building safety.
- Created a new Escalations team which takes ownership of more serious customer service cases and works with residents to find speedy solutions and get a good outcome.
- Introduced a specialist Damp and Mould team to focus on this important aspect of building safety.

The proposals were well received by colleagues, and their feedback influenced the final structure so that it aligned with the views of our service delivery experts across teams. Following the consultation and a short transitional period to accommodate the staffing changes, the new operating model went live on 1 June 2023.

This fundamental change to our service delivery approach is critical in supporting achievement of our objectives, majoring on driving up our residents' satisfaction with the services they receive from us. This will be a long journey measured in years rather than months, but there are early signs that the changes introduced are having a positive impact on our culture and ways of working.

Recruitment

Our in-house recruitment team, established in 2021, gained further momentum during the year. Our reliance on external recruitment agencies has reduced, with expenditure on agency fees dropping year-on-year. The team has developed successful techniques to directly source candidates who are not actively seeking new employment, and some key roles have been filled in this way. This work has delivered timely turnaround of vacant roles, enabling us to significantly reduce spend on agency staff which dropped from £1.1m in 2021/22 to £0.6m in 2022/23.

The team dealt with 163 vacancies during the year, with 146 new colleagues recruited into the business. The average number of applicants per vacancy doubled from 11 to 22 during the year, giving recruiting managers more candidate choice compared to the challenging conditions experienced during the pandemic.

Improving the stability of our workforce is a priority area. During the year 40% of leavers had less than 12 months' service. This is too high, and we have reviewed the underlying reasons to identify appropriate actions in response. The strength of our organisational culture and aligning new recruits to it is a key factor here.

Employee relations

There was concerted effort during the year to tackle productivity and ensure that colleagues are as well placed as possible to fulfil their duties. Total working days lost due to sickness reduced significantly, from 8,085 in 2021/22 to 6,126 in 2022/23. This represented 3.3% of all working days. The reasons for sickness absence are varied and can be complex. Where necessary the HR team worked with colleagues and their managers to address underlying issues and offer additional support if needed.

Our employee relations work remains vitally important. We enjoy good relationships with our two recognised unions and our staff committee, and their input into key business decisions is greatly valued. Following consultation with them, we put measures in place to support colleagues through the cost-of-living crisis, recognising that many of them were facing severe challenges as were our residents. The approved annual cost of living pay award, effective from April 2023, delivered a greater proportion of benefit to colleagues on lower salaries.

There was a reduction in grievance and disciplinary cases in the year, to 32 from 45 in the prior year, indicating some positive movements in organisational culture. Case management efficiency also improved, with the average time taken to complete a grievance or disciplinary case reducing during the year, meaning that the colleagues concerned could move on more quickly on the back of a clear outcome.

Strategic Report: People and Culture

Learning and development

We continue to invest in our colleagues across various workstreams. 165 in-house training sessions covering 30 different courses were delivered during the year, with 505 colleagues engaged in these opportunities.

Acting on feedback from residents, our learning and development team introduced the new ‘Service’ programme which is designed to further develop the softer people-focused skills of our contact centre advisors. In a similar vein, the team established regular ‘Meet and Greet’ sessions which gave residents the opportunity to speak directly to colleagues and senior managers across the business on an informal basis. In turn, managers are then able to pick up on service delivery learning points to take back into their teams. Eight of these sessions were delivered in the year, with 73 colleagues attending.

We have also developed a portal within our e-learning system through which residents will be able to directly access learning materials relating to employability, health and wellbeing and life skills.

Diversity

We recognise the importance of diversity at all levels of the business, and the positive impact this can have on our decision making. We want to create an inclusive environment where people can express themselves freely and take pride in their own sense of identity.

Our workforce is predominantly female and nearly half of colleagues are from a non-white ethnic background, which aligns well with our resident population. We do though need to continue working on the diversity of our senior leadership team, particularly with regard to ethnicity, and we want to do more work in support of other protected characteristics.

During the year we also started to explore broader diversity factors including socio-economic background, level of formal education attained and lived experience of social housing. These elements will form an important component of our future work around recruitment and retention of talent from all backgrounds.

Pay Gap

Pay gap reporting gives an indication of the extent to which good intentions translate into real action in respect of developing a diverse workforce.

The new operating model introduced in June 2023 reflects a positive step-change in respect of gender, with the median pay gap position reduced from 11.5% prior to the restructure to 9.5% after. Our ethnicity pay gap position was already stronger, but this also saw a small improvement, from 5.9% to 5.7%. This is encouraging but we still want to eliminate both pay gaps as soon as possible.

Every vacant post recruited into is monitored from both a gender and ethnicity pay gap position to assess the impact, and our recruitment team works with recruiting managers to secure as diverse a pool of candidates as possible, particularly for more senior roles within the business.

Investors in People

Looking ahead, we are currently working on the Investors In People (IIP) accreditation. This is not about gaining a badge; rather we want to make sure our future work on all aspects of people development is aligned with external best practice. The IIP framework gives a useful reference point, and we will use this to sense-check our evolving priorities and actions.

We conducted a detailed colleague survey in February 2023, and this provided valuable information on what our people want to see going forward. We are following this up with regular shorter pulse surveys to capture the evolving temperature of the organisation and pick up on additional actions needed.

Strategic Report: New Homes

Our development strategy

We have taken the decision to scale back our development activity and our plan now includes 5,000 new homes to be completed in the period from 2020 to 2030. The original target was 6,000. This incorporates our revised delivery commitments with the Greater London Authority and Homes England with more emphasis on social rented accommodation. This decision will enable us to focus on and create financial capacity to invest in our existing homes whilst still providing new homes to future residents in our core operating areas.

In 2022/23 we developed 284 new homes (2022:317). 180 were affordable homes to rent and 104 were for shared ownership. Our development has included the delivery of new homes in Corby, Wellingborough, Surrey, and London, enhancing the neighbourhoods in which we already operate.

New homes (social)

284 (2022: 317)

The supply chain and issues in the construction sector persist and this has inevitably led to delays in completing our new homes. Only half of our pipeline development remains in line with our original programme timetable. Financial pressures on contractors are ever more present and two contractors we were working with failed in the year. A key focus for the year ahead is to bring these sites back on track although inevitably this will lead to additional costs. We have established an early warning system to monitor the financial stability of contractors and the potential impact on the development programme.

At the end of March 2023, we had over 40 active sites with over 2,000 new homes under construction. We are forecasting the completion of c 450 new homes in 2023/24 and c 750 in 2024/25.

Coverdale Close, Corby

New homes completed:	2023	2022	2021	2020
Affordable Rent	180	124	155	145
Social Rent	-	8	21	-
Shared Ownership	104	185	116	88
Temporary Housing	-	-	6	-
Total: Social Housing	**284**	**317**	**298**	**233**
Market Rent	-	-	2	16
Total	**284**	**317**	**300**	**249**

Pipeline development

Our strategy is to bring forward affordable homes to rent as our priority, with shared ownership homes to balance the programme. This will be delivered through land led, Section 106 and package contracts in core areas of London, Surrey, and the East Midlands. We work closely with local authorities on opportunities for land-led development.

Development	2023	2022
Homes started on site in the year	1,053	638
Under construction at 31 March	2,015	1,094

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

Other acquisitions

In July 2022 we purchased 411 homes from another Registered Provider. This was predominantly social rented accommodation in the Leicester and Nottingham areas with a mix of houses and flats which complemented our existing stock in these areas.

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	2023	2022
New homes sold	148	127
Sales proceeds	£21.5m	£19.5m
Surplus	£5.0m	£5.9m
Sales margin	23.3%	30.0%

Sales revenue in 2022/23 was £21.5m (2022: £19.5m) from the sale of 148 new homes (2022: 127 homes). As in the previous year our sales volumes were lower than our targets due to the knock-on impact of supply chain issues and a subdued property market. Whilst sales margins have declined from 2021/22, our margins were in line with our development appraisals with only limited discounting and incentives being offered. The impact of rising interest rates and the availability of mortgages is a risk to our future sales outlook however. We are monitoring this closely and proactively managing our sales exposure.

Strategic Report: New Homes

130 homes were held for sale at the end of March 2023 (2022: 174), 49 of which had been for sale for longer than six months (2022: 71).

Regeneration programme

Our development programme includes a number of regeneration schemes in London and Surrey.

Our development in Elmbridge, Thames View House, is located close to our office in Walton-on-Thames and the original building was constructed in 1972. The redevelopment, which will be renamed as Laurelwood House to recognise local historical links, will replace the outdated and failing building with 97 higher quality homes and will transform the lives of local residents. The regeneration aligns with our strategic objectives providing wholly affordable homes, social rents, and community infrastructure.

Thames View House

The site will also deliver a high level of sustainability including:

- Photovoltaic panels on flat roofs to generate renewable energy on site.
- 20% of parking spaces with electrical charging points and an infrastructure to increase to 50%.
- A fabric first approach to development making the building as thermally efficient as possible.
- Energy efficient heating system lowering the buildings carbon emissions.
- Biodiversity, through living roofs, bird and bat boxes and bee-friendly planting.
- A brand-new pre-school on the ground floor.

Our development in Woolwich is a long-term partnership to deliver new homes through the regeneration of three existing Council owned housing estates. Phases 1-3 have completed (238 homes), and phases 4 and 5 started on site in February / March 2023 and will deliver a further 253 homes. The final phase will deliver 75 homes in 2026/27.

Our Board has also approved the delivery of a 516-home, multi-phase regeneration scheme in Southall in partnership with the London Borough of Ealing. We have taken transfer of the development land, and construction commenced in April 2023. We have received grant funding from the GLA as part of this partnership project to support the delivery of much needed affordable homes. This scheme will be built to the Future Homes Standard 2025, delivering sustainability and minimising the impact on the local environment.

Strategic Report: Environmental, Social and Governance

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.

Transparent reporting on our ESG activities is crucial, and PA was one of the founding adopters of the ESG-focused 'Sustainability Reporting Standard for Social Housing (SRS)' devised by the sector, working with the Good Economy. We have published an annual ESG report, incorporating the SRS metrics, since 2021. Our 2023 report is available on our website; it also incorporates performance information relating to our debt facilities where they incorporate ESG metrics or use of proceeds requirements.

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 below signposts readers to the key ESG information available elsewhere in this document.

Environmental

- Improving the energy efficiency of our homes Page 12
- Thames View House development project sustainability features Page 19

Social

- Engaging with residents and improving our services Page 14
- Community Fund activities Page 15
- Tenancy sustainment work Page 15
- Investing to expand our customer-facing teams and improve services Page 16
- Learning and development support to employees Page 17
- Developing new affordable homes for people who cannot access the open market Page 18
- Estate regeneration projects Page 19

Governance

- Keeping residents safe and ensuring building safety compliance Pages 11-12
- Employee relations activities Page 16
- Work to promote workforce diversity and reduce our gender and ethnicity pay gaps Page 17
- Our approach to risk management Pages 22-23
- Assessment of going concern and controls to preserve liquidity Page 31
- Our financial golden rules and their alignment to corporate priorities Page 35
- Our governance arrangements including the internal controls assurance framework Pages 43-49

Risk Management

Strategic Report: Risk Management

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
Reputational Risk	Failure to provide improved services to our residents leading to negative publicity, regulatory engagement and stakeholder dissatisfaction. Scrutiny and challenge of the social housing sector within national media/government.	■ Revised approach to complaints management ■ Complaint handling code compliance ■ Staff training ■ Stakeholder management ■ Lessons learnt reviews ■ New “Escalation Team” to deal with priority cases
Customer Satisfaction	Low satisfaction in customer services leading to reputational damage and scrutiny. Repairs service change of contractor. Dissatisfaction with service charge management and value for money.	■ Procurement of new maintenance contract ■ Damp and mould taskforce ■ Communication management ■ Expansion of Direct Labour Organisation service ■ Increased contact hub resources

Strategic Report: Risk Management

Headline risk	Risk detail and impact	Monitoring and mitigation
Landlord Health and Safety Compliance	Health and safety requirements are not completed leading to risk of unsafe homes, non-compliant position, and potential injury. Labour shortages impact on service delivery. Non-access. Waking watch costs.	■ Ongoing Board scrutiny of certifications and other property compliance requirements ■ Proactive engagement with residents on safety and compliance ■ Tall building fire safety remediation ■ Robust contract management ■ Legal process followed to ensure access
Condition of Housing Stock	Failure to invest in existing housing stock Impact on the business plan, decent homes compliance and voids. Consumer standards breach. Delays to non-statutory works due to financial capacity. Increase in disrepair cases. Damp and mould.	■ Stock condition surveys and improved stock data ■ Contractor and budget management ■ Damp and Mould taskforce ■ Disrepair case management ■ Release of further funds when capacity allows
Cyber Security and Data Protection	Service disruption and impact on the customer due to cyber-crime. Data loss / data breach. Increased risk of unauthorised access to PA systems. Increased frequency of cyber-attack in the Housing sector.	■ 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
Development	Economic environment impacts on delivery of development programme. Delays mean new developments take longer to complete and cost more. Increasing contractor solvency risks. Existing contracts becoming unviable due to rising costs of material and labour. Re-procurement at markedly higher cost. High level of work in progress.	■ Financial monitoring ■ Monitoring success rate of new bids ■ Programme of pipeline schemes monitored by Board ■ Monitoring contractor's performance and reviewing Insolvency cover, Parent Company Guarantees and other security provisions. ■ Viability of supply chain continually assessed
Sales	Subdued property market and ability for buyers to secure mortgages. Lower sales margins High number of unsold new build homes and impact on the business plan.	■ Structure deals that are flexible to enable switch of tenure ■ Ongoing market review ■ Enhanced digital marketing ■ Sales incentives ■ Negotiations with stakeholders to recalibrate future development programmes ■ Budgets set at cautious level
Adverse Economic Environment	Increasing costs and reduced income leading to a reduction in the current year operating surplus and pressure on interest cover covenants. Rising interest rates / costs on non-fixed debt. Cost of living crisis leads to an increasing number of residents struggling to maintain rent payments, an increase in tenancy sustainment activity and hardship fund payments.	■ Adequate headroom against covenants ■ Operating model review ■ Business planning ■ High % of debt at fixed rates ■ Maintain strong liquidity and timing of future borrowing ■ Support fund expanded and enhanced tenancy sustainment service ■ Asset disposal

Value for Money

Strategic Report: Value for Money

Our approach to Value for Money and Corporate Objectives

We want our services to be good value for our residents, particularly in the light of the current cost of living crisis and the inflationary pressures on providing these services. We recognise however that we don't always get this right and despite our intentions to improve over the last few years we were unable to turn these into wholly positive outcomes for a proportion of our residents, as indicated by satisfaction survey results and complaints volumes.

2023 has therefore been a period of instigating change in how we deliver our services to residents. Our new Chair and Chief Executive together with the support of a refreshed Executive team will lead PA's service improvement effort going forward. Our approach to Value for Money is underpinned by our corporate objectives and our business plan which ensures our resources are directed accordingly and that we are held accountable on Value for Money by both our residents and the Board.

We have listened to the feedback from our residents and have taken action to implement change. Our new Corporate Plan will be published later this year and we have recently completed a restructure of the organisation to reset how we deliver services to residents. Linked to this our approach to Value for Money is being refreshed to align to our objectives and to ensure we have measurable outcomes for residents.

It has been difficult for us to achieve our Value for Money targets in 2023 with a focus on providing financial capacity and resilience to deliver our core services and to keep our residents safe in their homes.

Whilst our new Corporate Plan has yet to be published the key themes on what and how we will deliver our new objectives are clear:

- Focus on core activities and keep residents safe in their homes.
- Ensure all homes meet the Decent Homes Standard as a minimum and tackle all cases of damp and mould and disrepair.
- Embed the new operating structure and improve service standards.
- Scale back our development aspirations whilst continuing to play our part in the provision of new social housing.
- Deliver our net zero ambition.

What have we done to improve performance?

Despite the challenges we have faced we believe the strategic decisions PA has made will provide the bedrock to improve our services. This will take time however as we embed new ways of working throughout 2023/24. We have:

- Recruited a new Chair and Chief Executive to bring renewed leadership to the organisation.
- Implemented a new operating model which went live on the 1 June 2023.
- Reset the focus of senior management and leadership to be on the core business and to embed improvements to move the business forward.
- Reset expectations of our colleagues to be resident and community focussed.
- Held meet the manager events for residents to discuss their issues directly with a senior manager of PA Housing.
- Changed our routine repairs contractor in London and the South East (from June 2023)
- Expanded our Direct Labour Organisation in the Midlands (from July 2023).
- Worked closely with the Regulator and the Housing Ombudsman on the publication of Severe Maladministration judgements against PA Housing and implemented recommendations.
- Been transparent on our work to meet the Decent Homes Standard and in particular responding to the Regulator on all cases of damp and mould.

Monitoring VFM

Our organisational structure enables us to monitor Value for Money at all levels.

Ultimately our Board is responsible for the delivery of Value for Money and sets the strategic approach for PA. The Board is supported by our Committees. Our Audit and Risk Committee oversees the risk and internal control, and our Investment Committee considers the return on investment, affordability, and funding of the investment in new and existing homes.

Our Executive and Senior Management teams ensure Value for Money is a key factor in routine decision making with clear outcomes and monitors our performance against our targets.

All areas of the business receive regular reporting on performance against our targets through a comprehensive suite of financial and operational key performance indicators.

Strategic Report: Value for Money

Our performance

Alongside the regulatory Value for Money Metrics we monitor our performance against a suite of other metrics and performance measures. Our focus in the last three years has been on the following areas of performance:

Customer satisfaction

Our overall customer satisfaction based on perceptional surveys was 60% for the year, this has not improved from the 2022 result of 61%. Our transactional satisfaction has declined from 2022 and is 61%.

A common theme amongst residents is the dissatisfaction with our repairs service. The satisfaction with our repairs contractor in London and the South East dropped off in the final four months of 2022/23, only achieving a little over 50% satisfaction. We have taken action to address this and appointed a new repairs contractor in June 2023. Our internal Direct Labour Organisation (DLO) performed well during the year, achieving 79% satisfaction from residents. As part of our strategic plan we have expanded the geographic area of the DLO in July 2023 to capitalise on this success.

Void rent loss and average re-let days

A focus for PA in the last two years has been to improve the time it takes to re-let a property. This enables us to both increase our financial capacity to do more but also ensures new tenants move into their new homes more quickly. Our performance in 2021 was an average of 85 days and we have steadily reduced this in the last two years. In 2023 the average time to let a property was 37 days. Whilst this still fell short of our overall target, we are pleased with the improvements made in this area. Likewise, our financial loss from homes being empty has also steadily improved over the last two years.

Arrears

We are aware that in the current cost of living crisis it is becoming increasingly difficult for our residents to pay their rent and other financial commitments. Our performance reflects this with an increase from our position at the end of March 2022. Whilst our performance is above the sector average for all providers, it compared more favorably with the providers operating mainly in London.

Outlook

Given both internal and external challenges we are realistic in our expectations for the year ahead. Our primary focus is on improving customer satisfaction and we welcome the new Tenant Satisfaction Measures which we are reporting on from April 2023. This will enable us to provide our residents with further transparency on our performance within a regulated framework to compare our performance against our peers. We have also taken a cautious outlook to our performance on letting properties and the collection of rents, taking into account the current more challenging economic climate.

Indicator	2024 Target	2023 Target	Bench-mark	2023 Actual	2022 Actual	2021 Actual
Overall customer satisfaction	70%	80%	85% [1]	60%	61%	62%
Void rent loss (social housing lettings)	2.0%	2.0%	1.5% [2]	1.7%	2.1%	2.8%
Average re-let days (general needs)	35	32	-	37	57	85
Rent arrears	4.7%	4.0%	3.6% [2]	4.3%	4.0%	4.6%

[1] National Housing Federation Sector Scorecard UK wide Median 2022 results (General needs and housing for older people).
[2] Regulator of Social Housing Quarterly Survey (January to March 2023) Median results.

Strategic Report: Value for Money

Value for money metrics

2022/23 results

We incorporate the Regulator of Social Housing's Value for Money metrics into our routine reporting, financial planning and decision making. Our Board and Committees are regularly updated on our approach to Value for Money and the outcomes achieved.

We compare our performance to others in the sector and we use a peer group of 18 other housing associations with social housing stock owned of between 15,000 and 35,000 properties, who operate in similar geographical areas to PA. The comparable data for our peer group is taken from the information published by the Regulator of Social Housing. Information on the peer group is based on the actual results for the years 2020/21 and 2021/22.

We operate in a number of different geographic areas with 38% of our stock being in the Midlands, 35% in the London Boroughs and 27% in Surrey and the surrounding areas. Our metrics and approach to value for money reflect the diverse areas and related cost drivers in which we operate.

In 2022/23 our Value for Money metrics fell short of our budgeted expectations. Inflationary pressures increased our overall cost base impacting on our operating margin and costs per unit. Coupled with higher interest rates this also impacted on our EBITDA (MRI) interest cover. Our development programme fell behind schedule for a number of reasons including the failure of two development contractors and ongoing issues with resource and materials availability. In turn this has impacted on our reinvestment metric, new supply and return on capital employed.

We have not reported on the supply of new non-social housing as this is not a material consideration for PA with no (2022: none) non-social residential homes developed in the year.

Value for money outlook

The value for money metrics form part of our wider approach to Value for Money and they influence our approach to longer term financial planning. PA Housing as with others in the sector is facing financial challenges in the light of rising prices, interest rates and more general economic and political uncertainties. We are agile in our approach to making changes to protect our financial position and we ensure that scarce financial resource is directed accordingly. Under our revised business plan our focus will include:

- A scaling back of development aspirations.
- Driving up service delivery standards.
- Increased investment in existing homes.
- Delivering our net zero commitments.

In achieving our revised strategic goals, we have considered the medium to long-term impact on our value for money metrics. Our Board is comfortable that we are not looking to achieve best in class financial performance and that we will accept reasonable compromise to invest more. The impact of our strategy will be:

- Higher unit costs as we invest in our existing homes.
- Conscious approach to achieving outcomes in the light of operating margins and return on capital employed.
- Not seeking ultra-high interest cover performance but preserving a comfortable position above covenant limits.
- Levels of reinvestment and new supply to be in line with the revised growth plan.
- Gearing to remain stable and low risk.

Our short-term results will continue to be impacted by fire safety remediation works and the costs associated with bringing existing properties and schemes to a position that meets the latest building safety standards. In particular, our requirement for waking watch on schemes to ensure the safety of our residents will continue to incur additional operating costs until such time as remediation works are completed.

Our Value for Money metrics

Group results	2023 Budget	2023 Actual	2022 Actual	2021 Actual	2020 Actual	2019 Actual
Reinvestment	9.8%	7.0%	6.3%	6.6%	7.1%	4.3%
New supply – Social Housing	1.7%	1.2%	1.4%	1.3%	1.1%	1.5%
Gearing	49.7%	49.9%	48.6%	45.7%	43.2%	40.2%
EBITDA MRI interest cover	116.0%	87.7%	103.0%	136.5%	131.1%	169.0%
Social housing cost per unit	£4,921	£5,540	£5,412	£4,758	£4,632	£4,213
Operating margin – Social Housing Lettings	26.2%	18.7%	22.2%	24.9%	25.7%	33.3%
Operating margin – Overall	25.5%	18.7%	23.0%	23.2%	26.2%	33.8%
Return on capital employed	2.5%	1.8%	2.3%	2.2%	3.0%	3.6%

Strategic Report: Value for Money

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

Reinvestment and new supply

We reinvested £127m (2022: £103m) in the provision of affordable new homes through either construction or purchase of new homes. A further £17m (2022: £20m) was invested in our existing stock.

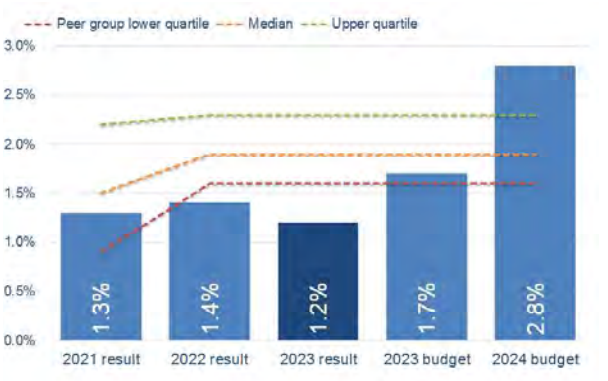
Our VFM metric for reinvestment is 7.0%. Whilst this is below our targeted result, we invested an additional £40m (2022: £23m) in the acquisition of homes from another registered provider which is not included in the reinvestment calculation. Our approach to growth includes the strategic acquisition of homes which complement our existing stock in the areas in which we operate. This enables us to grow quickly in these areas where we already have established service providers and resources.

Reinvestment

Whilst our investment in existing stock is a strategic priority, this was scaled back during the year to ensure we maintained sufficient headroom to meet our lender covenants at the end of the year and to absorb any further shocks after the government mini budget in the Autumn of 2022. Our investment in existing stock is 0.79% compared to the sector average of 1.25% [1] in 2022. ([1] Regulator of Social Housing Value for Money metrics and reporting 2022).

Our reinvestment forecast largely reflects our committed development pipeline although our business plan reflects our commitment to improving the quality of our existing stock.

New Supply (Social)



In 2022/23 we developed 284 (2022: 317) new affordable homes. Our VFM metric for new supply was 1.2%. Whilst this falls short of our budgeted 1.7%, we also acquired a further 411 (2022: 163) homes from another registered provider. Progress on many of our new development sites was slower than expected in the year reducing the overall number of homes completed.

At the end of the year we had over 2,000 homes on site and under construction and our forecasts reflect this in the context of the wider economic challenges and our own business plan. We do expect challenges to persist in the year ahead which may impact on the completion of the pipeline development.

Although our new supply metric falls behind our peer group, our Board is fully aware of the challenges and strategic priorities in balancing investment in new and existing homes and the risks associated with achieving our outcomes.

Debt

Our gearing ratio is in line with our target for the year and our peer group. Total borrowing increased by £92m from £994m to £1,086m and the value of tangible fixed assets increased by £155m to £2,108m.

We are budgeting for an increase in gearing in 2023/24 as we draw down loans to finance our committed 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.

Our gearing forecast is expected to stabilise in the short to medium term before reducing from 2028 onwards.

Gearing

Interest costs (before capitalisation) were £40.9m (2022: £34.5m). Our weighted average cost of capital increased slightly in the year and 86% of our year end debt was at a fixed interest rate.

Strategic Report: Value for Money

Earnings before interest, tax, depreciation and including major repairs were £35.9m (2022: £35.4m). Our operating surplus fell short of our budget due to price rises in the year, particularly relating to energy supplies, and strategically we reduced the budgeted investment in our planned repairs programme.

Our EBITDA (MRI) trend is downward which is in line with our peer group and the sector more widely.

EBITDA (MRI)

Our Board monitors and is comfortable with our EBITDA (MRI) position and outlook. We continue to prioritise the investment in existing homes and balance this with the delivery of new homes. This will maximise Value for Money for residents without unduly compromising on financial capacity and resilience.

Unit costs

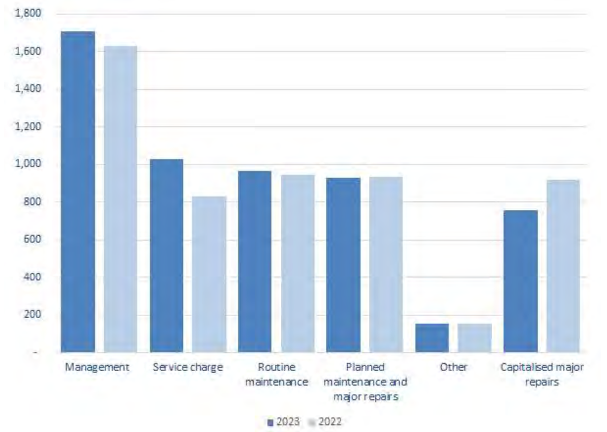
Our social housing cost per unit has increased by 2.4% to £5,540 (2022: £5,412). Data shows that the cost per unit for providers operating in London and the South East is generally higher than for those operating in other geographic areas.

Social Housing Cost per Unit (£,000)

Overall costs have increased by 5.5% compared to last year and our number of homes managed has increased by 3.1%.

The main driver for the increase in cost per unit is from increases in service charge costs. Management, routine and planned maintenance and other costs showed relatively modest increases in the year. The driver for the increase in service costs was the sharp increase in utility costs in late summer 2022. The timing of the procurement of our utility contracts led to an unprecedented increase in the price we paid for gas and electric in the latter half of the year. Despite receiving government assistance through the Energy Bill Relief Scheme costs were still significantly higher than in 2022.

Social Housing Cost per Unit by cost type (£,000)



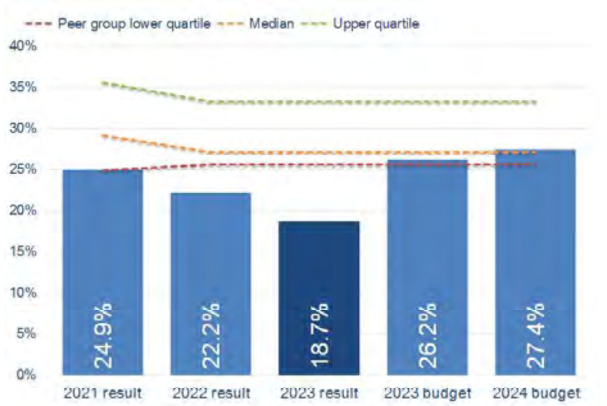
Costs per unit for our planned capital maintenance programme reduced from £919 in 2022 to £758 per unit. Costs were higher than average in 2022 as we worked to catch up with the backlog of works post Covid. The programme in 2023 was however curtailed in respect of some discretionary investment areas because of uncertainties in costs following the government mini budget and inflationary pressure more generally on our financial capacity. There was no compromise to the delivery of our building safety and Decent Homes compliance programmes.

In early 2023 PA announced an internal restructuring of the organisation to improve the efficiency of how we operate and to reduce our management cost per unit to allow for investment in our repairs and maintenance priorities.

Efficiency

The operating margin on social housing lettings and overall margin have both reduced compared to 2022. The trend experienced by our peer group was a reduction from 2021 to 2022 which we expect to continue into 2023 given inflationary pressures on the sector.

Operating Margin – Social Housing Lettings

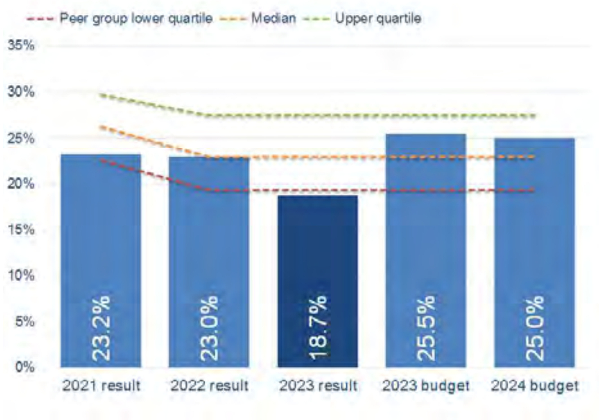


Strategic Report: Value for Money

Social lettings turnover increased by 7.2% in the year and associated costs increased by 12.1%. The costs of depreciation, impairment and bad debts increased by 21% (£4.2m) and we experienced a 27% increase in service charge costs (£4.8m) during the year. Included within our core repairs and maintenance costs are £5.2m (2022: £6.9m) of costs specifically related to additional fire safety remediation projects over and above our business-as-usual fire safety activities.

We are cautiously optimistic that our social lettings margin will return to a level more akin to our peer group in the short to medium term and our business plan shows a more promising increase beyond this. We do recognise however that inflation is proving to be stubbornly high and this and the risks associated with further caps to income through rent settlement policy will put pressure on us achieving our forecasts.

Operating Margin – Overall



Our return on capital employed metric is below our target due to pressures on the operating surplus. Our Board support the position and direction of travel despite our results being lower than our peer group. To achieve an increase in return on capital employed in line with our peer group we would need to post a higher operating surplus. Our approach balances providing value for money to our residents through the services we provide and investment in their homes with our overall returns and operating surplus.

Return on Capital Employed

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 2023. 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 can service these debt facilities whilst continuing to comply with lenders' covenants.

As at 31 March 2023 PA held liquidity (comprising cash balances and undrawn committed loan facilities available for immediate drawing) of £297m.

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 cost 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 2023/24 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

In my 2022 report I noted the gathering economic storms and reflected on the work PA Housing was doing to help our residents through the emerging cost of living crisis. I acknowledged that this would inevitably impact on our financial metrics in the short term, as it would for others in the sector who were navigating the same headwinds.

12 months on, we can look back on a highly challenging year but, given the circumstances we were forced to work within, a solid financial outcome which accords with the revised plan put in place by our Board at the height of the economic turmoil.

The period through August and September 2022 introduced a number of unexpected financial challenges, relating to the turmoil in the wider UK economy. We were in the market for renewal of our energy supply contracts at the worst possible time, when gas supply into mainland Europe via the Nordstream pipeline was being severely disrupted. After several days of virtual market shutdown and ongoing severe uncertainty as to supplier engagement, we were finally forced to agree contracts which saw our annual gas and electricity costs treble from £4million per annum to £12million (based on expected usage volumes). Then the UK government's mini-budget announcement in September met with an extreme adverse reaction from the financial markets. For a short period the future outlook for interest rates, house prices and demand for new homes, and wider UK economic performance looked bleak.

Alongside this we had the backdrop of double-digit inflation, impacting on our residents' ability to pay bills and our own supply chain costs. And then the government intervened to impose a below inflation cap on our rent increases for 2023/24, at 7% for all general needs regulated tenures and shared ownership homes.

In response to this, our Board reviewed the 'adverse economic environment' stress test which had already been incorporated in our financial plans in readiness for such an eventuality. The mitigating actions identified within it were rolled out, and through this work we were able to map out a revised interim financial plan through to the end of the 2023/24 financial year. Inevitably, this recognised the impact on capacity caused by the external economic pressures and it did involve some necessary compromise to our investment ambitions in the short term, in order to ensure that we maintained comfortable headroom above lender financial limits under a worst case scenario. This did not though include any reduction to spending levels to keep our residents safe in their homes and maintain Decent Homes compliance.

Looking further ahead, our Board has also recognised that the external economic pressures have unfolded alongside an evolving sector agenda relating to the quality and condition of social homes. This includes a number of potentially competing investment needs including an anticipated new and higher Decent Homes Standard, energy-efficiency and the journey towards net-zero carbon status, wider estates renewal / regeneration, and ensuring that homes are free of damp and mould risk. All this is on top of our existing commitments to keep residents safe and regularly invest in renewal of property components.

We have updated our medium-term financial plans to enhance capacity for this increased investment ambition. This has included some detuning of our new build targets, with the number of homes to be completed in the decade through to 2030 reduced from 6,000 to 5,000. Working with our partner funding agencies we have also increased the amount of Social Housing Grant Subsidy per new build home, and reduced the proportion of shared ownership homes that we will build, in order to reduce exposure to the more volatile sales market.

These changes on the new build side enable us to focus more financial resources on our existing homes, within an overall financial profile which we expect to carry less risk and be more inherently resilient. This will enable our Board to make appropriate decisions to increase the rate of investment in existing homes, maintaining sensible financial headroom whilst accepting the reality that higher levels of investment will continue to have a moderating impact on headline financial metrics. This though is absolutely the right path to take, in order to ensure that our residents can truly feel that they have a home to be proud of on estates which are attractive places to live.

We are further developing our financial golden rules in line with evolving investment requirements, targeting a more resilient framework. We acknowledge that from time to time we may well again need to manoeuvre through more choppy economic waters, during which time performance levels could dip. Details of our enhanced approach will be shared with our bank lenders and bond investors once fully approved by our Board. We highly value these partnerships and are grateful for the continued support provided to preserve a strong liquidity position.

Of course, the more difficult economic climate has a major impact on our residents. We have been forced to apply higher service charges due to the supply chain cost increases we have experienced, and while a 7% rent increase is below where general inflation has been, it still represents a significant uplift. Government intervention to moderate energy bills has been very welcome, and we have significantly expanded our own tenancy sustainment resources to offer support to those who need help. Within this context it is essential that our residents feel the rent and service charges they are paying offer good value for money – we know we need to do more here, including both enhanced investment as outlined above but also undertaking robust procurement processes and holding our contractors to account so that high service standards are maintained.

Resources Director's Report

Taking all of the above challenges into consideration, the 2022/23 outturn position presented in these accounts reflects an acceptable landing position given the extreme uncertainty we faced midway through the year. Trading conditions through 2023/24 will remain more challenging as we absorb the impact of unusually high cost inflation and further increases in interest rates, while rent levels are constrained. Beyond that though, and assuming a return to a more stable environment, we are well placed to start delivering stronger financial results whilst ensuring appropriate levels of investment in our homes and estates.

Simon

Resources Director's Report

Our financial golden rules

Our Board has agreed a set of golden rules which underpin our approach to financial management. In January 2023 the Board reviewed proposals for a set of revised golden rules and these were used in the preparation and approval of the business plan in May 2023. The new model methodology introduces a slightly more sophisticated approach using a combination of business-as-usual rules, for use during normal operating conditions, alongside a set of stressed scenario rules, which would be used by Board in exceptional circumstances based on analysis of our defined stress test risk triggers. The business-as-usual rules are set at a higher rate than the previous rules, strengthening our ability to absorb future adverse scenarios.

The results below are shown against our previous rules in place for the year ended March 2023. At the start of each financial year the Board reviews the budget within the context of the external operating environment and seeks to balance the rules with our service delivery ambition and the need to invest in our homes. As in the previous two years the Board recognised that full compliance with all golden rules may not be achieved.

Our new Corporate Plan will focus on improving service delivery standards and an increased investment in existing homes which will require significant resources over a number of years. Our revised set of golden rules will take this investment need into account, alongside the need to maintain sensible levels of capacity and resilience to cope with future downside scenarios.

Fire safety remediation costs have again been significant throughout 2022/23. Waking watch and fire cover costs continued on several high-risk schemes to ensure the safety of our residents. Positive progress has however been made since the end of the 2022/23 financial year on the remediation plans. 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 continued to support 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 financial 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	-	18.7%	-
- excluding fire safety remediation costs	> 30%	22.1%	✗
Free Cash	-	£(5.2m)	-
- excluding fire safety remediation costs	>£10m	£0.2m	✗
Interest Cover (% above tightest loan covenant)	+40%	+21%	✗
Gearing (tightest loan covenant basis)	<55%	54%	✓
Hedged Debt	>50%	86%	✓
Liquidity	> 18 months	21 months	✓
Social Housing Grant	No reliance	No reliance	✓
Property Sales as % of turnover	< 25%	11.8%	✓

Resources Director's Report

Summary results

Group results	2023	2022	2021	2020	2019
Group statement of comprehensive income	£m	£m	£m	£m	£m
Turnover	180.9	169.4	156.6	149.6	159.6
Operating surplus	40.4	47.4	41.3	54.6	62.0
Net interest payable	34.2	30.2	27.3	27.3	29.9
Net surplus after tax	8.5	20.2	16.4	28.5	38.8
Net surplus excluding property sales	2.0	6.7	8.4	10.0	27.0
Group statement of financial position	£m	£m	£m	£m	£m
Property fixed assets net of depreciation and impairment	2,108	1,953	1,829	1,736	1,642
Capital grants	444	432	428	430	420
Net current assets / (liabilities)	(3)	60	(7)	65	45
Long-term creditors	1,518	1,449	1,280	1,281	1,180
Reserves	620	588	551	535	506
Statistics					
Operating margin (all activities)	22%	28%	26%	37%	39%
Net surplus %	7%	12%	10%	19%	24%
Gearing (debt versus housing assets)	50%	49%	46%	43%	40%
Debt to turnover ratio	6.0	5.8	5.6	5.3	4.4
Debt per owned property £'000	£49.0	£46.3	£41.8	£38.3	£34.1
Accommodation owned and managed	No.	No.	No.	No.	No.
Rented	20,288	19,654	19,442	19,301	19,370
Shared ownership	1,770	1,687	1,538	1,463	1,425
Managed units including leaseholders	1,935	1,951	2,040	1,969	2,254
Total stock	23,993	23,292	23,020	22,733	23,049

Resources Director's Report

Financial Review (Group results)

Turnover

Turnover in 2023 was £181m (2022: £169m).

Turnover from social housing lettings, including the amortisation of social housing grant but net of void loss is £154.6m (2022: £144.2m). Social housing rental income has increased by 7.4%, this is from a combination of the annual rent increase in April of 4.1% (the maximum permitted under government policy), additional income from new developments and the acquisition of homes from another registered provider in the year. Service charge income increased by 7.3% in the year.

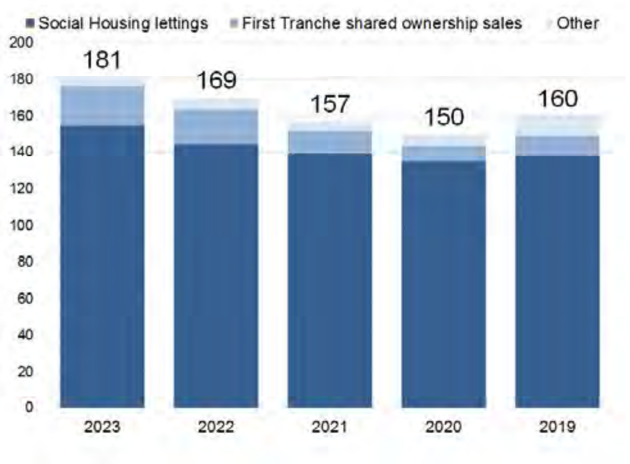
Income from the first tranche sales of shared ownership homes was £21.5m (2022: £19.5m). Other income was generated from non-social housing activities and other (non-lettings) social housing activities of £4.8m (2022: £5.8m).

Turnover (Group)

£181m (2022: £169m)

Void losses from empty properties were £3.3m (2022: £3.4m). Whilst we have been successful in reducing the void times on our core lettings, a significant proportion of the overall void loss relates to properties being kept empty for management reasons, void losses on new homes awaiting sale, and one specific scheme where we are awaiting fire safety remediation works to be carried out.

Turnover £m



Operating Costs

Operating costs in 2023 were £131m (2022: £117m).

Operating costs related to social housing lettings is £125.7m (2022: £112.1m). Excluding depreciation costs and impairment, costs are £103.5m (2022: £93.0m). The year-on-year increase is 11.3%. Increases in costs continue to outstrip increase in turnover.

Service charge costs have increased from £17.7m in 2022 to £22.6m in 2023, an increase of 27%. In the latter half of the year we saw a significant increase in utility costs as our contracts were due for renewal at the peak of the market in August 2022. At PA we also have many schemes that are managed by third party agents and we have seen an increase in costs in this area.

Routine and planned revenue repairs and maintenance costs were £40.1m in the year (2022: £40.0m). Despite the relative consistency in overall costs there have been significant challenges in the delivery of services during the year. In directing our expenditure, we have prioritised the safety of residents and compliance testing and works. On occasion this has meant non-essential works have needed to be delayed to manage our overall financial position.

Management costs (including salaries and overheads) are £37.6m (2022: £34.8m). Salary costs before employer costs and pensions increased by £3.0m, this includes a £1.0m provision for restructuring costs which concluded in early 2023/24. Overhead costs have been relatively consistent with the prior year and we continue to look for efficiency savings in this area to protect against inflationary pressures.

Depreciation costs including impairment and the accelerated depreciation on the replacement of property components was £22.4m (2022: £19.1m). Overall impairment was £1.3m, this includes further impairment of a completed scheme where a payment was made to the original build contractor in the year to settle a dispute. Impairment of £0.2m has also been charged on a scheme under construction.

Operating costs (Group)

£131m (2022: £117m)

Rent losses from bad debts were £1.2m in 2023, a significant increase from the £0.1m charged in 2022. This is due to an increase in our provision for current and former tenant arrears. The increase was in line with our expectations as a result of the cost-of-living crisis and the ability of residents to pay their rents and associated charges.

Other operating costs in respect of other social housing activities were £2.8m (2022: £3.0m). This includes costs of £2.0m relating to new build development costs not allocated to capital costs and the write off of aborted projects in the year.

Non-social housing activities includes our small portfolio of market rented properties, health worker accommodation, student accommodation and commercial properties. This accounts for 1.3% of our overall turnover.

Investment in our residents' homes

Investment in our existing homes was £16.7m (2022: £19.6m). This relates to replacing roofs, kitchens, bathrooms, windows and doors, heating systems and lifts under our component replacement programme. During the year we were conscious of inflationary pressures across the business and a decision was taken to curtail expenditure. This resulted in a £3.1m underspend against budget.

Resources Director's Report

A further £3.0m was invested in new equipment and furnishing in schemes, including a continuation of the replacement of warden call systems in independent living schemes and investment in fire safety equipment.

Operating Margin

Our operating surplus for the year was £40.4m (2022: £47.4m). This includes a surplus of £5.0m (2022: £5.9m) generated from the sales of newly developed homes, and a surplus of £5.4m (2022: £7.6m) from staircasing and other property disposals.

Operating Surplus (Group)

£40m (2022: £47m)

Property Sales

The surplus of £5.0m (2022: £5.9m) on first tranche sales of new shared ownership homes was from 148 sales (2022: 127).

Sales volumes were lower than we had budgeted for through a combination of fewer new properties being completed for sale and a subdued property market. Sales values did remain in line with our budgets however, without the need for heavy discounting or incentives being offered. The margin on sales was 23.3% (2022: 30.0%)

130 homes were held for sale at the end of March 2023 (2022: 174), 49 of which had been for sale for longer than six months (2022: 71). 35 unsold homes had been reserved at the end of March 2023 with completions expected in the early part of 2023/24.

Shared ownership sales

148 (2022: 127)

A surplus of £5.4m (2022: £7.6m) has been made from the sale of other properties. There was a reduction in the volume of sales, in particular the staircasing activity on shared ownership properties was lower than in the previous year. Other sales included a small number of voluntary sales, right to acquire and right to buy sales.

Property sales (No.)	2023	2022
Shared ownership: First tranche	148	127
Shared ownership staircasing	55	73
Other	8	21

Financing

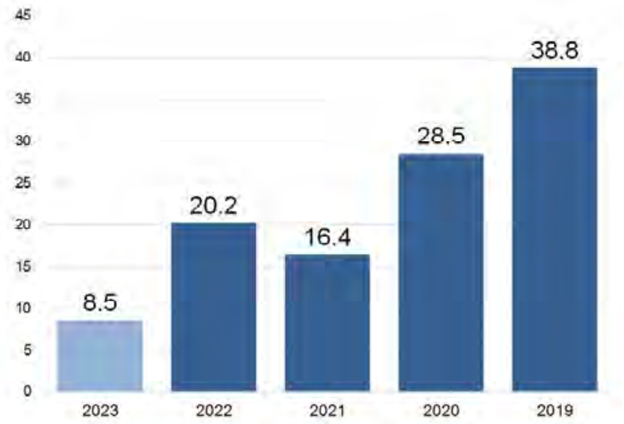
Interest and financing charges after capitalisation were £34.2m (2022: £30.2m). Gross interest and finance costs on our housing loans including bond issues was £40.9m (2022: £34.5m). Interest capitalised on new development under construction was £6.7m (2022: £4.3m)

Our overall borrowing increased from £994m to £1,086m.

Surplus

The surplus after tax for the year is £8.5m (2022: £20.2m).

Surplus after tax £m



New homes

In 2023 our investment in building and purchasing new homes was £166m (2022: £121m). Grant subsidy was £22.2m (2022: £5.1m) in the year. We have continued to be successful in attracting grant on our new build developments.

We completed 284 (2022: 317) new homes during the year for rent and shared ownership and purchased a further 411 (2022: 163) homes from another registered provider of social housing.

New homes at Carlton Drive, Putney (CGI image)

Financial Position

The historic cost of our housing properties increased by 8.5 per cent to £2.11bn (2022: £1.95bn). The increase was through our new build development programme, the purchases of existing homes from another registered provider and the reinvestment in our existing stock as part of our planned maintenance programme.

Stock held of £76.9m (2022: £76.7m) 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 £28.5m (2022: £38.1m).

Resources Director's Report

Debtors relating to both current and former tenant arrears after providing for bad debts was £4.2m, an increase from £2.6m in 2022. Other debtors including VAT repayments due, prepayments and other amounts due in the normal course of business increased from £3.7m in 2022 to £5.9m.

No collateral was provided to counterparties at 31 March 2023 (2022: £1.4m) due to the year-end position on our interest rate derivatives portfolio when marked to market. The fair value of derivative financial instruments was £9.2m (2022: £37.1m).

Creditors due within one year have increased to £120.6m (2022: £63.0m). This includes an increase in loans and borrowings due within one year and amounts due to contractors for our development programme. Creditors due after more than one year increased to £1,513m (2022: £1,449m) as our overall borrowing has increased.

The liability on our legacy defined benefit pension schemes is £13.1m (2022: £13.9.m). This all relates to the liability for the Social Housing Pension Scheme (SHPS). In March 2023 we gave notice to terminate the funding agreement with our legacy (LGPS) Surrey Pension Fund. The scheme was in surplus at the year-end date and under the terms of the termination agreement this was not repayable on exit.

The SHPS liability remained at the same level as 2022, £13.1m. This is despite pension deficit payments of £2.9m (2022: £2.7m) being made during the year. At 31 March 2023 the level of both assets and liabilities had fallen compared to 2022. Although liability values fell due to a rise in discount rates and inflation assumptions, asset values also reduced due to the hedging under the investment strategy.

Total net assets were £620m at 31 March 2023 (2022: £588m).

Financial outlook

Our Board regularly reviews our financial plan and in the latter part of 2022 re-assessed how the corporate and financial strategies need to evolve in response to internal and external challenges. The current plan was reviewed by Board in May 2023 and finalised in June 2023, the key strategic drivers now being:

Scaling back of development ambitions

The plan now includes 5,000 new homes to be completed in the period from 2020 to 2030. The original target was 6,000. This incorporates our revised delivery commitments with the Greater London Authority and Homes England with more emphasis on social rented accommodation.

Increased asset investment

As we emerge from the current economic constraints, we will accelerate the investment in our existing homes and estates. Total capital expenditure across the five years from 2024/25 is projected at £164m compared to £85m in the five years to 2023/24.

Net zero

Included in our asset investment is a full allowance for costs to bring all homes to EPC rating C through to 2030. Total forecast spend is now £550m (at 2023/24 prices) to achieve full net zero carbon status by 2050.

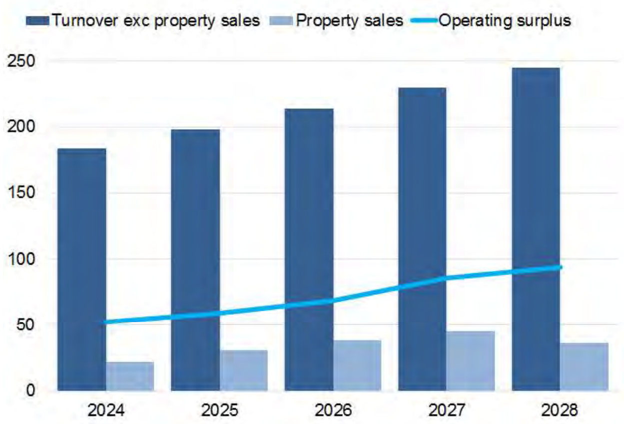
Enhancing long term capacity

Arising from the reduced development ambition and a reduction in borrowing requirements this will generate increased headroom against our interest cover covenants. This will enable additional investment choices for consideration.

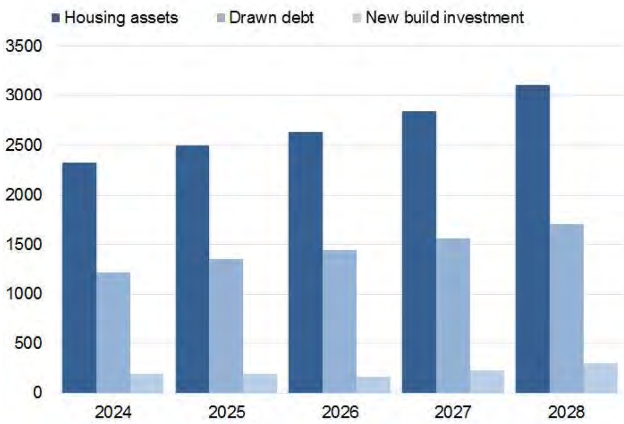
Zero reliance on sales proceeds

From 2024/25 there will be no reliance on sales proceeds to meet our ambitions under our financial plans, whilst retaining full loan covenant compliance.

Financial outlook – Turnover / Surplus (£m)



Financial outlook – Assets / Borrowing (£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

£1,086m (2022: £994m)

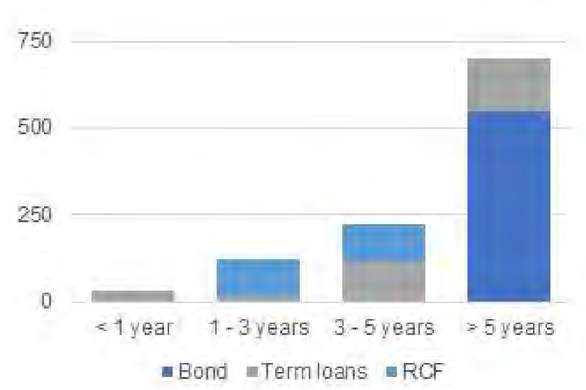
We borrow principally to fund our new-build development programme, via external borrowings (capital markets and bank loans) alongside retained earnings and grant from government agencies. All borrowings are denominated in pounds sterling.

PA Housing is the main borrowing vehicle for bank loan borrowings and grant funding arrangements. In respect of capital markets borrowings, our wholly owned subsidiary Paragon Treasury PLC has issued two bonds, one a £300m (with a further £100m retained) sustainable bond maturing in 2036, and the other a £250m bond maturing in 2047. Proceeds of both issues were on-lent to PA Housing. PA Housing is rated A3 (Negative) by Moody's and BBB+ (Stable) by Standard & Poor's.

Funding (£m)

Borrowings rose during the year as we continued to invest in our new-build programme, drawing on committed revolving credit facilities to do so. Our debt maturity profile continues to exhibit limited exposure to refinancing risk, with 65% (2022: 76%) of debt not requiring refinancing within the next five years.

Maturity of debt (£m)



Liquidity

As at the year-end date, we held liquidity (comprising treasury cash balances and undrawn committed bank facilities) of £297m (2022: £362m).

Our primary use of liquidity continued to be ongoing investment in our new-build programme, but we also made an acquisition of stock for a cash consideration of £39.7m in July 2022.

Liquidity

£297m (2022: £362m)

During the year we renewed several of our smaller bank facilities but, with broader funding market conditions more challenging than in previous years, we did not engage in any large-scale debt issuance activity. Liquidity declined slightly year-on-year as a result, though it remains at comfortable levels.

In future years we will benefit from the significant allocations of grant funding awarded to support delivery of investment in new homes, both from the GLA and, via our Strategic Partner status with Accent Housing Group and Homes England. We will be drawing the grant funding down as our new-build development programme progresses.

Looking forward, our Board is committed to ensuring continued investment into our existing homes. This will include completion of remaining fire safety remedial works at several of our estates, as well as commencement of a programme to deliver energy performance improvements so that all our homes achieve a minimum Band C EPC rating by 2030. At the same time, given the challenging economic backdrop of fast-rising interest rates, elevated cost inflation and housing market pressures, the Board has taken the

Resources Director's Report

decision to moderate our future investment into building new homes.

We anticipate this refocus in investment priorities will reduce our future borrowing needs over the medium-term, compared to previous forecasts.

Interest rate exposure

Over the financial year the long-benign interest rate environment came to an end as the Bank of England acted to address high levels of inflation. The base rate steadily increased to 4.25 per cent by the year-end date (from 0.75 per cent a year earlier), and it has since risen further. Longer-term interest rates also rose steeply, at times amidst considerable market volatility. As a borrower with floating-rate debt and ongoing future funding requirements, in common with much of our sector, higher interest rates risk curtailing our financial capacity to deliver our investment ambitions. During the year, we acted to limit this risk by transacting £150m of further interest rate swaps, locking in interest costs at what proved attractive levels.

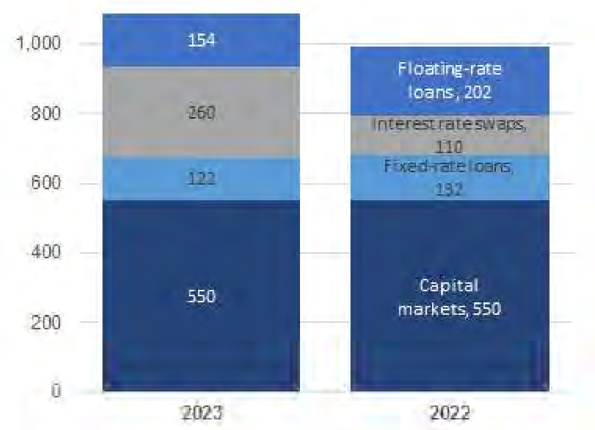
Fixed Rate Cover

86% (2022: 80%)

As a result, as at the year-end date 86% of our debt (March 2022: 80%) was borrowed at fixed interest rates. The weighted average interest rate of outstanding borrowings as at close of the year was 3.9 per cent (2022: 3.4 per cent).

The stronger interest rate outlook significantly reduced mark-to-market exposure on our portfolio of interest rate hedges, which fell to £9.2m negative (March 2022: £37.1m negative).

Interest Rate Risk (£m)



Financial covenants

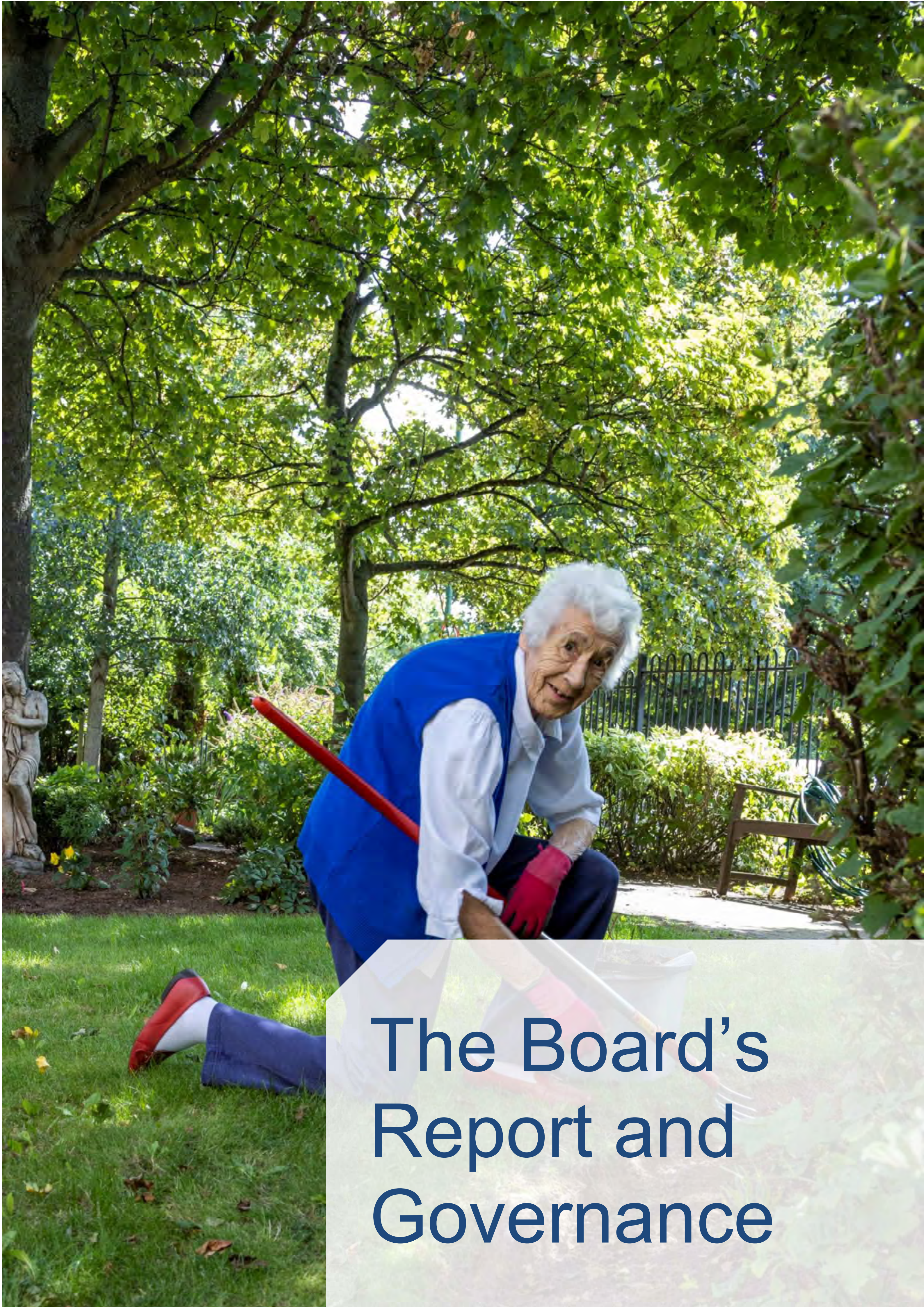
Our primary financial covenants are based on interest cover, asset cover and gearing ratios. All were met as at the year-end date, and our business plan indicates adequate headroom over the years ahead. The rises in interest rates over the last year do however represent something of a paradigm shift for housing association borrowers. As a result, it is likely we will maintain generally lower levels of interest cover until the interest rate cycle turns down.

Value for Money

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

During the year we managed the group's liquidity and interest rate exposure to help reduce exposure to rising interest rates, whilst ensuring the business retains a sound financial footing to support delivery of our corporate plan.

We also deepened our commitment to ESG themes. Within our updated bank facilities, we have embedded challenging targets addressing energy efficiency performance across our estates, the level of support provided to our residents (encompassing skills training, being supported into employment and practical assistance in sustaining tenancies), and increasing the representation of colleagues from a non-white background in line management roles.



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.

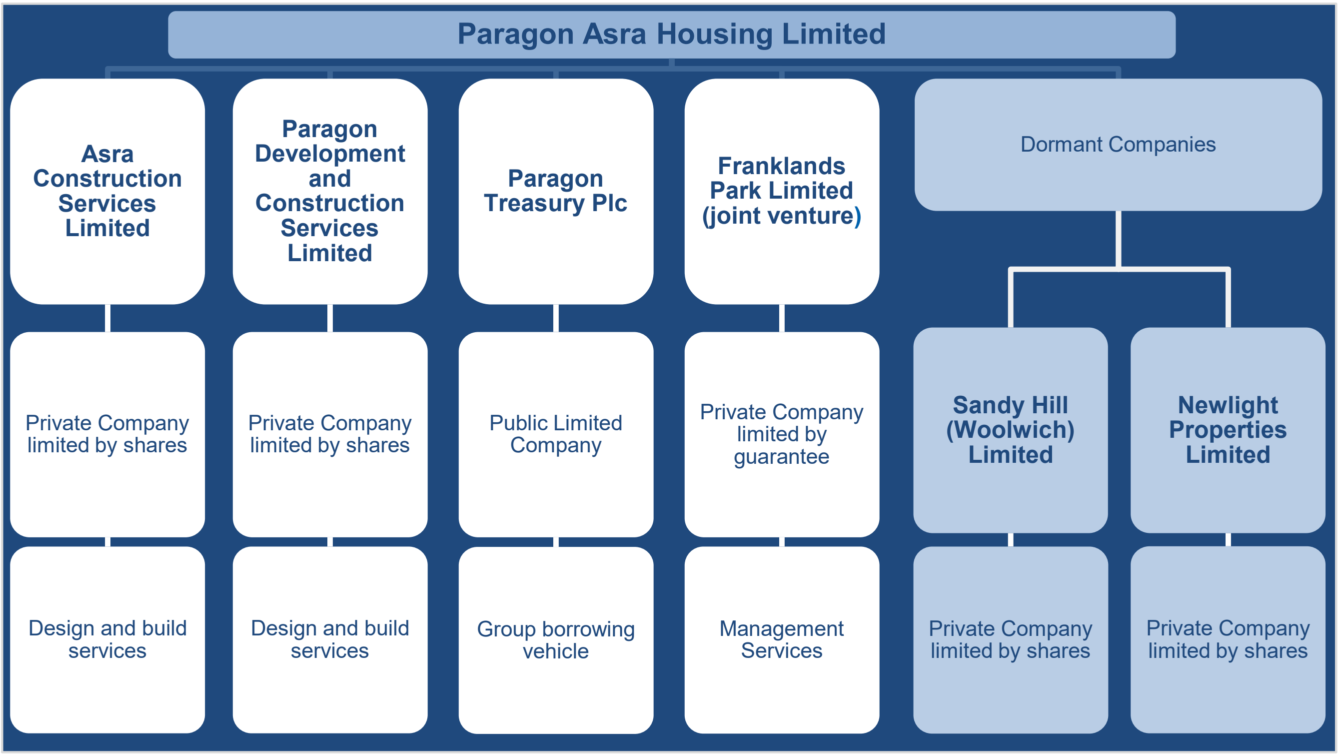
Principal activities

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 2023 show a profit for the year of £2k (2022: £7k) and net assets of £19k (2022: £17k).



The Board's Report and Governance

Our Board: Activities & Purpose

The Board maintains effective governance arrangements that deliver its aims and objectives in a transparent and accountable manner. The Board is responsible for setting the strategic direction and risk appetite of PA Housing and is the ultimate decision-making body for matters of PA Housing wide strategic, regulatory or reputational significance. Effective governance facilitates the delivery of PA Housing's purpose and strategy particularly in challenging times.

The Rules of the Association remain PA's principal document of constitution and they regulate various matters including the Board, its powers and its role. The rules were last reviewed in 2021/22 when a partial amendment was made. A further review of the Rules of the Association was undertaken in 2022/23, as part of a more in-depth review of PA Housing's governance arrangements but no further changes were made to the Rules at this time. The Board did, however, adopt and implement a new Corporate Governance Framework which contains a statement of governance principles that guide the activities of the Board. The Board is committed, through its governance framework, to appropriate decision making at the correct level within PA Housing making sure there is accountability, long term value and fulfilling our purpose of fulfilling the interests and needs of our residents and communities. The Corporate Governance Framework covers key responsibilities of the Board and matters reserved for the Board's decision and includes the following:

- approval of PA Housing's long-term objectives and overall; strategic policy framework
- approval of PA Housing's annual budget, overall financial policy and Financial Authorities Framework
- approval of PA Housing's annual report and accounts
- risk management, internal controls and compliance
- undertaking a formal regular review of the Board's own performance and that of Board committees and individual members

The Board has adopted and complies with the National Housing Federation's 2020 Code of Governance and the 2022 Code of Conduct.

Board

Composition

PA Housing is governed by a Board of twelve Non-Executive Board Members (nine in the year 2022/23). Two current Board Members are residents of PA Housing.

Each Board Member holds one fully paid-up share of £1 in Paragon Asra Housing Limited which they will surrender when they cease as a Board Member. There are three legacy shareholders of Paragon Asra Housing Limited who 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 appropriate, 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 were no changes to Board Member remuneration in 2022/23, although a review was undertaken in 2023/24, with the help of independent external advisers, in recognition that Board Member fees have remained unchanged since the formation of PA Housing in 2017.

We consider that we have a diverse Board and have appointed five new Non-Executive Directors in July and August 2023 to replace two of our departing Non-Executive Directors and other Board Members whose tenures are due to expire within the next six months. This will strengthen and complement the current range of skills and expertise on our Board. Increasing the diversity of the Board remained at the forefront of our minds during this recent recruitment. In addition, following the most recent review of Board performance and effectiveness, recommendations were made in respect of the membership of the Board and its mix of skills, knowledge and experience. The current 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.

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.

At the date of signing, of the twelve Board Members, five members are female and seven male and three come from an ethnic minority background.

Board Roles

The Chair

The Chair of the Board is responsible for chairing and providing leadership of the Board. Other responsibilities include:

- leading the Board in formulating PA Housing's strategy for discharging our statutory duties
- encouraging high standards of propriety
- providing an assessment of the performance of individual Board Members
- ensuring PA Housing meets regularly throughout the year and that minutes of meetings accurately record decisions taken
- representing the views of PA Housing externally

Non-Executive Board Members

Our Board Members all bring extensive skills and experience to the Board. This ensures a good balance of skills is available to PA Housing in discharging our duties and responsibilities, in addition to establishing the policy and strategic direction including the resourcing framework for the operation of PA Housing.

The Board's Report and Governance

The Chief Executive

The Board has delegated responsibility for the day to day running of PA Housing to the Chief Executive and the Executive, namely the Senior Management Team ("SMT") which consists of PA Housing's Chief Executive and Executive Directors, Company Secretary and Director of People. The SMT ensures that the strategy, policies and behaviours set at Board level are effectively communicated and implemented across PA Housing.

Keeping the Board Informed

PA Housing is firmly committed to the ongoing development of its Board Members and we recognise the need to continually evolve their knowledge to enable them to effectively fulfil their duties. All newly appointed Board Members are provided with a comprehensive and bespoke induction programme on joining PA Housing. The induction also includes Members' duties and Board procedures, internal control processes, strategy and planning, measures used to monitor performance and the Risk Management Policy and the Internal and External Audit. In addition, presentations and interactive workshops on different topics are regularly given to the Board, facilitated by PA Housing colleagues with professional advisers and/or external stakeholders, throughout the course of each year. Board Members also undertake other 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.

Board Performance and 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.

In November 2022 the Regulator for Social Housing, through the annual stability check process, confirmed PA Housing's G1 rating, the highest possible grading.

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.

In addition, the Board conducts an annual effectiveness review to evaluate the performance of the Board, Board Committees, and individual Board Members. The review conducted in April 2023 was an internal review, although consideration will be given to an externally facilitated review in future years.

Conflicts of Interest

It is essential that PA Housing maintains a reputation for impartiality, integrity and high professional standards in all that it does. PA Housing has adopted the NHF Code of Conduct 2022 and all Board and Committee Members are required to declare any interests annually and otherwise at meetings where potential issues may arise.

Insurance and Advice

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.

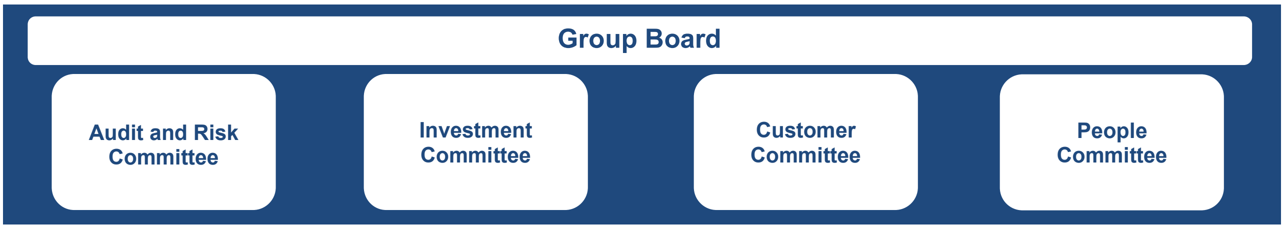
The Board's Report and Governance

Committees

In exercising PA Housing's duties, the Board has delegated certain responsibilities to the Executive within PA Housing and certain responsibilities to Board Committees, in accordance with clearly defined authorities and terms of reference. During the year the Board delegated authority to five Board Committees, which following a governance review in December 2022 was reduced to four Board Committees, with the former Finance Committee being merged with the Audit and Risk Committee. As part of the governance review conducted in 2022/23, the terms of reference of all Board Committees were reviewed and updated. Roles, responsibilities and accountabilities are set out in PA Housing's new Corporate Governance Framework, which is 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 also includes resident co-optees.

In July 2023 the Audit and Risk Committee was renamed the Finance, Risk and Audit Committee and the People Committee was renamed the People and Governance Committee.



Audit and Risk Committee

The Audit and Risk Committee oversees internal control, risk and management procedures, as well as reviewing the financial budgets, business plans, management accounts, and annual financial statements and external audit recommendations, for onward approval by the Board. 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.

Investment Committee

The Investment Committee 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 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 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 and the Chief Executive and has oversight of the remuneration of the 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 Chair and Chief Executive are not appointed members of the sub-committees and their attendance at these meeting is not shown.

Current Board Member annual remuneration, following the review in 2023/24, is £32,000 for the Chair, £18,500 per Committee Chair and £15,000 per member. The Vice Chair receives an additional £2,500 per annum (representing a total maximum fee of £21,000 in the event they are also a Committee Chair)

Remuneration shown in the table below is inclusive of expenses paid. Total expenses of £3,610 (2022: £1,573) 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 [3]	Investment Committee	Customer Committee	People Committee	Remuneration 2022/23 £	Remuneration 2021/22 £
Board Members (in 2022/23)								
Suki Kalirai (Chair)	6 of 6						12,667	-
Stephen Amos	9 of 9		3 of 3	4 of 4		2 of 2	13,908	13,123
Andrew Carrington	9 of 9	4 of 4	3 of 3	4 of 4			14,000	12,667
Kim Francis	9 of 9	3 of 3				3 of 3	12,370	11,263
Kathleen Harris Leighton	9 of 9				4 of 4		14,222	11,583
Rahul Jaitly	6 of 9	4 of 4			4 of 4	5 of 5	12,227	11,184
Curtis Juman	8 of 9	4 of 4	3 of 3			2 of 3	16,500	15,083
Katherine Lyons	9 of 9	3 of 3				5 of 5	15,443	13,424
Anne Turner	9 of 9	1 of 1	3 of 3	4 of 4		4 of 5	18,438	19,343
Retired in 2022/23								
Dilip Kavi (Chief Executive) [1]	6 of 6							
Retired in 2021/22								
Hattie Llewelyn-Davies							-	3,333
Christopher Cheshire							-	2,167
Seetle Patel							-	2,944
Committee Members								
Joan Swift (resident)					4 of 4			
Stephen Cunningham					1 of 3			
Timothy Hill (independent) [2]				4 of 4				

[1] The remuneration of the previous Chief Executive who was also a Board member is included in notes to the financial statements.
[2] Timothy Hill is a Director of Asra Construction Services Limited and Paragon Development and Construction Services Limited, subsidiary companies of PA Housing.
[3] Finance Committee merged with Audit and Risk Committee in December 2022

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 £1,955 (2022: £13,800) during the year. No political donations were made during the year (2022: Nil).

Annual Review of the effectiveness of the System of Internal Control

In accordance with the National Housing Federation Code of Governance 2020, the Board is required to actively manage the risks faced by the organisation and obtain robust assurance that controls are effective, that plans and compliance obligations are being delivered and that the organisation is financially viable. The responsibility for managing risks, and specifically risks to social housing assets, lies with the Board. However, the, 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. The 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 are regularly subject to external independent review.

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 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 & Assurance 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 & Assurance 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 2022/23 Internal Audit annual report identified no material concerns.

Fraud Management

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.

The 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.

The Board's Report and Governance

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 Committee membership is reviewed at least annually in line with the membership policy terms. A Board recruitment exercise was under way following the year end. Compliance with the National Housing Federation Code of Governance and the Regulatory Framework is reviewed annually.

The Regulatory rating of G1 has been maintained during the year.

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 2022. 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:

J A Gregory

Jacqueline Gregory
Company Secretary

13 September 2023

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 2023 which comprise the Group and Association's Statement of Financial Position, the Group and Association's Statement of Comprehensive Income, the Group and Association's Statement of Changes in Reserves, the Group Statement of Cash Flow 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 2023 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 2022**.**

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, we perform procedures to address the risk of management override of controls, in particular the risk that Group management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition due to the limited opportunity and incentives for management to manipulate revenue transactions.

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 to test based on risk criteria and comparing the identified entries to supporting documentation. These included unusual revenue combinations, unusual cash combinations, and unusual borrowing combinations.

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

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

As the Group 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. We identified the following areas as those most likely to have such an effect: GDPR, Health and Safety Legislation and Employment and Social Security Legislation, recognising the regulated nature of the Group's activities. 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 50, 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

26 September 2023

Financial Statements

Financial Statements
Statement of Comprehensive Income

	Note	Group 2023 £'000	Group 2022 £'000	Association 2023 £'000	Association 2022 £'000
Turnover	2	180,897	169,422	182,277	170,719
Cost of sales	2	(16,475)	(13,673)	(16,475)	(13,673)
Operating costs	2	(130,523)	(116,857)	(130,503)	(116,843)
Surplus on disposal of fixed assets and investments	6	5,445	7,562	5,445	7,562
Movement in fair value of investment properties	15	1,045	939	1,045	939
Operating Surplus	2	40,389	47,393	41,789	48,704
(Loss) on sale of other fixed assets		(21)	-	(21)	-
Interest receivable	9	410	22	405	22
Interest and financing costs	10	(34,202)	(30,223)	(34,202)	(30,223)
Movement in fair value of financial instruments	27	6,339	3,209	6,339	3,209
Elimination of net asset on defined benefit pension scheme	34	(3,890)	-	(3,890)	-
Surplus before tax		9,025	20,401	10,420	21,712
Taxation	11	(486)	(240)	(103)	(16)
Surplus for the year after tax		8,539	20,161	10,317	21,696
Other comprehensive income					
Movement in fair value of hedged financial instruments	27	21,544	11,577	21,544	11,577
Actuarial gain on defined benefit pension schemes	34	2,124	4,706	2,124	4,706
Total comprehensive income for the year		32,207	36,444	33,985	37,979

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

The notes on pages 60 to 99 form part of these financial statements.

Financial Statements
Statement of Financial Position

	Note	Group 2023 £'000	Group 2022 £'000	Association 2023 £'000	Association 2022 £'000
Fixed Assets					
Intangible assets and goodwill	12	(5,441)	(6,085)	(5,441)	(6,085)
Tangible fixed assets – housing properties	13	2,108,365	1,953,333	2,118,823	1,961,475
Tangible fixed assets – other	14	24,152	23,452	24,152	23,452
Investment properties	15	25,438	23,237	25,438	23,237
Investments	16	213	309	213	309
Investment in subsidiaries	17	-	-	13	13
		2,152,727	1,994,246	2,163,198	2,002,401
Current Assets					
Stock and work in progress	18	76,913	76,742	66,415	64,744
Debtors	19	11,659	6,313	10,827	19,278
Current asset investments	20	-	1,407	-	1,407
Cash and cash equivalents		28,537	38,080	27,440	37,465
		117,109	122,542	104,682	122,894
Creditors: amounts falling due within one year	21	(120,601)	(63,010)	(109,630)	(64,280)
Net current (liabilities) / assets		(3,492)	59,532	(4,948)	58,614
Total assets less current liabilities		2,149,235	2,053,778	2,158,250	2,061,015
Creditors: amounts falling due after more than one year	22	(1,512,896)	(1,449,347)	(1,512,896)	(1,449,347)
Provision for liabilities	33	(3,166)	(2,716)	(3,166)	(2,716)
Net assets excluding pension liability		633,173	601,715	642,188	608,952
Pension liability	34	(13,131)	(13,880)	(13,131)	(13,880)
Total net assets		620,042	587,835	629,057	595,072
Capital and Reserves					
Called up share capital	32	-	-	-	-
Income and expenditure reserve		379,580	367,467	388,595	374,704
Cash flow hedge reserve		4,192	(17,352)	4,192	(17,352)
Revaluation reserve		236,236	237,642	236,236	237,642
Restricted reserve		34	78	34	78
		620,042	587,835	629,057	595,072

The notes on pages 60 to 99 form part of these financial statements.

The financial statements on were approved by the Board on 13 September 2023 and signed on its behalf by:

Suki Kalirai
Chair

Susan Goldsmith
Chair of
Audit and Risk Committee

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 2022	367,467	(17,352)	237,642	78	587,835
Surplus for the year	8,539	-	-	-	8,539
Declassify restricted reserve	44	-	-	(44)	-
Change in fair value of hedged financial instruments	-	21,544	-	-	21,544
Actuarial gain on defined benefit pension scheme	2,124	-	-	-	2,124
Difference between the depreciation on historic cost of properties and actual depreciation charge for the year	1,179	-	(1,179)	-	-
Difference between the gain or loss on disposal of housing properties calculated at historic cost and carrying value	227	-	(227)	-	-
At 31 March 2023	379,580	4,192	236,236	34	620,042

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

The notes on pages 60 to 99 form part of these financial statements.

Financial Statements
Consolidated 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 2022	374,704	(17,352)	237,642	78	595,072
Surplus for the year	10,317	-	-	-	10,317
Declassify restricted reserve	44	-	-	(44)	-
Change in fair value of hedged financial instruments	-	21,544	-	-	21,544
Actuarial gain on defined benefit pension scheme	2,124	-	-	-	2,124
Difference between the depreciation on historic cost of properties and actual depreciation charge for the year	1,179	-	(1,179)	-	-
Difference between the gain or loss on disposal of housing properties calculated at historic cost and carrying value	227	-	(227)	-	-
At 31 March 2023	388,595	4,192	236,236	34	629,057

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

The notes on pages 60 to 99 form part of these financial statements.

Financial Statements

Consolidated Statement of Cash Flow

	Note	2023 £'000	2022 £'000
Net cash generated from operating activities	29	90,222	43,214
Cash flow from investing activities			
Interest received		410	22
Grants received		22,192	5,075
Purchase and enhancement of housing properties		(187,478)	(145,659)
Purchase of other tangible fixed assets		(3,439)	(6,961)
Purchase of investment properties		(1,156)	(1,388)
Proceeds from sale of tangible fixed assets		10,648	16,340
Proceeds from sale of other tangible fixed assets		5	-
		(68,596)	(89,357)
Cash flow from financing activities			
Taxation paid		(16)	(15)
Interest paid		(34,202)	(30,224)
Decrease in bank deposits with a maturity in excess of 24 hours		1,407	4,400
Financing			
Housing loans and bond finance received	30	226,870	455,000
Housing loans repaid	30	(135,006)	(342,499)
Net change in cash and cash equivalents		(9,543)	(2,695)
Cash and cash equivalents at beginning of the year		38,080	40,775
Cash and cash equivalents at end of year		28,537	38,080

The notes on pages 60 to 99 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 2022.

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 2023. 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. This shows that it is able to service these debt facilities whilst continuing to comply with lenders' covenants. As at 31 March 2023 PA held liquidity (comprising cash balances and undrawn committed loan facilities available for immediate drawing) of £297m.

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 2023/24 and the Group's medium term financial position as detailed in the 30-year business plan, is of the opinion that, taking account of severe but plausible downsides, the Group and 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

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.

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.

Notes to the Financial Statements

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 1 April 2017, the disposal proceeds fund (DPF) no longer exists; from this date any grant on disposal was credited into the recycling of capital grant fund, while the remaining creditor on the fund was carried forward until it was fully depleted in funding the acquisition of new social housing. The DPF scheme operated until 6 April 2020 per Paragraph 2 of The Accounting Direction for Private Registered Providers of Social Housing 2019. In 2022/2023 the remaining funds on the DPF have been credited to Note 24 - recycled capital grant fund.

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. The restricted reserves were reviewed in 2022/23. The review identified £44k where there were no records to ascertain the restrictions placed upon the funds. The funds have been declassified from the restricted reserve and transferred to the income and expenditure reserve.

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, £1.3m has been recognised in 2022/23 (2022: Nil). The total impairment charge at 31 March 2023 was £6.9m (2022: £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 2023 were £2.2m (2022: £2.4m)

At the year-end date PA Housing was in the process of concluding an internal restructure on the operating model for delivering services to our residents. The new operating model went live on the 1 June 2023 a provision of £0.9m (2022:Nil) has been made in relation to the re-structuring.

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 2023, 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 assumptions used have been set by the scheme actuary, reviewed independently and also reviewed and signed off by management.

The defined benefit net pension liability at 31 March 2023 was £13.1m (2022: £13.9m). The liability relates to the Social Housing Pension Scheme (SHPS) (2022: SHPS and Surrey County Council pension fund).

The assumptions used are shown in note 34, the material impact of changing the material assumptions would be as follows:

- Increasing the end of year inflation (CPI) by 0.1% would increase the obligation by £0.55m.
- Increasing the end of year discount rate by 0.1% would decrease the obligation by £0.97m
- Increasing the end of year inflation (CPI and RPI) by 0.1% and the end of year salary growth by 0.1% would increase the obligation by £0.79m.

There is a change in methodology of setting cash commutation factor. which has reduced the non-pensioner DBO by 6% - 7% for a typical SHPS scheme.

The fund actuaries have not updated the mortality assumption as at 31 March 2023 to reflect the potential effects of Covid-19. This is mainly because there remains uncertainty of the Covid-19 impact on long-term mortality rates for pension scheme members.

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.

Notes to the Financial Statements

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 2023 were £1.6m (2022: £1.4m).

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 2023 was £9.2m (2022: £37.1m) 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 2023 including accelerated depreciation on component replacements was £19.9m (2022: £19.1m).

Depreciation on other fixed assets in 2023 was £2.7m (2022: £2.4m).

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 2023 investment properties were revalued using external third-party valuers. In 2023 an upward movement of £1.0m was recognised (2022: £0.9m). The fair value of investment properties at 31 March 2023 was £25.4m (2022: £23.2m).

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 £5.4m was included at 31 March 2023 (2022: £4.3m).

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 2023 (2022: nil).

Notes to the Financial Statements

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

Group 2023	Turnover £'000	Cost of Sales £'000	Operating costs £'000	Other operating items £'000	Operating surplus/ (deficit) £'000
Social housing lettings (Note 3)	154,635	-	(125,691)	-	28,944
Other social housing activities					
First tranche shared ownership sales	21,480	(16,475)	-	-	5,005
Managed services	526	-	(212)	-	314
Charges for support services	26	-	-	-	26
Community investment	-	-	(288)	-	(288)
Development administration	-	-	(2,006)	-	(2,006)
Goodwill amortisation	644	-	-	-	644
Fire safety works provision	-	-	-	-	-
Impairment	-	-	(200)	-	(200)
Other	1,276	-	(280)	-	996
Surplus on disposal of housing fixed assets	-	-	-	5,445	5,445
	178,587	(16,475)	(128,677)	5,445	38,880
Non-social housing activities					
Market rented	1,067	-	(219)	1,275	2,123
Other non-social housing lettings	1,043	-	(1,001)	-	42
Commercial properties	200	-	(626)	(230)	(656)
	2,310	-	(1,846)	1,045	1,509
Total	180,897	(16,475)	(130,523)	6,490	40,389

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)
	2,515	-	(1,723)	939	1,731
Total	169,422	(13,673)	(116,857)	8,501	47,393

Notes to the Financial Statements

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

Association 2023	Turnover £'000	Cost of Sales £'000	Operating costs £'000	Other operating items £'000	Operating surplus/ (deficit) £'000
Social housing lettings (Note 3)	154,635	-	(125,691)	-	28,944
Other social housing activities					
First tranche shared ownership sales	21,480	(16,475)	-	-	5,005
Managed services	526	-	(212)	-	314
Charges for support services	26	-	-	-	26
Community investment	-	-	(288)	-	(288)
Development administration	-	-	(2,006)	-	(2,006)
Goodwill amortisation	644	-	-	-	644
Fire safety works provision	-	-	-	-	-
Impairment	-	-	(200)	-	(200)
Other	1,482	-	(260)	-	1,222
Gift Aid	1,174	-	-	-	1,174
Surplus on disposal of housing fixed assets	-	-	-	5,445	5,445
	179,967	(16,475)	(128,657)	5,445	40,280
Non-social housing activities					
Market rented	1,067	-	(219)	1,275	2,123
Other non-social housing lettings	1,043	-	(1,001)	-	42
Commercial properties	200	-	(626)	(230)	(656)
	2,310	-	(1,846)	1,045	1,509
Total	182,277	(16,475)	(130,503)	6,490	41,789

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
Gift aid	1,275	-	-	-	1,275
Surplus on disposal of housing fixed assets	-	-	-	7,562	7,562
	168,204	(13,673)	(115,120)	7,562	46,972
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)
	2,515	-	(1,723)	939	1,731
Total	170,719	(13,673)	(116,842)	8,501	48,704

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	2023 £'000	2022 £'000
Income from social housing lettings activities					
Rents receivable net of identifiable service charges	111,075	16,386	8,190	135,651	126,251
Service charges receivable	6,701	4,689	2,092	13,482	12,560
Amortisation of social housing grant	4,082	825	595	5,502	5,346
	121,858	21,900	10,877	154,635	144,157
Expenditure on social housing lettings activities					
Services	12,974	7,039	2,540	22,553	17,713
Management	35,669	1,432	476	37,577	34,816
Routine Maintenance	18,917	2,301	69	21,287	20,163
Planned maintenance	15,440	3,991	196	19,627	19,699
Major repairs	828	24	-	852	175
Rent losses from bad debts	1,179	32	(2)	1,209	79
Depreciation of housing properties	18,059	1,840	-	19,899	18,686
Write off of components	1,083	112	-	1,195	451
Impairment	-	1,100	-	1,100	-
Lease costs	339	55	-	394	359
Total expenditure on social housing lettings activities	104,488	17,926	3,279	125,693	112,141
Operating surplus from social housing lettings activities	17,370	3,974	7,598	28,942	32,016
Rent losses from voids	1,121	1,274	947	3,342	3,428

4 Units of stock

Group and Association

	2023	Other movements	Re-classification	Demolished	Sales	Acquired from another RP	New development	2022
Social Housing: Owned and managed								
General needs: Social rent	13,473	90	55	(64)	(5)	360	-	13,037
General needs: Affordable rent	2,779	10	-	-	(1)	24	180	2,566
Intermediate rent	434	5	34	-	-	-	-	395
Supported housing: Social rent	166	20	28	-			-	118
Supported housing: Affordable rent	234	(3)	45	-	-	-	-	192
Shared ownership	1,770	-	1	-	(40)	18	104	1,687
Housing for older people	2,276	16	-	-		9	-	2,251
Temporary housing	34	-	-	-	-	-	-	34
	21,166	138	163	(64)	(46)	411	284	20,280
Social Housing: Managed not owned								
General needs: Social rent	274	(2)	-	-	-	-	-	276
General needs: Affordable rent	21	(43)	-	-	-	-	-	64
Supported and Housing for older people: Social rent	30	-	-	-	-	-	-	30
	325	(45)	-	-	-	-	-	370
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	507	(12)	(28)	-	-	-	-	547
Supported housing: Affordable rent	-	-	(45)	-	-	-	-	45
	526	(12)	(163)	-	-	-	-	701
Total social housing units owned and / or managed	22,017	81	-	(64)	(46)	411	284	21,351
Leaseholder properties	1,584	(5)	-	-	34	-	-	1,555
Non-Social Housing: Owned and managed								
Student accommodation	20	-	-	-	-	-	-	20
Market rent	123	6	-	-	-	-	-	117
Health worker accommodation	223	-	-	-	-	-	-	223
	366	6	-	-	-	-	-	360
Non-Social Housing: Managed not owned								
Market rent	26	-	-	-	-	-	-	26
Total Housing	23,993	82	-	(64)	(12)	411	284	23,292
Other								
Homes under construction	2,015	1,205	-	-	-	-	(284)	1,094
Garages	2,089	15	-	-	-	36	-	2,038
Commercial	12	-	-	-	-	-	1	11

Notes to the Financial Statements

5 Operating surplus on ordinary activities before taxation

	Group 2023 £'000	Group 2022 £'000	Association 2023 £'000	Association 2022 £'000
Operating surplus on ordinary activities before taxation is after charging/(crediting):				
Depreciation of housing properties (note 3)	19,899	18,686	19,899	18,686
Write off of replaced components (note 3)	1,194	451	1,194	451
Depreciation of other tangible fixed assets (note 14)	2,712	2,364	2,712	2,364
Impairment (note 2)	1,300	-	1,300	-
Amortisation of social housing grant (note 3)	(5,502)	(5,346)	(5,502)	(5,346)
Operating lease payments	778	678	778	678
Auditor's remuneration (excluding VAT):				
In their capacity as auditors	150	97	98	65
In respect of other services	-	-	-	-

6 Surplus on disposal of housing fixed assets

Group and Association	Shared ownership subsequent tranches £'000	Other sales £'000	Right to acquire sales £'000	Right to buy sales £'000	Total 2023 £'000	Total 2022 £'000
Proceeds of sale	8,250	1,413	730	255	10,648	16,340
Less: cost of sale	(4,231)	(140)	(417)	(274)	(5,062)	(8,574)
Grant recycled	(125)	-	(16)	-	(141)	(204)
Surplus / (loss)	3,894	1,273	297	(19)	5,445	7,562

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) in respect of services as directors:

Group and Association	2023 £'000	2022 £'000
Executive directors' emoluments	1,020	820
Executive directors' pension contributions or cash in lieu of payment	122	103
Non-Executive directors' emoluments	126	111
	1,268	1,034
Emoluments paid to the highest paid Director (excluding pension contributions, but including benefits in kind)	352	226

The highest paid director refers to the Chief Executive from 1 April 2022 to 31 March 2023 (2022: Chief Executive). The salary was unchanged from the prior year.

Chief Executive

The Chief Executive from 1 April 2022 to 31 March 2023 was not a member of any pension scheme. An amount of £22,500 was paid in respect of cash in lieu of pension contributions. This payment was on the same terms available to all staff. No contributions were made to any individual pension arrangements.

The Chief Executive from 13 December 2022 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.

During the year the aggregate compensation for loss of office of key management personnel was £112,500 (2022: nil).

The 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	2023 number	2022 number
£60,000 to £70,000	19	12
£70,001 to £80,000	17	11
£80,001 to £90,000	5	5
£90,001 to £100,000	1	2
£100,001 to £110,000	5	4
£110,001 to £120,000	3	3
£130,001 to £140,000	1	-
£170,001 to £180,000	1	-
£200,001 to £210,000	1	-
£210,001 to £220,000	1	1
£220,001 to £230,000	-	2
£260,001 to £270,000	-	1
£370,001 to £380,000	1	-
Total	55	41
Included above due to redundancy	-	1

Notes to the Financial Statements

8 Employee information

Group and Association	2023 £'000	2022 £'000
Staff costs including directors:		
Wages and salaries	26,063	23,082
Social security costs	2,588	2,276
Costs of defined contribution schemes	1,696	1,669
Pension deficit reduction charge	2,928	3,181
	33,275	30,208
Average number of full-time equivalent persons (including the directors) employed during the year:	**Number**	**Number**
Housing management and office staff	583	584
Direct labour organisation	36	35
New development and sales	37	33
	656	652

Wages and salaries costs includes a provision of £953k for restructuring costs (2022: nil) (note 33).

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 2023 £'000	Group 2022 £'000	Association 2023 £'000	Association 2022 £'000
Interest receivable and similar income	410	22	405	22

10 Interest payable and financing costs

	Group 2023 £'000	Group 2022 £'000	Association 2023 £'000	Association 2022 £'000
Housing loans interest	22,048	13,881	22,048	13,881
Bond interest	15,063	14,474	-	-
Other loans from Group undertakings	-	-	15,063	14,474
Interest rate swap obligation	1,889	4,746	1,889	4,746
FRS effective interest rate adjustment	68	210	68	210
Amortisation of debt issue fees	1,287	639	1,287	639
Amortisation of inception element of swaps	(88)	(41)	(88)	(41)
Amortisation of cancelled swap reserves	113	113	113	113
Net interest on net defined benefit liability	346	427	346	427
Pension unwinding cost	22	23	22	23
RCGF interest	197	17	197	17
	40,945	34,488	40,945	34,488
Less: Capitalised	(6,743)	(4,265)	(6,743)	(4,265)
	34,202	30,223	34,202	30,223
Non-cash accounting transactions under FRS102 included above	1,380	921	1,380	921

Interest rates charged on housing loans varied between 2.00% 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 3.7% (2022: 3.4%).

Notes to the Financial Statements

11 Taxation

	Group 2023 £'000	Group 2022 £'000	Association 2023 £'000	Association 2022 £'000
UK corporation tax				
Current tax on surplus for year	486	240	103	16
Tax on surplus on ordinary activities	486	240	103	16
Current tax reconciliation				
Surplus on ordinary activities before tax	12,915	20,401	14,310	21,712
Tax charge at 19% (2022: 19%)	2,454	3,876	2,719	4,125
Non taxable charitable activities	(1,968)	(3,636)	(2,616)	(4,109)
	486	240	103	16

12 Intangible assets and goodwill

Group and Association	**Negative goodwill £'000**
At 1 April 2022	6,085
Amortisation of goodwill	(644)
At 31 March 2023	5,441

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.

Notes to the Financial Statements

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 2022	1,679,897	179,150	216,580	66,575	2,142,202
Additions	601	83,500	446	42,060	126,607
Capitalised interest	-	2,797	-	2,540	5,337
Acquisition from another provider	38,925	-	751	-	39,676
Transfers and adjustments	(5,176)	(1,246)	(562)	1,246	(5,738)
Disposals	(668)	-	(4,297)	-	(4,965)
Abortive costs	-	(200)	-	(156)	(356)
Component replacement	16,695	-	-	-	16,695
Components written off	(3,330)	-	-	-	(3,330)
Schemes completed	67,187	(67,187)	44,565	(44,565)	-
At 31 March 2023	1,794,131	196,814	257,483	67,700	2,316,128
Depreciation					
At 1 April 2022	180,091	-	3,225	-	183,316
Charge for the year	19,899	-	-	-	19,899
Components written off	(2,135)	-	-	-	(2,135)
Eliminated on disposal	(80)	-	(90)	-	(170)
At 31 March 2023	197,775	-	3,135	-	200,910
Impairment					
At 1 April 2022	2,771	1,201	-	1,581	5,553
Charge for the year	1,100	200	-	-	1,300
At 31 March 2023	3,871	1,401	-	1,581	6,853
Net book value					
At 31 March 2023	1,592,485	195,413	254,348	66,119	2,108,365
At 31 March 2022	1,497,035	177,949	213,355	64,994	1,953,333

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 2022	1,680,833	183,945	216,580	67,761	2,149,119
Additions	601	85,815	446	42,061	128.923
Capitalised interest	-	2,797	-	2,540	5,337
Acquisition from another provider	38,925	-	751	-	39,676
Transfers and adjustments	(5,176)	(1,246)	(562)	1,246	(5,738)
Disposals	(668)	-	(4,297)	-	(4,965)
Abortive costs	-	(200)	-	(156)	(356)
Component replacement	16,695	-	-	-	16,695
Components written off	(3,330)	-	-	-	(3,330)
Schemes completed	67,187	(67,187)	44,565	(44,565)	-
At 31 March 2023	1,795,067	203,924	257,483	68,887	2,325,361
Depreciation					
At 1 April 2022	178,866	-	3,225	-	182,091
Charge for the year	19,899	-	-	-	19,899
Components written off	(2,135)	-	-	-	(2,135)
Eliminated on disposal	(80)	-	(90)	-	(170)
At 31 March 2023	196,550	-	3,135	-	199,685
Impairment					
At 1 April 2022	2,771	1,201	-	1,581	5,553
Charge for the year	1,100	200	-	-	1,300
At 31 March 2023	3,871	1,401	-	1,581	6,853
Net book value					
At 31 March 2023	1,594,646	202,523	254,348	67,306	2,118,823
At 31 March 2022	1,499,196	182,744	213,355	66,180	1,961,475

	Group 2023 £'000	Group 2022 £'000	Association 2023 £'000	Association 2022 £'000
The net book value of housing properties may be further analysed:				
Freehold	1,820,748	1,731,906	1,831,206	1,740,047
Long leaseholds	286,499	220,226	286,499	220,226
Short leaseholds	1,118	1,202	1,118	1,202

Tangible fixed assets: Housing properties (continued)

Group and Association	2023 £'000	2022 £'000
Work to properties:		
Improvements to existing properties capitalised	16,695	21,408
Planned maintenance and major works expenditure included in the Statement of Comprehensive Income (note 3)	20,479	19,367

Interest capitalisation:		
Interest capitalised in the year	5,337	4,265
Cumulative interest capitalised	42,909	37,572
Rate used for capitalisation	3.7%	3.4%

15,871 properties (2022:16,806) 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 other equipment £'000	Motor vehicles £'000	Total £'000
Cost						
At 1 April 2022	10,879	674	14,543	5,581	187	31,864
Additions	-	-	3,034	405	-	3,439
Reclassification	-	-	-	187	(187)	-
Disposals	-	-	-	(1,566)	-	(1,566)
At 31 March 2023	10,879	674	17,577	4,607	-	33,737
Depreciation						
At 1 April 2022	1,905	493	2,633	3,279	102	8,412
Charge for the year	174	41	1,698	799	-	2,712
Reclassification	-	-	-	102	(102)	-
Eliminated on disposal	-	-	-	(1,539)	-	(1,539)
At 31 March 2023	2,079	534	4,331	2,641	-	9,585
Net book value						
At 31 March 2023	8,800	140	13,246	1,966	-	24,152
At 31 March 2022	8,974	181	11,910	2,302	85	23,452

Notes to the Financial Statements

15 Investment properties

	Market Rented		Commercial		Total
Group and Association	**Completed £'000**	**Under construction £'000**	**Completed £'000**	**Under construction £'000**	**£'000**
At 1 April 2022	19,122	-	2,727	1,388	23,237
Transfers and reclassification	-	-	463	(463)	-
Additions	-	209	-	902	1,111
Capitalised interest		9	-	36	45
Movement in fair value	1,275	-	(230)	-	1,045
At 31 March 2023	20,397	218	2,960	1,863	25,438

Commercial properties were revalued at 31 March 2023 by Jones Lang LaSalle Ltd, Chartered Surveyors, valuations have been based on capitalising the rental values using suitable yields (between 6.25% 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 2023 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	**2023 £'000**	**2022 £'000**
Other loans	213	309
	213	309

The other loans relate to a mortgage provided 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	**2023 £'000**	**2022 £'000**
Cost at 1 April and 31 March	13	13
	13	13

Notes to the Financial Statements

18 Stock and work in progress

Group	Shared ownership		Commercial		Land held for development	Total
Group and Association	**Completed £'000**	**Under construction £'000**	**Completed £'000**	**Under construction £'000**	**Completed £'000**	**£'000**
At 1 April 2022	18,678	45,357	-	709	11,998	76,742
Additions / movements	12,825	3,494	-	-		16,319
Capitalised interest	-	1,363	-	-	-	1,363
Cost of properties sold	(16,336)	-	-	-	-	(16,336)
Transfers and reclassification	(769)	1,215	-	(121)	(1,500)	(1,175)
At 31 March 2023	14,398	51,429	-	588	10,498	76,913

Association	Shared ownership		Commercial		Land held for development	Total
Group and Association	**Completed £'000**	**Under construction £'000**	**Completed £'000**	**Under construction £'000**	**Completed £'000**	**£'000**
At 1 April 2022	18,678	45,357	-	709	-	64,744
Additions / movements	12,825	3,494	-	-		16,319
Capitalised interest	-	1,363	-	-	-	1,363
Cost of properties sold	(16,336)	-	-	-	-	(16,336)
Transfers and reclassification	(769)	1,215	-	(121)	-	325
At 31 March 2023	14,398	51,429	-	588	-	66,415

19 Debtors

	Group 2023 £'000	Group 2022 £'000	Association 2023 £'000	Association 2022 £'000
Due within one year:				
Rent and service charge arrears	9,532	6,925	9,532	6,925
Less: provision for bad debts	(5,359)	(4,315)	(5,359)	(4,315)
	4,173	2,610	4,173	2,610
Other debtors	1,914	482	1,914	469
VAT debtor	921	310	89	209
Employee loans	164	46	164	46
Prepayments and accrued income	2,892	2,865	2,892	2,865
Derivative financial instruments (note 28)	1,595	-	1,595	-
Amounts owed by Group undertakings	-	-	-	13,080
	11,659	6,313	10,827	19,278

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

Notes to the Financial Statements

20 Current asset investments

Group and Association	2023 £'000	2022 £'000
Collateral	-	1,407

At the request of the counterparties, in 2022 cash collateral of £1,407k was lodged with Santander and NatWest to secure mark to market positions with swap counterparties. No collateral was provided at 31 March 2023.

21 Creditors: amounts falling due within one year

	Group 2023 £'000	Group 2022 £'000	Association 2023 £'000	Association 2022 £'000
Loans and borrowings (note 26)	32,270	17,070	32,270	17,070
Trade creditors	3,478	2,287	1,639	1,769
Corporation tax	486	240	103	17
Taxation and social security	507	605	507	605
Accruals and deferred income	66,238	26,088	57,289	24,800
Recycled capital grant fund (note 24)	5,751	4,078	5,751	4,078
Disposal proceeds fund (note 25)	-	1,673	-	1,673
Pension deficit contributions	106	95	106	95
Deferred capital grant	5,786	5,625	5,786	5,625
Amounts owed to Group undertakings	-	-	200	3,299
Other creditors	312	182	312	182
Rent and service charges received in advance	5,667	5,067	5,667	5,067
Interest rate swaps (note 28)	-	-	-	-
	120,601	63,010	109,630	64,280

The average time taken to pay trade creditors is 47 days (2022: 47 days).

22 Creditors: amounts falling due after more than one year

	Group 2023 £'000	Group 2022 £'000	Association 2023 £'000	Association 2022 £'000
Loans and borrowings (note 26)	1,048,514	971,247	1,048,514	971,247
Bond premium	2,306	2,354	2,306	2,354
Pension deficit contributions (note 34)	540	574	540	574
Recycled capital grant fund (note 24)	4,917	5,209	4,917	5,209
Deferred capital grant	437,777	426,035	437,777	426,035
Amounts held on behalf of leaseholders	7,413	6,261	7,413	6,261
Other creditors	628	590	628	590
Derivative financial instruments (note 28)	10,801	37,077	10,801	37,077
	1,512,896	1,449,347	1,512,896	1,449,347

Notes to the Financial Statements

23 Deferred Capital Grant

Group and Association	2023 £'000	2022 £'000
Gross grant		
At 1 April 2022	522,112	512,851
Grants received during the year	22,192	5,075
Grants recycled	(695)	(1,193)
Grants utilised	1,184	-
Other movements	(5,412)	5,379
At 31 March 2023	539,381	522,112
Amortisation		
At 1 April 2022	90,452	85,304
Released to income	5,508	5,352
Released on disposal	(144)	(204)
At 31 March 2023	95,816	90,452
Net book value	443,565	431,660

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	2023 £'000	2022 £'000
At 1 April 2022	9,287	8,077
Grants recycled	695	1,193
Interest accrued	197	17
Allocated to new build developments	(1,184)	-
Transferred from Disposals Proceeds Fund	1,673	-
At 31 March 2023	10,668	9,287
Amounts included where repayment may be required within one year	5,751	4,078

25 Disposal Proceeds Fund

Group and Association	2023 £'000	2022 £'000
At 1 April 2022	1,673	1,673
Transferred to Recycled Capital Grant Fund	(1,673)	-
At 31 March 2023	-	1,673
Grant due for repayment	-	1,673

26 Loans and borrowings

Maturity of debt: Group and Association	2023 £'000	2022 £'000
Bank Loans		
Between one year and two years	125,856	68,086
Between two years and five years	217,235	129,761
In more than five years	144,230	197,092
Total (note 22)	487,321	394,939
In one year or less, or on demand (note 21)	16,488	16,460
	503,809	411,399
Other loans		
Between one year and two years	372	15,714
Between two years and five years	8,092	8,066
In more than five years	7,827	8,229
Total (note 22)	16,291	32,009
In one year or less, or on demand (note 21)	15,782	610
	32,073	32,619
Bonds		
In more than five years	550,000	550,000
Total (note 22)	550,000	550,000
Total loans and borrowings	1,085,882	994,018
Loan issue costs	(5,098)	(5,701)
Total loans and borrowings	1,080,784	988,317

Net debt at 31 March 2023 was £1,055m (2022: £954m) after adjusting for bond discount of £2m credit (2022: £2m credit) and deducting liquid asset balances held of £27m (2022: £38m).

The Group has committed borrowing facilities of £1,364m (2022: £1,325m) primarily raised through the debt and capital markets. As at 31 March 2023, £1,086m (2022: £994m) was drawn.

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

At 31 March 2023 undrawn committed loan facilities were £278m (2022: £331m). Of the drawn loan facilities, £932m (86 per cent) (2022: £796m, 80 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% (2022: 3.4%). The weighted average interest rate of outstanding borrowings as at close of the year was 3.9% (2022: 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 2023 £'000	Group 2022 £'000	Association 2023 £'000	Association 2022 £'000
Financial Assets				
Measured at fair value through the Statement of Comprehensive Income:				
- Cash and cash equivalents	28,537	38,080	27,355	37,465
Measured at discounted amount receivable:				
- Investments (note 16)	213	309	213	309
Measured at undiscounted amount receivable:				
- Rent arrears and other debtors (note 19)	10,064	6,313	9,232	19,278
Measured at fair value and designated in a hedging relationship (note 28)	1,595	-	1,595	-
Total	40,409	44,702	38,395	57,052

	Group 2023 £'000	Group 2022 £'000	Association 2023 £'000	Association 2022 £'000
Financial liabilities				
Measured at fair value and designated in a hedging relationship (note 28)	10,801	37,077	10,801	37,077
Financial liabilities measured at fair value	1,534,432	1,414,566	1,534,432	1,414,566
Financial liabilities measured at fair value through the Statement of Comprehensive Income	97,354	54,457	86,766	55,949
Total	1,642,587	1,506,100	1,631,999	1,507,592

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 2023 65% (2022: 76%) 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 2023	Group 2022	Association 2023	Association 2022
	£'000	£'000	£'000	£'000
Interest income and expense				
Total interest income for financial assets at amortised cost	410	22	405	22
Total interest expense for financial liabilities at amortised cost	(34,202)	(30,223)	(34,202)	(30,223)
Fair value gains and losses				
On financial assets (including listed investments) measured at fair value:				
Gain on fair value of financial instruments	6,352	3,209	6,352	3,209
Other loss	(13)	-	(13)	-
	6,339	3,209	6,339	3,209
Gain on fair value of hedged financial instruments	21,544	11,577	21,544	11,577

28 Derivative Financial Instruments

Group and Association	Current 2023 £'000	Current 2022 £'000	Non-Current 2023 £'000	Non-Current 2022 £'000
Derivatives that are designated and effective as hedging instruments carried at fair value				
Asset / (Liability)				
Interest rate swaps	-	-	3,985	(17,493)
Derivatives that are non-hedged instruments carried at fair value				
Asset / (Liability)			(14,786)	(19,584)
Interest rate swaps - ineffective element			1,595	-
Interest rate swaps - callable by counterparty	-	-	(13,191)	(19,584)
	-	-	(9,206)	(37,077)

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

Outstanding receive floating rate pay fixed contracts

	Average contract fixed interest rate		Notional principal value		Fair value effective hedges		Fair value ineffective hedges	
	2023	2022	2023	2022	2023	2022	2023	2022
	%	%	£'000	£'000	£'000	£'000	£'000	£'000
0 - 1 years	-	-	-	-	-	-	-	-
1 - 5 years	4.84	4.84	10,000	10,000	424	(32)	(647)	(1,109)
Over 5 years	4.47	4.47	100,000	100,000	3,561	(17,461)	(14,139)	(18,475)
At 31 March	4.50	4.50	110,000	110,000	3,985	(17,493)	(14,786)	(19,584)

Callable interest rate swap contracts recognised financial (liability) / asset

	Average contract fixed interest rate		Notional principal value		Fair value ineffective	
	2023	2022	2023	2022	2023	2022
	%	%	£'000	£'000	£'000	£'000
0 - 1 years	-	-	-	-	-	-
1 - 5 years	2.50	-	150,000	-	1,595	-
Over 5 years	-	-	-	-	-	-
At 31 March	2.50	-	150,000	-	1,595	-

Notes to the Financial Statements

Derivative Financial Instruments (continued)

The Group has three callable interest rate swaps maturing over 2032-34, each of which is callable by the respective counterparty on a once-only basis during 2024. As at the year-end date the overall derivatives portfolio comprised eight interest rate swaps with a notional amount of £110m (2022: £110m) and three callable interest rate swaps of £150m (2022: nil) at a blended rate of 3.35% (2022: 4.50%). 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 £110m 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 £21,544k (2022: gain £11,577k) 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 £6,352k in aggregate (2022: gain £3,209k) and were recognised in surplus or deficit.

As at 31 March 2023 the Group had eight (2022: eight) cash flow hedges and three further interest rate swaps callable by the counterparty which do not qualify for hedge accounting (2022: none). 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.

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

	2023	2022
Liability	**£'000**	**£'000**
Santander £10m 4.84% 25 June 2026	(222)	(1,141)
Lloyds £20m 4.48% 26 February 2032	(1,417)	(4,925)
Lloyds £10m 4.70% 5 October 2032	(948)	(2,829)
Lloyds £20m 4.79% 4 January 2036	(2,712)	(7,566)
Lloyds £15m 4.39% 5 November 2037	(1,617)	(5,576)
Santander £10m 4.32% 4 July 2038	(1,044)	(3,772)
Lloyds £15m 4.44% 13 May 2038	(1,757)	(5,858)
RBS £10m 3.90% 4 October 2050	(1,084)	(5,410)
	(10,801)	(37,077)

The following swap contract does not qualify for hedge accounting

	2023	2022
Asset	**£'000**	**£'000**
NatWest £50m 2.61% 17 November 2032	364	-
NatWest £50m 2.21% 1 September 2034	942	-
Lloyds £50m 2.69% 8 December 2032	289	-
	1,595	-

Notes to the Financial Statements

29 Cash flow from operating activities

Group	2023 £'000	2022 £'000
Surplus for the financial year	12,429	20,161
Adjustments for non-cash items:		
Net fair value gain recognised in the SoCI	(4,731)	(2,798)
Change in value of investment properties	(1,045)	(939)
Depreciation charge on other fixed assets	2,712	2,364
Depreciation charge on housing properties	19,899	18,686
Write off of components	1,195	451
Impairment	1,300	-
Amortisation of grant on housing properties	(5,508)	(5,352)
Amortisation negative goodwill	(644)	(620)
Adjustment for pension funding	1,017	(2,661)
(Increase) / Decrease in debtors	(3,751)	2,003
Increase in creditors	43,580	1,006
(Increase) in stock	(171)	(4,094)
Transfers / adjustments to stock	326	(646)
Other provisions	450	(582)
Grant received (non-cash)	(4,671)	(5,413)
Movement in investments	(96)	(50)
Adjustment for investing or financing activities		
(Surplus) on sale of tangible fixed assets	(5,445)	(7,562)
Loss on disposal of other fixed assets	21	-
Interest payable	34,202	30,223
Interest receivable	(410)	(22)
Loan arrangement fees	(923)	(1,181)
Taxation	486	240
Net cash generated from operating activities	90,222	43,214

30 Reconciliation of net cash flow to movement in net debt

Group	2023 £'000	2022 £'000
Decrease in cash in the year	9,543	2,695
Other changes	1,695	(637)
Loans and bond finance received	226,870	455,000
Loans repaid	(135,006)	(342,499)
Loan arrangement fees	(923)	(1,181)
Change in net debt	102,179	113,378
Net debt at 1 April	952,592	839,214
Net debt at 31 March	1,054,771	952,592

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	(38,080)	9,543	-	(28,537)
Housing loans due within one year	17,070	15,200	-	32,270
Housing loans due after one year	426,949	76,664	-	503,613
Bond finance	550,000	-	-	550,000
Loan and bond arrangement fees	(5,701)	(923)	1,742	(4,882)
Bond discount	2,354	-	(47)	2,307
	952,592	100,484	1,695	1,054,771

32 Called up share capital

Association	2023 Number	2022 Number
Allotted, issued and fully paid:		
At 1 April	12	15
Allotted during the year	1	-
Cancelled during the year	-	(3)
At 31 March	13	12

The shares of the Association, each of £1 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	Re-structuring £'000	Total £'000
Balance at 1 April 2022	2,400	316	-	2,716
Provisions during the year	-	-	953	953
Released during the year	(187)	(316)	-	(503)
Balance at 31 March 2023	2,213	-	953	3,166

Fire Safety works

PA Housing is committed to implementing the governments new building safety standards. A provision is made where we have contracted for remediation works to be carried out. Provisions are not made where there is uncertainly in determining future costs to remediate buildings, this is due to complexities in finalising the technical specification of works required, the recovery of costs from original contractors and access to government grants. We have however ring-fenced funding to fully remediate all potential fire risks in our buildings.

Onerous lease

The onerous lease relates to a lease on a commercial property which was sublet during the year. At the year-end date the property was vacant and the lease was reassigned to a third party on the 11 May 2023.

Restructuring

At the year-end date PA Housing was in the process of concluding an internal restructure of the operating model for delivering services to our residents. The new operating model went live on the 1 June 2023.

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	**2023**	**2022**
Group and Association	**£'000**	**£'000**
Creditors due within one year – Net Present Value of obligation		
Defined Benefit – Surrey County Council (Elmbridge Borough Council)	106	95
Creditors due after more than one year – Net Present Value of obligation		
Defined Benefit – Surrey County Council (Elmbridge Borough Council)	540	574
Pension Liability		
Defined Benefit – Surrey County Council	-	733
Defined Benefit – Social Housing Pension Scheme	13,131	13,147
	13,131	13,880
Statement of Comprehensive Income		
Finance Costs:		
Surrey County Council - Net Interest Cost	19	14
Social Housing Pension Scheme - Net Interest Cost	327	413
Surrey County Council (Elmbridge Borough Council) - Finance Cost	22	23
Other Costs:		
Elimination on net asset on defined benefit pension scheme	3,890	-
	4,258	450
Operating Costs:		
Social Housing Pension Scheme - Expenses	67	69
Surrey County Council (Elmbridge Borough Council) - Operating Cost	51	15
	118	84
Other Comprehensive Income		
Surrey County Council - Actuarial gain / (loss)	4,642	(262)
Social Housing Pension Scheme – Actuarial (loss) / gain	(2,518)	4,968
	2,124	4,706

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	**2023 £'000**	**2022 £'000**
Contributions	1,696	1,669

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 £96k (2022: £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	**2023**	**2022**
Group and Association	**£'000**	**£'000**
At 1 April	669	724
Contributions paid	(96)	(93)
Operating charge	51	15
Finance charge	22	23
At 31 March	646	669
Net Present Value of creditor		
Due within one year	106	95
Due after more than one year	540	574
	646	669

Assumptions	**2023 % per annum**	**2022 % per annum**
Rate of discount	4.30	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 2022. PA Housing's contribution to the LGPS was £nil (2022: £500,000).

	2023 £'000	2022 £'000
Reconciliation of present value of plan liabilities		
At the beginning of the year	14,511	15,644
Interest cost on defined benefit obligations	385	307
Changes in financial assumptions	(3,729)	(864)
Changes in demographic assumptions	59	(66)
Other experience	(496)	37
Benefits paid	(456)	(547)
At the end of the year	10,274	14,511
Reconciliation of fair value of plan assets		
At the beginning of the year	13,777	14,686
Interest income on plan assets	366	293
Return on assets excluding amounts included in net interest	(548)	(1,155)
Employer contributions	-	500
Other experience	1,025	-
Benefits paid	(456)	(547)
At the end of the year	14,164	13,777
Composition of plan assets		
Equities	10,764	2,893
Bonds	1,700	10,608
Property	1,133	138
Cash	567	138
Total plan assets	14,164	13,777
Equities	76%	21%
Bonds	12%	77%
Property	8%	1%
Cash	4%	1%

Principal actuarial assumptions used at the reporting date	2023 % pa	2022 % pa
Pension increase rate	3.00%	3.20%
Salary increase rate	4.00%	4.10%
Discount rate	4.75%	2.70%

Mortality	Males (years)	Females (years)
Current Pensioners	23.0	24.8
Future Pensioners*	23.6	26.4

* 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)

	2023 £'000	2022 £'000
Amounts recognised in the Statement of Financial Position		
Fair value of plan assets	14,164	13,777
Present value of plan liabilities	(10,274)	(14,511)
Elimination of net asset [1]	(3,890)	-
Net pension scheme asset / (liability)	-	(734)
Amounts recognised in the Statement of Comprehensive Income		
Interest cost on defined benefit obligations	385	307
Interest income on plan assets	(366)	(293)
Elimination of net asset [1]	3,890	-
Defined benefit costs recognised in the Statement of Comprehensive Income	3,909	14
Analysis of actuarial gain / (loss) recognised in Other Comprehensive Income		
Return on assets excluding amounts included in net interest	477	(1,155)
Changes in assumptions underlying the present value of the scheme liabilities	4,165	893
Total amount recognised in Other Comprehensive Income – gain / (loss)	4,642	(262)

[1] At the 31 March 2023 the net pension scheme asset was £3,890,000 based on the accounting FRS102 valuation. On the 14 March 2023 PA Housing gave notice to terminate the Funding Agreement with Surrey Pension Fund (the Fund). The cessation date was 13 April 2023. On termination PA Housing was liable to pay any exit debt based on the termination valuation basis. If at the termination date the fund was in surplus the Fund was not empowered to pay any surplus on termination of the Funding Agreement as the actual exit from the Fund would have taken place when the last active member left.

The termination valuation on 13 April 2023 was a surplus of £3.02m. As there was no exit debt payable, all liabilities and obligations to the fund were fully discharged with no payment required to the Fund or payable by the Fund to PA Housing. The FRS102 net asset at 31 March 2023 has therefore not been recognised.

Notes to the Financial Statements

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 2022. The liability figures from this valuation were rolled forward for accounting year-ends from the following 31 March 2023 to 29 February 2024 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.

	2023 £'000	2022 £'000
Reconciliation of present value of plan liabilities		
At the beginning of the year	102,042	105,312
Expenses	67	69
Interest cost on defined benefit obligations	2,798	2,264
Actuarial (gains)	(29,974)	(3,665)
Benefits paid and expenses	(3,437)	(1,938)
At the end of the year	71,496	102,042
Reconciliation of fair value of plan assets		
At the beginning of the year	88,895	85,023
Interest income on plan assets	2,471	1,851
Experience on plan assets excluding amounts included in net interest - (loss) / gain	(32,492)	1,303
Employer contributions	2,928	2,656
Benefits paid	(3,437)	(1,938)
At the end of the year	58,365	88,895

Notes to the Financial Statements

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

Composition of plan assets	2023 £'000	2022 £'000
Global equity	1,089	17,059
Absolute return	632	3,566
Distressed opportunities	1,767	3,181
Credit relative value	2,203	2,954
Alternative risk premia	108	2,931
Emerging markets debt	313	2,587
Risk sharing	4,297	2,927
Insurance linked securities	1,473	2,073
Property	2,512	2,400
Infrastructure	6,666	6,333
Private debt	2,597	2,279
Opportunistic illiquid credit	2,497	2,987
High yield	204	766
Opportunistic credit	4	316
Cash	421	302
Corporate bond fund	-	5,930
Liquid credit	1	1
Long lease property	1,761	2,287
Secured income	2,679	3,312
Liability driven investment	26,880	24,805
Currency hedging	112	(348)
Net current assets	149	247
Total plan assets	58,365	88,895

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.

Principal actuarial assumptions used at the reporting date	2023 % pa	2022 % pa
Discount rate	4.87	2.79
Inflation (RPI)	3.19	3.57
Inflation (CPI)	2.75	3.19
Salary growth	3.75	4.19
Allowance for commutation of pension for cash at retirement	75% of maximum allowance	75% of maximum allowance

Mortality assumptions adopted at 31 March 2023 imply the following life expectancies at age 65:	Males (years)	Females (years)
Retiring in 2023	21.0	23.4
Retiring in 2043	22.2	24.9

Notes to the Financial Statements

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

	2023 £'000	2022 £'000
Present values of defined benefit obligation, fair value of assets and defined benefit liability		
Fair value of plan assets	58,365	88,895
Present value of plan liabilities	(71,496)	(102,042)
Net pension scheme liability	(13,131)	(13,147)
Amounts recognised in the Statement of Comprehensive Income		
Net interest expense	327	413
Expenses	67	69
Defined benefit costs recognised in the Statement of Comprehensive Income	394	482
Analysis of actuarial (loss) / gain recognised in Other Comprehensive Income		
Experience on plan assets excluding amounts included in net interest – (loss) / gain	(32,492)	1,303
Experience on the plan liabilities	752	(5,813)
Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation – gain	169	1,621
Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation – gain / (loss)	29,053	7,857
Total amount recognised in Other Comprehensive Income – (loss) / gain	(2,518)	4,968

PA Housing was notified in 2021/22 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. We understand that this process is still ongoing at 31 March 2023 and no conclusions have yet been reached. It is estimated that this could potentially increase the value of entire scheme liabilities for all employers by £155m. It is noted that this estimate has been calculated as at 30 September 2022 on the Scheme's Technical Provisions basis. Until the court direction is received, it is unknown whether the full (or any) increase in liabilities will apply and therefore, in line with the prior year, no adjustment has been made in these financial statements in respect of this.

Recent changes in global and UK economic pressures and tightening of monetary policy have had a significant impact on asset markets and corporate bonds yields, which are key to the FRS102 assessment of the net pension asset or liability. In particular, AA corporate bond yields, used to set the FRS102 discount rate, have increased significantly, with corresponding falls in asset values. The markets have been exceptionally volatile and therefore both gross DBOs and assets have fallen.

Notes to the Financial Statements

35 Operating lease obligations

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

	Land and buildings	
Group and Association	**2023 £'000**	**2022 £'000**
Operating leases which expire:		
Less than 1 year	619	776
Within 1 to 5 years	2,179	2,248
After 5 years	1,207	1,368
	4,005	4,392

The above includes the future payments for an operating lease for a commercial office building. This lease was reassigned to a third party on the 11 May 2023.

36 Capital Commitments

	Group and Association 2023 £'000	**Group and Association 2022 £'000**
Expenditure contracted for but not provided in the financial statements	348,302	216,566
Expenditure authorised by Board but not contracted for	57,543	209,594
	405,845	426,160

Commitments will be funded by cash reserves, the drawdown of existing loan facilities and Social Housing Grant.

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 2023 are £95.8m (2022: £90.5m).

PA Housing has acquired properties where the grant is considered to be part of the acquisition cost and is not accounted for separately in the statement of financial position. This contingent liability will be realised if the assets to which the grant relates are disposed. At 31 March this contingent liability is £10.1m (2022: £5.4m)

Notes to the Financial Statements

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:

- Leaseholder – Service charges of £1,453 were charged in the year (2022: £1,726) with a credit balance of £141 at 31 March 2023 (2022: debit balance of £292).
- Social rented tenant - Rents of £4,380 (2022: £4,207) were charged in the year with a credit balance of £174 at 31 March 2023 (2022: £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 member) is the Chair 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.

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 2023 are as follows:

	2023				2022			
	ACSL	**PDCSL**	**PTP**	**PAH**	**ACSL**	**PDCSL**	**PTP**	**PAH**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
ACSL recharges	-	-	-	59,918	-	-	-	34,336
PAH finance recharge	283	-	-	-	265	-	-	-
PDCSL recharges	-	-	-	154	-	-	-	746
PTP interest recharge	-	-	-	15,912	-	-	-	14,581
PTP cost recharge	-	-	-	77	-	-	-	96
Debtor/(Creditor) balances	5,971	(5,554)	(4)	(421)	(4,281)	(5,423)	-	9,703

Notes to the Financial Statements

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 2023 £'000	Group and Association 2022 £'000
Revenue expenditure (included in note 3 planned maintenance costs)		
Fire remediation works	1,318	2,577
Waking watch and fire safety cover costs	3,907	4,279
	5,225	6,856
Capital expenditure		
Fire Safety remediation – components (included in note 13)	241	1,283
Fire Safety equipment – other fixed assets (included in note 14)	20	743
	261	2,026
Provisions (included in note 2)		
Additional provision in the year	-	1,200
Released	-	(1,776)
	-	(576)
Total fire safety remediation expenditure	5,486	8,306

40 Post Balance sheet event

PA Housing lease a property, the future payments are disclosed at note 35 operating leases. In May 2023, the lease was reassigned releasing PA Housing from its responsibilities and further costs under the lease agreement. As part of the reassignment, PA Housing agreed to act as guarantor for undertaking dilapidations plus any other obligations under the lease should the new leaseholder end the lease without fulfilling these. As part of the reassignment PA Housing has also agreed to pay £100,000 (exclusive of VAT) per annum for 3 years, in each of the financial years 2023/24, 2024/25 and 2025/26, to the new leaseholder The period of guarantee does not extend beyond September 2027 being the date the lease expires.

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