Co-operative and Community Benefit Societies
Registration No 31419R

Annual Report and Financial Statements

For the year ended 31 March 2023

Contents of the Annual Report

Members of the Board of Management, Executive Officers, and Advisers

Board Members

Ian Munro (Chair)	
Steve Bentley	
Keith Bevan (Senior Independent Director)	
Loraine Birchall	Retired 22 September 2022
Stephen Bolton	Resigned 23 December 2022
John Burt	
Kerry Byrne	
Nicola Haywood-Cleverly	Appointed 22 September 2022
Silas Heys	
Catherine Lindsay	Appointed 22 September 2022
Susanne Long	
Brian McDonough	Retired 22 September 2022
Tony Muir	Appointed 22 September 2022
Lesley Peters	Appointed 22 September 2022 and resigned 30 April 2023
George Taylor	Retired 22 September 2022
Andrew Oldale	Appointed 1 August 2023

Executives

Chief Executive	Catherine Purdy
Director of Customer Experience	Niki Stockton
Director of Business Improvement	John Mansergh
Director of Homes	Richard Hayes
Director of Finance	Richard Morris

Company Secretary John Mansergh

External Auditor

Beever and Struthers
One Express
1 George Leigh Street
Manchester
M4 5DL

Principal Bankers

Santander Bank plc
2 Triton Square
Regent's Place
London
NW1 3AN

Chairs Statement

I am delighted to introduce South Lakes Housing's (SLH) Annual Report for 2022/23 which was particularly challenging given the fast pace of change within the operating environment including coming out of the pandemic, the effects of the Russia-Ukraine war and volatility within the economy resulting in the cost-of-living crisis. Despite this, SLH has performed well and have made good progress in delivering our 5-year plan The following are worthy highlights for stakeholders;

- Rent collection and arrears performance held up well with better than anticipated performance despite the cost-of-living pressures experienced by many of our customers. We also achieved our best ever return for the management of void (empty) properties, shared ownership sales and lowest colleague sickness performance since 2015.
- Our Social Housing Decarbonisation Fund Wave 2 bid was successful enabling £3.5M to be invested in 'fabric first' solutions to 905 homes, so we remain on track for EPC C by 2025, ahead of Government 2030 target providing affordable warmth for many of our residents. The total investment in homes by 2025 will be around £10M.
- We managed to deliver our best outturn yet on new supply (79 new homes), including our first Passivhaus scheme which has been shortlisted for a number of awards. The Board considered and revised its risk appetite for new development and reluctantly reduced its ambition from 500 new homes by 2025, to 400 due to the economic climate.
- A survey of tenants revealed that 68% are satisfied overall with SLH as their landlord, with satisfaction of repairs at 73% and safety of their home at 76%. The Board has agreed with the Tenants Committee, a Customer Experience Strategy & Action Plan to improve this position.
- The Regulator of Social Housing regraded our financial viability assessment to a compliant V2 rating following the annual stability check in November 2022. The judgement reflects SLH's ambitious plans to invest heavily in existing homes and delivering new affordable homes, against the backdrop of increased risks associated with an uncertain economic climate. The Board has ensured these risks are effectively managed through stronger resilience planning so that we have sufficient financial capacity and a ready-made plan to respond to further adverse events. The Regulator has since confirmed their assessment of SLH achieving the highest governance rating of G1 and retained V2 rating following an In-Depth Assessment (IDA) published in July 2023.

The SLH Board remains focussed and passionate about the work that SLH does. Board skills, training and composition were reviewed in February 2023 as part of Governance Improvement and the Board also confirmed compliance with the National Housing Federation's (NHF) 2020 Code of Governance. In July 2023, we successfully recruited to the position of Chair of the Audit & Risk Committee and have further strengthened our governance with the appointment of a co-opted member to the Board, an independent member to the Audit & Risk Committee and a co-opted member to the Development Committee. This will bring additional specialist skills and expertise, whilst supporting succession planning. The Board reluctantly accepted the resignation of two tenant Board members at different times during the year. The Board have commissioned a review of resident engagement to ensure a strong customer voice within the organisation, across a range of levels and methods. The plans will be progressed with the Tenants' Committee and other involved residents over the coming months.

Our current Senior Independent Director and Chair of Audit & Risk will stand down at this year's AGM, following the end of his six-year term. The Board thanks Keith for an incredible contribution that he has made to the governance of SLH and in particular the drive to improve building safety assurance. To ensure that the Board was not recruiting to two key positions at the same time, at a particularly challenging period, the Board agreed to extend my tenure, subject to review after 12 months in line with the NHF 2020 Code of Governance.

Thank you to all of my fellow Board and Committee Members, the staff, and other partners for delivering another excellent set of business results and positive outcomes for customers. The Board have set stretching targets for the year ahead as we continue to press ahead with *Growing*, *Greening* and *Transforming* objectives.

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Ian Munro
Chair of the SLH Board, 10 August 2023

Strategic Report for the year ended 31 March 2023

The Board presents its report and audited financial statements for the year ended 31 March 2023.

Principal activity

SLH's principal activity is the provision, management, maintenance and improvement of affordable social housing.

Public Benefit Entity

As a public benefit entity, SLH has applied the public benefit entity "PBE" prefixed paragraphs of FRS102.

Business Strategy

SLH's purpose **'*Quality Homes, a platform for life*'** has been central to our planning for the future. SLH is ambitious about the positive and lasting impact it will have over the remainder of our five-year plan and beyond on improving customer experience, homes, neighbourhoods, energy efficiency, affordability and a new supply of quality homes. The Board reviewed the Business Strategy during the year and reaffirmed its commitment to the following key themes and key milestones to 2025:

Strategic Report for the year ended 31 March 2023

Financial Overview

The detailed results for the year are shown in the Financial Statements attached. The key points of note as reported within the Group Financial Statements are as follows:

- Turnover has increased in the year by £2,125k to £22,064k; principally due to:
  - 33 first tranche shared ownership property sales in the year realising turnover of £3,418k (2022: 26 first tranche sales and turnover of £2,501k),
  - Rent and service charge income increased by £942k reflecting new homes developed, a further reduction in void losses and the increase in rents implemented April 2022.

- Operating costs have increased by £871k in the year to £17,312k (2022: £16,441k). The principal variances being:
  - £207k increase in the cost of the first tranche shared ownership equity sold.
  - £405k increase, to £481k, in revenue costs of development activities, principally being £341k pre-construction costs in respect of the redevelopment of a former sheltered housing scheme (2022: £76k),
  - Management costs reduced by £321k, to £4,590k (2022: £4,911k). The 2022 management costs included exceptional costs arising from the Transformation LEAP Beyond programme of £580k,
  - Service costs increased in the year by £177k to £966k, principally due to the significant increases in non-domestic energy, both gas and electric, supplied to customers (2022: 789k),
  - Routine and planned maintenance increased by £297k, to £2,718k, reflecting increased costs of materials and labour for construction services as experienced across the UK economy in the year,
  - Revenue major repairs expenditure reduced by £563k to £2,085k (2022: £2,648k),
  - The provision for bad and doubtful debts, in respect of rent arrears, prudently increased by £554k with a provision as at 31 March 2023 of £715k (2022 provision: £402k) and a cost in the 2023 year of £367k. Rent collection in the year ended 31 March 2023 was 98.3% (2022: 100.3%).

- 79 new homes were acquired or developed during the year, including 13 social rent, 33 affordable rent and 33 shared ownership homes (2022: 77 new properties).

- The surplus on disposal of fixed assets of £421k relates to the disposal of 17 properties under preserved Right to Buy (RTB) and 3 properties disposed of following undertaking a strategic asset management review (2022: 9 RTB sales and £182k surplus). The £421k surplus represents the surplus retained by SLH after amounts due to Westmorland and Furness Council under the conditions of the 2012 Transfer Agreement.

- The Association invested £9,055k in the development and acquisition of social housing during the year (2022: £8,728k) and reinvested £5,581k in its existing properties through capital and revenue major repairs (2022: £5,383k).

- The Association commenced its programme of energy efficiency improvements during the 2023, in furtherance of achieving its business strategy objective of all SLH homes achieving Energy Performance Certificate Band ‘C’ or above by 31 March 2025, investing £626k in insulation improvements.

- Loan facilities drawn have increased to £55.0m as at 31 March 2023, being an increase of £18.5m from the previous year (2022: £36.5m).
  - The Association had £30.0m of arranged, secured and available to draw loan facilities as at 31 March 2023 (2022: £48.5m).
  - The Association’s net debt (gross loans drawn less cash at bank) as at 31 March 2023 was £42.0m (2022: £33.5m).
  - As at 31 March 2023 100% of loans drawn were at fixed rates of interest (2022: 82%).

- The Association complied with all financial loan covenants for the year ended 31 March 2023 (2022: complied with all financial covenants).

Strategic Report for the year ended 31 March 2023

Financial Overview (continued)

- The Association's total defined benefit pension liabilities have reduced by £1,140k to £258k as at 31 March 2023 (2022: £1,398k).
    - The Local Government Pension Scheme (LGPS) deficit reduced by £1,195k and is reported as a net nil liability / asset as at 31 March 2023 (2022: £1,195k liability). Independent pension actuaries prepared the valuation of the Association's membership of the Cumbria LGPS as at 31 March 2023 and reported a surplus of £4.8m, however, in accordance with Financial Reporting Standard 102 (FRS102) the surplus has not been recognised due to inherent uncertainties on the recoverability of this pension asset.
    - The SHPS pension scheme deficit has increased by £55k and the deficit now stands at £258k (2022: 203k).
    - The Association closed entry to its defined benefit pension schemes for new employees with effect from April 2022.
- Reserves have increased by £4.5m (2022: £5.1m increase), from £52.4m to £56.9m.

Environment, Social & Governance reporting (ESG)

In its Business Strategy 2020-25, the Board made a commitment to demonstrate performance via ESG reporting. SLH produced its first ESG report in August 2022 and summarised some of the key achievements within last year's accounts. There was no funding requirement to do so but the Board had pushed for this development as part of the last treasury exercise and desire to inform stakeholders on progress and delivery before this becomes a mandatory requirement. SLH has invested in E, S and G data analysis so this was a natural development, particularly in articulating our business objectives around *Growing, Greening & Transforming*.

During 22/23 we have completed an external Sustainable Homes for Tomorrow Index (SHIFT) environmental assessment and reviewed ESG software solutions. 2021/22 data has been entered into HouseMark's ESG module and in March 2023 SLH became an adopter of the Social Housing Sustainability Reporting Standard. This will provide the basis for ongoing reporting including our first report against the formal standard scheduled for August 2023. This will be available to read on the SLH website, alongside the published accounts and will be available from the end of September 2023.

Strategic Report for the year ended 31 March 2023

Value for Money (VfM)

This part of the Annual Report demonstrates to stakeholders how SLH is meeting the requirements of the Regulator's VfM Standard. SLH's strategic approach to VfM is embedded within the Association's Business Strategy 'Our Direction 2025' as highlighted in the graphic on page 5, and further articulated in our VfM Strategy and associated VfM action plan that is embedded across operational areas of SLH. The Board also monitors an Efficiency KPI as part of its Quarterly Business Performance Report, that measures Efficiencies (cashable savings) and additional income generated in comparison to 2021/22 budget as a baseline. The efficiency savings achieved include review and rationalisation of SLH's office estate, review of the calculation of the VAT Sharing agreement and savings arising from insourcing further Treasury activities. Future targets reflect £100k efficiency savings per annum and additional income of £200k per annum by 2024/25.

In accordance with the Rent Standard the SLH Rent and Service Charges Policy recognises that a substantial proportion of SLH's current social rents are less than formula rents and therefore identifies the opportunity for income maximisation in respect of social rent tenancies on future relets arising from tenancy turnover. The SLH policy is to apply the Rent Standard flexibilities on relets increasing SLH capacity to invest in the Business Strategy aims. To date 240 properties have been relet at formula rent +5%.

The table overleaf reports SLH's performance against the Regulator's VfM metrics, including a comparison against national medians for 2021/22 (taken from the Regulator of Social Housing Global Accounts of Registered Providers with greater than 1,000 homes published March 2023) and a HouseMark peer group (2,500 to 7,500 homes for 2021/22).

* The HouseMark peer group is all English Housing Associations, with 2,500 to 7,500 homes in management, and therefore is a national comparison peer group including traditional and Large-Scale Voluntary Transfer (LSVT) organisations and encompasses around 70 organisations, taken on 7th June 2023.

** Rural peer group based upon HouseMark peer group DEFRA codes (significant rural and 80% rural). 20 organisations, taken on 7th June 2023.

*** Colour shading indicates SLH 2022/23 performance as favourable / equal (green) or adverse (red) in comparison to the National Median taken from the Regulator's Global Accounts of Registered Providers with greater than 1,000 units.

All the VfM performance metrics comparators are for the financial year ended 31 March 2022 in comparison to SLH performance for the year ended 31 March 2023.

Strategic Report for the year ended 31 March 2023

Regulator's Value for Money Metrics

VfM Metric	RSH National Median	HouseMark Peer Median 2021/22	HouseMark Rural Peer Median	SLH Target	SLH Actual	SLH 2022/23 Actual v to RSH National Quartile	SLH Approved Long Term Financial Plan Forecasts		
	2021/22	2021/22*	2021/22**	2022/23	2022/23***		2023/24	2024/25	2025/26
1: Reinvestment	6.5%	6.9%	7.6%	17.3%	10.2%	Upper	14.7%	14.2%	4.1%
2a: New Supply Social Housing	1.4%	1.4%	2.0%	3.8%	2.4%	Upper	1.9%	2.3%	1.3%
2b: New Supply Non-Social Housing	0.0%	0.0%%	N/A	0.0%	0.0%	Upper Median	0.0%	0.0%	0.0%
3: Gearing	44.1%	46.2%	49.4%	36.4%	34.1%	Lower Median	38.4%	41.3%	40.7%
4: EBITDA-MRI Interest Cover	146%	147.1%	147.2%	111.2%	140.0%	Lower Median	(35.3%)	(139.7%)	156.0%
5: Headline Social Cost Per Unit (CPU)	£4.2k	£4.2k	£4.0k	£4.7k	£4.6k	Upper Median	£6.1k	£7.1k	£5.2k
6a: Operating Margin Social Housing Lettings	23.3%	23.4%	23.4%	20.8%	19.1%	Lower Median	22.5%	21.6%	16.2%
6b: Operating Margin Overall	20.5%	22.4%	24.3%	20.8%	22.2%	Upper Median	22.7%	25.1%	19.2%
7: Return on Capital Employed (ROCE)	3.2%	3.4%	3.4%	2.8%	3.2%	Median	3.5%	3.6%	2.8%

Strategic Report for the year ended 31 March 2023

- **Reinvestment** metric for 2022/23 was 10.2%, being significantly greater than national median average (6.5%), the HouseMark peer median (6.9%) and the HouseMark Rural peer median (7.6%) and represents Upper Quartile performance in comparison to the RSH sector analysis for the financial year most recently available, 2021/22. This VfM metric performance is an outcome of the SLH Business Strategy 'Our Direction 2025' in particular the commitment to deliver at least 400 new homes and starts by 2025 in parallel with continuing to reinvest in our existing homes to maintain the SLH standard that is higher than the Government's Decent Homes Standard.

  SLH had budgeted to achieve Reinvestment of 17.3% for 2023/24. The achievement of Upper Quartile actual performance of 10.2% reflected the significant change in economic conditions during the year and continuing challenges of achieving land acquisitions and planning approval timely that led to some developments being delayed to future years of the programme. The changing economic conditions also impacted the development programme through:
  - contractors and housebuilder partners experiencing labour and materials shortages resulting in delays to completions,
  - housebuilders seeking revised tender prices for affordable housing opportunities being delivered through planning gains, that in a minority of cases SLH withdrew from the potential scheme as the revised tender price did not meet SLH financial hurdle rates,
  - SLH Board responding to the rapidly changing economic conditions by reviewing and not progressing some opportunities in line with a revised risk appetite to reflect market and economic conditions.

During 2022/23 the Association invested £9.1m in new property development and acquisitions, and invested £3.5m in capital major repairs in its existing homes. This investment in new homes during 2022/23 resulted in 79 new homes being completed; with a further £4.7m invested in respect of new homes that were in construction as at 31 March 2023 and in housing stock for sale in respect of current and future first tranche shared ownership developments.

The Association is committed to maintaining its SLH Homes Standard that is a higher standard than the national Decent Homes Standard (DHS), and in the year invested £3.5m in its existing homes through capital component replacement programmes. The 2022/23 capital major repairs included £0.6m invested in existing homes to improve energy efficiency in furtherance of the SLH Greening strategic theme of all homes achieving Energy Performance Certificate (EPC) band 'C' by March 2025 (except 1 hard to treat rural property).

The forecast reinvestment metric of 14.7% and 14.2% for the 2023/24 and 2024/25 years of the current business strategy reflects that reinvestment in existing homes will further increase significantly as SLH delivers on its commitment to achieve EPC band 'C' by 2025 by investing £9.7m in energy efficiency improvements in addition to £7.6m of traditional Major Repairs during 2023/24 and 2024/25. During 2022/23 SLH bid for Social Housing Decarbonisation Fund (SHDF) grant and received confirmation of a £3.5m grant allocation, in March 2023 receivable across 2023/24 and 2024/25. This investment in our existing homes will reduce the carbon emissions from SLH Homes as a key element of our Greening strategic theme and support customers ameliorate their energy costs during the cost of living crisis. This Business Strategy commitment to achieve EPC 'C' or above by 2025 is five years earlier than that required by the UK Government's Clean Growth Strategy.

- **New Supply Social Housing –** SLH's target for new homes supply in 2022/23 was to deliver 126 new social homes, and this target was not achieved due to a combination of circumstances as explained in the Reinvestment metric analysis above. SLH investment in new social housing supply reflects implementation of the Business Strategy 'Our Direction 2025' in particular the commitment to deliver at least 400 new homes and starts by 2025. SLH's Business Strategy 'Our Direction 2025' target of at least 400 was adopted following a mid-term review of SLH's Business Strategy at the November 2022 Board meeting.

Strategic Report for the year ended 31 March 2023

SLH completed 79 new homes in the year (2021/22: 77), resulting in the New Supply Social Housing VfM metric achieving Upper Quartile performance of 2.4%; being significantly greater than the national median average (1.4%), the HouseMark peer median (1.4%) and the HouseMark Rural peer median (2.0%). The delivery of 79 new homes during the year represents the highest delivery of new homes in a single year since SLH was established in 2012.

The Association has the capacity (see Gearing below) with arranged and secured funding facilities in place to deliver the Business Strategy Growing strategic theme through investing in the development of new homes. As at 31 March 2023 SLH had a pipeline programme of 207 further new homes (committed & uncommitted) to be delivered through a combination of developing units in partnership with Homes England grant funding and through acquisitions of affordable housing from private property developers. These new homes will be delivered across SLH's geographic operational area to meet housing needs at differing price points and providing tenure choice for customers.

This pipeline programme results in the SLH metric remaining above the RSH median and HouseMark benchmark peers to the end of the 2025 Business Strategy term at 1.9% and 2.3% in the 2023/24 and 2024/25 years respectively.

- **New Supply Non- Social Housing –** SLH's Business Strategy commits SLH to the delivery of new social housing homes to contribute to meeting the needs of neighbourhoods within SLH area of operations, and accordingly SLH has not committed to development of new non-social homes.

- **Gearing -** The Association's balance sheet is strong with significant potential for SLH to grow, as calculated by the Gearing metric of 34.1% that is lower than the RSH national median, HouseMark and HouseMark Rural median benchmarks (demonstrating that SLH has greater financial capacity than the medians). The Gearing performance confirms SLH's capacity to deliver the reinvestment in its existing homes and the delivery of planned new homes. This latent capacity is also reflected in the Association having £30.0m undrawn, secured and available to draw loan facilities as at 31 March 2023. These loan facilities have been arranged and secured to resource the delivery of the Business Strategy to 2025, with the forecast next financing requirement being in 2032.

  Gearing is forecast to increase to 41.3% by March 2025 because of the investment in new homes in accordance with our Growing strategic theme to deliver at least 400 new homes or starts by 2025 and to invest in existing homes to achieve a minimum of EPC band 'C' to deliver our Greening strategic theme.

- **EBITDA-MRI** (Earnings before Interest, Tax, Depreciation and Amortisation, Major Repairs Included) of 140.0% is Lower Median Quartile performance, and lower than the RSH national median of 146%, HouseMark median of 147.1% and HouseMark Rural median performance 147.2%. Although, SLH's performance of 140.0% is below the comparison benchmark medians, it should be recognised that:
  - the benchmarks are for the 2021/22 year and the UK has experienced very high inflation and a cost of living crisis in 2022/23, and
  - the RSH is reporting interest cover has seen a significant reduction during 2022/23 due to substantial pressures with inflation, higher interest rates and higher repairs and maintenance spend affecting operating costs and thus EBITDA-MRI across the sector.

  SLH's performance in 2022/23 is greater than the 111.2% that the Association budgeted, principally due to strong operational performance in the year in respect of improved void loss performance, continuing strong rent collection and the achievement of first tranche shared ownership surpluses of £1.1m.

Strategic Report for the year ended 31 March 2023

The EBITDA-MRI forecast metric is planned to significantly reduce over the forecast two years to March 2025 to minus 35.3% and minus 139.7% as the Association undertakes:

- the increased reinvestment in its existing homes, delivering the energy efficiency works to achieve EPC band ‘C’ of £9.7m,
- the traditional major repair capital programmes of £7.6m across financial years 2023/24 and 2024/25.
- invests £25.5m in the delivery of new homes, that drives higher interest costs within this metric.

Whilst arranging additional loan facilities in 2021/22, SLH reset its Interest Cover covenants with its funders to increase financial capacity to invest in its Greening strategic theme, through the adoption of EBITDA covenants and a carve out of decarbonisation expenditure from its EBITDA-MRI covenant until March 2026.

The forecast reduction in EBITDA-MRI to below median levels during 2023/24 and 2024/25 is therefore within the financial covenants of the Association, is planned, and is a direct consequence of the implementation of the business strategy.

- **Headline Social Housing Cost per property** – SLH cost per home of £4.6k for 2022/23 represents Upper Median quartile cost per property compared to the RSH 2021/22 comparators, and a higher cost than the RSH median, than the HouseMark peer median of £4.2k and the HouseMark Rural peer median of £4.0k per property. The Association’s 2022/23 cost per unit includes £0.6m of energy efficiency investment in existing homes in furtherance of the Greening Strategic theme, where SLH has committed to achieving EPC band ‘C’ by March 2025 (equating to £0.2k cost per home in 2022/23).

  SLH’s 2022/23 performance of £4.6k is marginally less than the budgeted performance of £4.7k and reflects deferral of £0.7m of the 2022/23 energy efficiency budgeted investment to the 2023/24 and 2024/25 years, and inclusion in the forecast metric for these years.

  The cost per property metric is forecast to rise to £6.1k and £7.1k per home for 2023/24 and 2024/25 respectively, as SLH invests in existing homes to deliver the Greening strategic aim by 2025, and also in line with the SHDF grant allocation to complete EPC band ‘C’ works by March 2025. The cost of energy efficiency investment planned for 2023/24 and 2024/25, in addition to continuing maintaining Decent Homes Standard planned major repairs, is £3.7m and £6.0m, thus adding £1.1k and £1.8k cost per home respectively.

- **Operating margin - Social Housing Lettings**, of 19.1% is lower than the RSH median of 23.3% representing Lower Median quartile performance, and lower than the HouseMark and HouseMark Rural medians of 23.4%. Similar to EBITDA:MRI analysis above, it is recognised that the benchmark comparisons are for 2021/22 and before the rapid change in economic conditions of substantial pressures with inflation, higher interest rates and higher repairs and maintenance spend affecting operating costs and margins across the sector.

  The Business Strategy also confirms SLH’s commitment to ensuring rents remain affordable, defined as maintaining rents below 35% of average incomes. The significant majority of SLH’s homes are social rent tenancies let at formula rents (92% of SLH homes being social rent tenancies as at March 2023), with rents being set in accordance with the rent standard that does not permit ‘restructuring’ of existing tenant’s rent levels. As at March 2023 c45% of SLH’s social rents were lower than the Formula Rent prescribed by the RSH’s Rent Standard. This lower rental income is compounded by the SLH’s history of being a transfer organisation with service charges not being recovered from the significant majority of its general needs homes (service charges are charged on relets).

Strategic Report for the year ended 31 March 2023

The combination of lower rental income and service charge recovery reduces social housing turnover, thus adversely impacting operating surpluses and the Operating Margin percentage.

SLH's Operating Margin KPI is forecast to rise in 2023/24 and 2024/25 to 22.5% and 21.6% respectively as a result of the delivery of the Growing strategy increasing the number of homes in SLH's management whilst improving VfM by not increasing expenditure on fixed costs. Although forecast to improve during 2023/24 and 2024/25 the SLH Operating Margin social housing lettings remains below the 2021/22 medians due to the cost pressures incurred in the 2022/23 year, the c45% of social rents forecast to remain below formula rent levels and the impact of service charge recovery limitations.

- **Operating margin - Overall**, of 22.2% is higher than the RSH median of 20.5% representing Upper Median quartile performance, although lower than the HouseMark median of 22.4% and HouseMark Rural median of 24.3%.

  The principal difference for SLH between the two operating margin metrics is the inclusion of the surplus on shared ownership first tranche sales that is included in the Overall Margin metric and excluded from the Social Housing Lettings Margin metric. In the year ended 31 March 2023 SLH achieved a surplus on first tranche shared ownership sales of £1.1m.

- **The Return on Capital Employed (RoCE) ratio,** that compares SLH's Operating Surplus to its Total Assets less Current Liabilities, of 3.2% is the same as the RSH 2021/22 median, though marginally below the HouseMark and HouseMark Rural peer medians of 3.4%.

  SLH is a stock transfer association with an ongoing VAT Shelter arrangement: Financial Reporting Standard 102 (FRS102) requires the Association to report the outstanding stock transfer works as both a debtor and long-term creditor in the Statement of Financial Position. As at 31 March 2023 the stock transfer long-term creditor obligation was £26.8m that impacts the calculation of the RoCE ratio. The RSH's definition includes the debtor full amount but not the long-term creditor and this reduces the RoCE ratio. Should the VAT Shelter arrangement be excluded from the calculation the RoCE for the year 2022/23 the resulting KPI would have been 3.8% and Upper Median quartile and greater than the RSH, HouseMark and HouseMark Rural benchmarks.

Strategic Report for the year ended 31 March 2023

Headline Social Housing Cost per Property

The Regulator of Social Housing's publication 'Value for Money Metrics, Technical Note Guidance: May 2022' confirms the component elements of the Headline Social Housing cost per unit. SLH has analysed its costs and benchmarked performance in the table below utilising HouseMark national comparison data:

Headline Social Housing Cost Per Unit	**SLH 2022/23 Actual**	**HouseMark Peer Benchmark Group ***			**SLH Quartile Performance**
		Quartile 3	Median	Quartile 1	
Management Costs	1,346	1,357	1,127	945	**Lower Median**
Service costs	283	650	421	243	**Upper Median**
Maintenance costs	1,120	1,456	1,233	1,032	**Upper Median**
Major Repairs	1,637	1,210	954	671	**Lower quartile**
Development Services	141	81	-	-	**Lower quartile**
Other social housing activities	87	429	175	72	**Upper Median**
Headline Social Housing Cost Per Unit	**4,614**	**4,919**	**4,208**	**3,696**	**Lower Median**

* The HouseMark peer group is all English Housing Associations, with 2,500 to 7,500 homes in management, and therefore is a national comparison peer group including traditional and Large-Scale Voluntary Transfer (LSVT) organisations. Over 70 organisations. Data taken 7th June 2023.

The Association's Growing and Transformation strategic themes within our Business Strategy 'Our Direction 2025' are aimed at driving Management Costs per unit lower through increasing the number of homes in management over the Business Strategy term and transforming service delivery to improve VfM and deliver a great customer experience.

Analysis of the Association's performance against the Headline Social Housing Cost per property indicators is below.

The Association's 2022/23 Headline Social Housing Cost per property of £4,614 reflects lower median quartile against the HouseMark peer benchmark group (and as above Upper Median quartile against the RSH 2021/22 National Median) cost per property.

The table above shows the Headline Social Housing Cost per Property against the HouseMark quartile benchmarks and shows that in respect of Management Costs, Major Repairs costs and Development Services costs that the SLH actual 2022/23 cost per property was greater than the HouseMark medians reported for 2021/22. The impact of Management Cost, Major Repairs investment and Development Services expenditure being higher than the median benchmarks is that the SLH headline cost per unit of £4,614 is higher than the median cost benchmark of £4,208 per property.

Strategic Report for the year ended 31 March 2023

Major Repairs reinvestment in existing homes is planned and delivered to ensure SLH homes exceed the Decent Homes Standard and maintain the higher SLH Homes Standard with total reinvestment in existing homes of £5.6m during 2022/23 (2021/22 £5.4m). Across the Business Strategy timeline, the Headline Social Housing Cost per Unit KPI increases from £4,614 to £7,144, being an increase of £2,530 per home. This increase is driven by the increased reinvestment in SLH existing stock where major repairs per unit (capital & revenue combined) is increasing from £1,637 per unit in 2022/23 to £3,709 per unit in 2024/25, being an increase of £2,072 per unit.

In addition to a comparison of the year ended 31 March 2023 performance, SLH has analysed its Board approved Long-Term Financial Plan for the period to the end of the Business Strategy to forecast the short and medium trend in respect of costs per property.

Headline Social Housing Cost Per Unit	**2022/23 Actual £**	**2023/24 Budget £**	**2024/25 Financial Plan £**	**2025/26 Financial Plan £**
Management Costs	1,346	1,401	1,459	1,473
Service costs	283	443	462	462
Routine & Planned Maintenance costs	1,120	1,139	1,207	1,233
Major Repair: Revenue & Capitalised costs	1,637	2,819	3,709	1,681
Development Services	141	50	21	21
Other social housing activities	87	273	286	287
Headline Social Housing Cost Per Unit	**4,614**	**6,125**	**7,144**	**5,157**

- **Management Costs per property**
  VfM is at the heart of SLH's Business Strategy - 'Our Direction 2025' by embedding the 3E's of Economy, Efficiency and Effectiveness in all activities and decision making of the Association. The Growing Strategic theme aims to deliver, or start on site, at least 400 new homes by 2025 whilst in parallel SLH's Strategic theme of Transforming is redesigning SLH's customer service delivery to ensure SLH delivers customer experience excellence. These strategic aims of Growing and Transforming target improved 'Efficiency', 'Effectiveness' and 'Economy'; combining to deliver customer experience excellence whilst reducing management costs per property from the 2021/22 levels of £1,469:
  - Growing - as the Association grows the number of homes in management, whilst containing fixed costs, this improves Economy by driving down the cost of management per property consistently by 2025.
  - Transforming – The investment in implementing our Data and IT Strategies in particular seek to improve data quality, accessibility, and reporting to improve the Efficiency of the services to our customers and combined with the People Strategy improve Effectiveness by delivering customer excellence.

Strategic Report for the year ended 31 March 2023

SLH's management cost per property, for the year ended 31 March 2023, performance of £1,346 represents Lower Median quartile in comparison to the HouseMark 2021/22 peer benchmarking and is a reduction of £123 per property on the 2021/22 performance (2021/22: £1,469 per property). The reduction from the prior year reflects:

- the completion of the LEAP Beyond Transformation programme in quarter 1 of the 2022/23 with minimal expenditure incurred in the year, in comparison to £174 per property investment in LEAP Beyond included in the 2021/22 year metric.
- Accounting for the pension actuarial valuation that resulted in a reduction to management costs during 2023/24 of £207k, being £61k per property.

The forecast management cost per property, as shown in the table above for 2023/24 of £1,401 and for 2024/25 of £1,459 represent increases of 4.1% per annum for both years and significantly lower than the Consumer Prices Index inflation (CPI September 2022 10.1%, actual May 2023 8.7% and forecast September 2023 per SLH Long Term Financial Plan of 6.6%). The forecasts cost per property therefore reflects the VfM strategy of SLH to control fixed costs whilst increasing the number of properties in management to reduce the Management Cost per Property metric over the life of the Business Strategy to 2025.

SLH's ability to control fixed costs is challenging in the current economic environment due to the marked increases in inflation during 2022 and 2023 that is impacting on costs to SLH; for example, property insurance costs are increasing significantly due to less insurers active in the social housing market and the location of a significant number of SLH properties being regarded as at risk of flooding. In respect of 2023/24, SLH property insurance premiums have increased by 40.2% that represents an increase per property of £71 that has been budgeted in the forecast 2023/24 management cost per property of £1,401. The forecast increase to £1,401 per property represents an increase of £55 per property and less than the increase in insurance per property expected of £71 per property underlining SLH's strategy that cost per property is reducing significantly across the business strategy horizon, particularly when recognising current high inflation.

- **Service Costs per property**

  Service cost per unit performance in 2021/22 at £283 per unit is significantly lower than the HouseMark benchmark median of £401 per unit and represents Upper Median quartile per HouseMark benchmark comparisons.

  A project on service income recoverability has been identified in the Business Strategy to improve the clarity of service costs expenditure and separate service income from net rent on future relets of social rent homes. This project will deliver long term improvements in the recovery of service cost expenditure and through engaging with customers regarding the quality of services and subsequent alignment of services to customer feedback will drive improvements in VfM of service costs.

  The forecast is for service costs to increase to £443 per unit in 2023/24, principally as the service costs expenditure includes gas and electric supplies that are not within the scope of the OFGEM domestic energy price cap nor the Government's Energy Price Guarantee. This budgeted increase in service costs is after previous increases in energy costs already included during the 2022/23 year. The 40.2% rise in insurance costs from 2023/24 is also impacting the forecast service costs as insurance in respect of leasehold properties, including shared ownership, is categorised as a service cost and is impacting the forecast service cost per property from 2023/24.

  Due to the rapid increase in energy costs within service costs it is recognised comparing SLH 2022/23 and subsequent years costs per unit to 2021/22 benchmark performance is of limited value, and it is likely that the SLH cost for 2022/23 of £283 per unit will be even closer to upper quartile once comparable 2022/23 data is available.

Strategic Report for the year ended 31 March 2023

- **Routine & Planned Maintenance costs per property**
  Routine and Planned maintenance costs per unit combined of £1,120 per property compare favourably to median performance of £1,233 per unit, with SLH performance therefore being Upper Median quartile in comparison to HouseMark peer benchmark performance.

  The projected performance across the business strategy is to continue to drive efficiency, with further VfM gains to be delivered, particularly in procurement and operational delivery enabling the cost per property forecast to be £1,139 in 2023/24 and £1,207 by 2024/25, principally through the growth in units in management providing VfM of fixed maintenance costs.

- **Major Repairs costs per property**
  Major Repair costs per property of £1,637 in 2023/24 represents Lower Quartile Performance in comparison to HouseMark benchmarks, reflecting the Association invested £5.6m in capital and revenue Major Repairs during the year. This reinvestment in 2022/23 included £0.6m invested in existing homes to improve energy efficiency in furtherance of the SLH Greening strategic theme representing an average of £184 per property.

  The forecast projects that the Major Repairs reinvestment in our properties will increase to £2,819 and £3,709 per home in 2023/24 and 2024/25 respectively, reflecting energy efficiency reinvestment planned, in addition to maintaining the SLH Homes Standard planned major repairs, of £3.7m in 2023/24 and £6.0m in 2024/25. This energy efficiency reinvestment adds £1.1k and £1.8k cost per home in 2023/24 and 2024/25 respectively. SLH's forecast Major Repairs cost per property is therefore likely to continue to be lower quartile for the reminder of the Business Strategy term as SLH increases the reinvestment in its existing homes in accordance with its Greening strategic theme. Greening our properties principally requires installation of additional energy insulation, the addition of solar photovoltaic panels and the installation of solar electric home batteries. As stated earlier in the Strategic Review, SLH has bid for and received confirmation of £3.5m of Social Housing Decarbonisation Funding across 2023/24 and 2024/25 to support the achievement of the Business Strategy commitment to achieve EPC band 'C' by March 2025 (except 1 hard to treat rural property). The expected SHDF grant is not included with the calculation of this metric, and therefore the forecast Major Repairs investment per property is the gross amount SLH expects to reinvest in existing homes.

  SLH Business Strategy to achieve EPC band 'C' by 2025 is five years earlier than the Government's requirements and therefore the Greening strategic theme is driving the timing of SLH's investment compared to many peers working to the Government's 2030 deadline, and therefore caution in comparing the Major Repairs cost per unit with peers is required.

  As discussed above the level of reinvestment in existing properties is causing an anomaly in respect of SLH's forecast EBITDA-MRI metric that is planned to significantly reduce over the forecast two years to March 2025 as SLH undertakes:
  - the increased reinvestment in its existing homes, delivering the energy efficiency works to achieve EPC band 'C' of £9.7m,
  - the traditional major repair capital programmes of £7.6m across financial years 2023/24 and 2024/25.

Strategic Report for the year ended 31 March 2023

In comparing the Association's Major Repair Cost per property with other Registered Providers it is critical to recognise that:

- 35% of the Association's homes are either in a National Park or Conservation area that drives increased costs of both building materials and installation costs.
- 61% of the Association's properties have a natural slate roof where costs of replacement are significantly more expensive than sector norm modern roofing materials (costs are c45% higher averaging £10k per property).
- 60% of the Association's homes are rendered (replacement render costs an average of £14k per property).
- 2,650 (over 80%) of the Association's properties are pre 1980 and the long-life cycle components of roofing and render are falling due for replacement in the SLH Major Repairs plans that is driving the Major Repairs cost per unit, in addition to the cost of reinvesting to achieve EPC band C, as SLH reinvests to maintain the quality of customers' homes.

- **Development Services costs per property**

  Development Service costs, representing the costs of the SLH Development programme not capitalised as the cost of new homes, per property in 2022/23 was £141 that reflects Lower Quartile performance.

  The costs incurred in 2023/24 and to a lesser extent forecast in 2023/24 are anomaly being driven by the closure and planned redevelopment of a former sheltered housing scheme in Grange-over-Sands. During 2022/23 SLH incurred £212k in costs of developing detailed proposals for the provision of new homes on the site including architects, engineers and project management fees in furtherance of a detailed planning application that was submitted in June 2023 to the local authority. As there is inherent uncertainty as to the timing of when the scheme will receive planning approval these costs have been prudently expensed in the 2022/23 year and are directly impacting this cost per property metric. In addition, costs of maintaining and keeping the former sheltered scheme secure and council tax in respect of these empty former dwellings of £129k have been incurred. Combined the expensed potentially abortive costs and site costs represent £100 of the £141 cost per property metric. Therefore, excluding the exceptional costs of the redevelopment of this former sheltered housing scheme then SLH performance would have been £41 per property.

  The forecast projects that the cost per property will reduce to £50 per property in 2023/24 and £21 per property reflecting the expectation that during 2023/24 planning permission will be granted for redevelopment and the existing dwellings will be demolished, with the costs of the new homes to be developed capitalised.

- **Other social housing activities costs per property**

  Other social housing activities costs per property for 2022/23 of £87 per property reflecting Upper Median performance when compared to HouseMark benchmarks.

  The forecast cost per property increases to £273 per property in 2023/24 and £286 per property in 2024/25 in part reflecting a contract that commenced in April 2023 for the provision of responsive and void property repairs on social housing properties located in SLH's geographic operating area owned by a separate and independent Registered Provider. The costs of providing this service will be recovered in full, with associated overheads, although the related income will not be included within this metric per the RSH's definitions of the calculation. If the forecast costs were excluded, then the forecast per property would be £203 per property and £216 per property in 2023/24 and 2024/25 respectively.

Strategic Report for the year ended 31 March 2023

Local VfM Metrics

The Board also monitors performance against a range of value for money targets which are linked to the delivery of the Business Strategy 2020-25 themes of Growing, Greening & Transforming (and in line with the requirements of the VfM Standard). The Board reviewed its targets at a Board meeting in May 2023, linked to a previous discussion and mid-term review of the Business Strategy in November 2022. The table below summarises performance and the plans to address underperformance, clarity around targets or variances to last year's statements is included within the accompanying notes.

Metric	Outturn 2020/21	Outturn 2021/22	HouseMark Peer Median 2021/22 *1	HouseMark Rural Peer Median 2021/22*1	Outturn 2022/23	*Targets*		
						22/23	23/24	24/25
Business Strategy Theme: Growing								
% of homes that do not meet the 'Decent Homes Standard'	0%	0%	0%	0%	0%	0%	0%	0%
% rent collection (inc arrears paid from previous years)	100.33%	100.29%	100%	99.75%	98.3%*2	100%	98.5%	100%
% rent arrears	2.45%	2.10%	4.32%	2.29%	3.15%*2	2.1%	3.2%	3.0%
% customer satisfaction overall	No survey	86%	81% 2022-23 data	82% 2022-23 data	68.3%*3	88%	75%	80%
New homes added (inc shared ownership)	37	77	80	104	79*4	126	76	82
Business Strategy Theme: Greening								
Energy efficiency ratings - % of stock at band C or above	39.6%	48%	75%	73%	50%*5	65%	70%	100%
Eco homes built	5	0	N/A	N/A	37*6	48	10	24
Business Strategy Theme: Transforming								
Average relet time (days)	N/A	73	55	48.1	27.2	55	35	30
% of customers registered with My Account	30%	31%	N/A	N/A	35*7	68%	72%	75%
Average sickness per employee	10.2	11.96	10.7	N/A	6.51	8.0	6.0	6.0
Efficiencies made	£24k	£51k	N/A	N/A	£175*8	£100k	£242k	£306k

Strategic Report for the year ended 31 March 2023

1. **Benchmarking** - as per HouseMark peer group stock 2,500 – 7,500 with between 30 and 90 in the sample size (traditional housing associations and LSVT), taken 7th June 2023. Rural peer group based upon HouseMark peer group DEFRA codes (significant rural and 80% rural). Around 20 organisations, taken on 7th June 2023.

2. **Rent collection & arrears** – There was better than anticipated performance in rent collection and arrears despite cost-of-living pressures. The final week posting of direct debits fell into the new financial year and taking this into account then we would be looking at an arrears figure of around 2.2% (last year 2.1%). The next two year's targets are challenging given the 'cost of living' issues and continued migration from housing benefit to Universal Credit. A small Hardship Fund has been established to target those in arrears to sustain tenancies.

3. **Customer satisfaction** – TLF Housing were appointed (TLH 'The Leadership Factor') to run this year's survey which provides a baseline using the final technical requirements document from the Regulator of Social Housing (TSMs – Tenant Satisfaction Measures). The fieldwork was delayed from the usual September/Oct fieldwork period as we wanted to align with the TSM requirements. The 22/23 survey fieldwork was conducted from 23rd November to 9th December and resulted in 690 responses (566 by email, 76 by post, 48 by SMS). Research indicates satisfaction in perception surveys tends to be c10-15% lower than when they rely on mainly electronic responses so past surveys are not comparable.

   The proposed targets reflect continuous improvement and outcomes arising from investments made e.g. '*Let's Make it Happen'* culture change programme and the delivery of critical actions included within the Asset Management Strategy & Action Plan, repairs improvement plan (including the important 'repairs follow-on' project etc), digital offer, neighbourhood plans, complaints learning loop and grounds maintenance contract review 24/25. The repairs service is critical to overall satisfaction with an improvement project underway entitled 'repairs customer experience'.

   We plan to run the 2023/24 survey in Autumn, to offer a multi-channel response e.g. email, post, SMS etc which reflects our Customer Experience Strategy (omni channel approach) and incentives with the aim of to maximising the response rate.

4. **New homes added** – Whilst it is disappointing that we didn't surpass the 100 new home milestone, and despite the wider economic challenges highlighted within the Chair's Statement, we did manage to deliver our best outturn yet on new supply (79 new homes), including our first Passivhaus scheme which has been shortlisted for a number of awards. A further scheme then handed over within the first month of the new financial year. We also withdrew from a couple of schemes when we were asked to increase our offer, and as this did not align with our revised risk appetite we subsequently withdrew. The future targets reflect the Board's approved development programme, based on starts or completions including an element of 'aspirational' homes which are not yet determined.

5. **Energy efficiency ratings** – There was a delay to the start of the programme due to issues within the supply chain. We are awaiting new EPC ratings for the properties we have now carried out work on and once these are received, we will see an increase in this indicator. The result of this is the target for this financial year has not been achieved but it should be reached by the end of July 2023. SLH was successfully with its partnership bid for Social Housing Decarbonisation Funding of £3.5M will enable delivery of fabric first investments to 905 homes so we remain on track for EPC C by 2025, ahead of Government 2030 target (contractor mobilised) and doing all we can to help customers to contain their energy usage during an extremely difficult period. We have appointed contractors and developing communications campaigns to mitigate risks to the achievement of future targets.

Strategic Report for the year ended 31 March 2023

6. **Number of new Eco homes** – The outturn was 11 homes below target. This included the 20 Passivhaus homes completed at Lune Walk, Halton, March '23 and the 17 EPC A / SAP 90+ homes completed at Meadow Close, Burton-in-Kendal. One property fell short of requirement due to solar panel / roof design. A further 10 homes at Meadow Close, Burton-in-Kendal was completed in the first month of the new financial year 2023/24. Future targets reflect SLH led schemes at High Sparrowmire in Kendal and Yewbarrow in Grange-Over-Sands. Section 106 negotiations will continue but these will be mainly EPC band B.

7. **My Account** – The ambitious target has not been achieved for 22/23 - much of the year has been spent developing the system. 58 customers added this quarter, 119 over the year and 35% now with an account in total, but the same number taken off (due to tenancies ending). Importantly 418 unique customers have signed-in to My Account in the first month of the 23/24 financial year. With customer forms, repairs appointment scheduling and a mobile first platform delivered the system is now in a position to be rolled out on masse through a series of campaigns during the new financial year.

8. **Efficiencies** - £24kpa closure of Ulverston office, £7.5k pa review of VAT Sharing agreement and £5.8kpa annual saving on finance licensing & £36kpa on Bridge Mills, £17k LTFP Consultancy. To date annual savings of £90k achieved. In addition, Income Maximisation in accordance with SLH Rent Policy of implementing formula rent +5% on relets and implementing service charges to improve service cost recovery. During 2022/23, 92 properties have been relet +5% and 27 service charges implemented. In 2021/22 148 properties were relet at +5% and 40 service charges implemented. The total additional annualised income in 22/23 is £85k (2021/22 £53k + 22/23 £32k). Future targets reflect savings tracking, VFM action plan, income maximisation (rents policy – formula rent +5% tolerance on relets) and implementation of service charges on relets.

Future plans and challenges

The Board set three strategic objectives in 2020;

- *Growing* – number of homes and also growing in terms of our offer to customers. The original target 500 was extremely stretching and has since been revised to 400 new homes and a target for overall tenant satisfaction of 75% by 2024 and 80% by 2025.
- *Greening* – another ambitious target – EPC Band 'C' 5 years early and a high Eco standard for new build (land led and where we can s106).
- *Transforming* – in order to achieve these ambitious targets, we recognised we needed run a tight ship including areas like; improved data analysis and assurance, digitalising services and access for customers, focus our colleagues' efforts where they could make greater positive customer impact, improving efficiencies and optimise access to funding.

The Board revised its strategy in November 2022 as part of a mid-term review but also in recognition of the consequence of global and economic seismic changes. The resulting amendments are still stretching but thanks to good financial planning and treasury management are within a sensible risk envelope.

Strategic Report for the year ended 31 March 2023

The Board also agreed stretching targets for Key Performance Indicators to 2025 at its meeting in May 2023. This includes the Regulator of Social Housing's new Tenant Satisfaction Measures (TSMs). All targets represent a continuous improvement trajectory, with a couple of exceptions. The complaints numbers are likely to continue to rise, at least in the short term, as a result of Housing Ombudsman and other national publicity / campaigns and provide an opportunity to learn and improve services. The targets for new development include an aspirational number and this is regularly reviewed as new opportunities are appraised. This will dovetail with the treasury and assets & liabilities register work, so that the Board has the capacity to flex as and if market conditions become more favourable.

The overall customer satisfaction target has been revised down from 85% to 80% by the end of 2025 to reflect the new TSM methodology and collection method. Our approach to the survey is to maximise response rates, offering a multi-channel approach which will encourage responses from all age groups. The baseline is 68% and the target for overall satisfaction proposed for 23/24 is 75% (rising to 80% in 24/25).

Building safety checks form part of the TSMs and Board KPIs, with Audit & Risk Committee receiving assurance over compliance at granular level on areas such as progress with actions arising from safety checks. Whilst the TSMs do not yet include electrical as the 5-year requirement is not a legal requirement for social landlords, we have adopted the same methodology and continue to track compliance with the Board's 5-year Electrical Installation Condition Report target.

The efficiency targets are based on the Board approved 2023/24 Budget & Long-Term Financial Plan in May 2023. The delivery actions are contained within the Board's VFM Strategy and Action Plan including income maximisation (rents policy: formula rent +5% tolerance on relets) and implementation of service charges on relets.

Strategic Report for the year ended 31 March 2023

Governance, Board and Committee structure

Under the Society's Rules, the Board is comprised of a maximum 12 Board Members. Current Board Membership and changes during the year are shown on page 3 and details of Board remuneration are shown on pages 55 and 56. Board Members are drawn from a wide range of backgrounds to ensure that the Board is diverse in skills, thought and experience.

The Board reviews governance on an annual basis, including self-assessments against the Regulator of Social Housings Regulatory Standards (including the Governance and Financial Viability Standard, Rent Standard & Rent Policy Statement, and VfM Standard) and National Housing Federation's (NHF) 2020 Code of Governance (as adopted in August 2022). The Audit & Risk Committee Chair, who is also the Senior Independent Director, will retire in 2023/24. During the year, the Board has approved a succession plan which included the external recruitment of a new Audit and Risk Committee Chair, and revised composition statement in February 2023. The Board confirms that South Lakes Housing has complied with the requirements of the Regulator of Social Housing Governance and Financial Viability Standard and the National Housing Federation Code of Governance.

The Code provides for Board Membership to be extended beyond 6 years on an exceptional basis. In line with this provision, the Board agreed to extend the term of the Chair of the Board beyond six years to be reviewed after 12 months to provide ongoing support through the changing regulatory landscape and challenging economic environment.

The Board is supported by the Audit and Risk Committee and Development Committee.

The Audit and Risk Committee is chaired by a Member of the Board, who is not the Chair of the Board. The Committee met four times during the year with an additional session to scrutinise stress testing and mitigations. The Committee oversees financial reporting and provides independent scrutiny, challenge and assurance over the risk and internal control framework on behalf of the Board. Amongst other items, the Committee has reviewed and monitored SLH's strategic risks and mitigation plans, approved the strategic and annual internal audit plan, monitored the outcome of individual audits and the implementation of internal audit recommendations, reviewed assurance reports in relation to building safety and other regulatory compliance requirements. The Committee provided an annual assurance report to the Board.

The Development Committee provides oversight of the delivery of the Development Strategy and met three times during the year. The remit of the Committee is to approve individual development schemes in line with the agreed Development Strategy and financial plan. During the year the Committee has, amongst other items, monitored the performance of schemes throughout the development cycle, overseen the completion of shared ownership properties and a range of Passivhaus properties and approved a number of new schemes. The Committee provided an annual report to the Board demonstrating how it has discharged its responsibilities.

SLH created a subsidiary company in 2016 as a Cost Sharing Vehicle (CSV) for repairs & maintenance – called Cumbrian Housing and Property Services (CH&PS). This effectively comprised of the existing 'in-house' provision of relevant services to SLH and responsive repairs and void works to the South Cumbria homes of Castles and Coasts Housing Association (CCHA). The works were channelled via the jointly owned, separate legal entity of CH&PS for tax efficiencies. The original objective was the delivery of works to CCHA properties enabled SLH to fully utilise its staffing resource and to reduce overheads and CPU of SLH repairs and maintenance service. This has changed given recent challenges within the labour market.

SLH was the controlling member (holding 85 Class A Shares) and legal parent of CH&PS. CCHA was a founding member with voting rights (10 Class A Shares, the remaining 5 shares unallocated). CH&PS had no staff, no assets and was in essence a 'shell' company, with no on-lending, subsidy or asset cover, therefore presented no risk to SLH social housing assets. The SLH Board maintained oversight including, Finance and Performance Reports and approval of the Business Plan and Management Accounts. As a cost sharing vehicle, to comply with HMRC rules it was constructed on the basis that no profits were made and that total costs were allocated between the members on the basis of scale of work.

Strategic Report for the year ended 31 March 2023

The Board considered a report in February 2023 including external tax and legal advice and whether this structure continued to be appropriate and was value for money. Although CH&PS was operating within the requirements of a cost sharing vehicle it had not benefited from tax exemption impacting only on Castles & Coasts HA (CCHA). Although a third member had agreed to join the group (previously the barrier to HMRC approval), the latest soundings coming from HM Treasury and from our tax advisors, meant that pursuing the CSV route was no longer an option. The Board agreed to move the CCHA delivery outside of the CH&PS company structure and repairs to be delivered by SLH, novating the contract and terminated the CCHA Chief Executive as director on 31st March 2023 (Richard Hayes was appointed as a company director). The status of CH&PS is now a dormant company, ready to use again should it be required either as it was originally intended should there be a change in the tax exemption potential or to be used as a subsidiary for other purposes company should it be warranted.

The Board reviews governance matters at least twice per year and improvement actions are included within the Governance Improvement Plan. The Board is reviewing a number of areas over the next 12 months including; delegation framework, shareholder membership, customer voice within the governance of the organisation.

Statement of Board responsibilities

The Co-operative and Community Benefit Societies Act 2014 requires that the Board prepare accounts for each financial year which give a true and fair view of the situation of the Association and the surplus of the Association for that period.

In preparing these accounts the Board are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable and prudent
- State whether applicable accounting standards have been followed
- Prepare the accounts on the going concern basis unless it is inappropriate

The Board are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Association and to enable them to ensure that the accounts comply with the Co-operative and Community Benefit Societies Act 2014, Regulatory Framework, Housing Acts and Accounting Determinations.

Control systems

The Board has overall responsibility for establishing and maintaining the whole system of internal control and reviewing its effectiveness. This includes;

- *Financial Planning, Stress Testing & Mitigations* – providing for, as a minimum, the annual update and approval by the Board of the long-term financial plan, regular monitoring of cashflow projections, detailed stress testing and mitigation actions documented within a Resilience Plan.
- *Treasury Management* – the strategy is reviewed and updated each year. The Board also considers the level of headroom and impact upon financial covenants of any investment decisions, to understand the potential impact of these decisions and to ensure resources to deliver the business strategy.
- *Risk Management Strategy* – management responsibility has been clearly defined for the identification, evaluation, and control of significant risks. This is documented in SLH's Risk Management Strategy which is reviewed annually by the Audit & Risk Committee and Board. This provides for the regular reporting of risk to the Committee, with a high-level Strategic Risk Summary, which summarises the key risks with more detail contained in detailed Risk Maps covering the Business Strategy Themes (one for each theme), transformation risks and other directorate risks.

Strategic Report for the year ended 31 March 2023

- The architecture of risk mapping within SLH is as follows;

Strategic Risk Summary

Sector Risk Profile Assurance & Controls Map

- *Risk Appetite Statement* – the Risk Appetite Statement sets out the level of risk that the organisation is prepared to accept to deliver its strategic themes, remain consistent with its values and meet its targets in terms of performance and outcomes.
- *Board Assurance Framework* – provides a '*three lines of defence*' structure that enables the Board to consider its most strategically important risks, the key controls in place to manage them, assurance sources in place and their overall effectiveness.
- *Golden Rules* – are agreed by the Board and acts as a framework for articulating the Board's financial risk appetite including clear cushions over lenders' covenants. The 'golden rules' are reported within the Quarterly Finance Reports and are reviewed by the Board. The Board set a new golden rule in 2022 around interest cover and risks around shared ownership sales and absorbing a flood claim excess.
- *Insurance* – the Association has property insurance cover until March 2024 and other insurance lines; including Directors & Officers Liability, flood and fleet cover. Flood excesses are £250k from April 2023.
- *Development Approval Framework* – detailing the decision-making thresholds and Board approval mechanisms. Risk is considered when recommending developments to Board and Development Committee with Internal Rates of Return targets in place.
- *Compliance Report* – a detailed quarterly Compliance Report and Health & Safety Dashboard details the identification and performance on key areas relating to compliance; including Health & Safety, regulation, fraud reporting, legal and financial etc. This is reviewed quarterly by the Audit & Risk Committee.
- *Internal Audit* – the function is provided by BDO, and the programme is approved annually by the Audit & Risk Committee and takes into consideration SLH's risk profile in the context of; the Committee and management's own perception of risk, the business strategy, any transformation plans and new ventures and sector wide risks.
- *Policies* – covering Business Continuity planning, cyber security, anti-money laundering, data protection, probity, safeguarding, procurement, health and safety etc

The Audit and Risk Committee oversees the risk and internal control framework on behalf of the Board and makes recommendations to the Board where necessary. The Committee receive regular information regarding SLH's strategic risk profile, controls and mitigations and improvement plans.

Strategic Report for the Year ended 31 March 2023

Evaluation of key risks

The Top 10 risks monitored by the Board include;

1. Asset management – maximising return on assets
2. Asset management – building safety
3. Flooding (and insurance)
4. Climate change / Energy efficiency (carbon footprint, alternatives to gas boilers, EPC, funding & engagement)
5. Resources (to deliver the business strategy)
6. Organisational capacity (people)
7. Economic/political & affordability
8. Development and shared ownership
9. Service charges / leasehold (income recovery, consultation)
10. Cyber security

Top 5 short term risks;

1. Development - sales
2. Building safety
3. Resources e.g., rent formula
4. Political / economic
5. Capacity

The Association maintains a Strategic Risk register, that is reviewed by the Audit & Risk Committee at each meeting. The graphic on the page below is an extract of the Association's Strategic Risk Register.

Over the longer term, key risks relate to climate change (the journey to net zero and fallout from strategic choices) and future Government policy regarding social housing rent levels.

Strategic Report for the Year ended 31 March 2023

Strategic Risks – Top 10 Board risks

Risk Event	Risk Appetite	Before Controls	After Controls	*Target*	Mitigations
Business Strategy Objective: *Growing*					
1.Asset management: ROI - not maximising return on assets, including management of voids	Cautious	12	3	3	Asset Management Strategy. Disposals Policy. ASAP model. Annual Report & Financial Statements. Voids improvement project.
2.Asset management: building safety - not complying with building safety regulation, resident communication, data quality and contract performance, consumer standards	Averse	16	4	4	Asset Management Strategy – building safety policies. Health, Safety & Welfare Framework. Compliance/Performance Reports. Data Strategy.
3.Development: shared ownership – not meeting demand, exposure to price falls, delayed sales, cost increases, cashflow monitoring, timing and uncertainty	Cautious	12	9	9	Development Strategy. Quarterly Finance Reports. Development Committee financial reporting e.g. variance analysis, scheme performance, IRR thresholds, sales KPIs. Scheme appraisals. Sales & Marketing plan. Procedure to flip from SO to affordable rent.
Business Strategy Objective: *Greening*					
4.Climate change: flooding – inability to insure and respond to future flooding	Cautious	16	6	6	Insurance policies. Business Continuity Plan. Flood Response Plan. Asset Management Strategy. Flood Resilience Project & action plan
5.Energy efficiency – not understanding stock needs, investing in the right solutions/ priorities, not getting the investment right first time	Cautious	12	4	4	Asset Management Strategy. Sustainability Strategy. EPC surveys and data modelling in DREam. EPC Band C capacity in financial plan. SHDF Wave 2 bid. Formal adoption of Sustainability Reporting Std.
Business Strategy Objective: *Transforming*					
6.Resources – not having enough money to deliver ambition	Cautious	16	4	4	30 Year Financial Plan. Treasury Strategy & Policies. DTP Treasury Advisors. Income Management Policy. Stress testing and mitigations. Resilience Plan. SHDF.
7.Capacity – not having adequate skills and culture/behaviours	Averse	12	9	6	People Strategy - behaviours. IT & Data Strategies. Change Mngt Performance Frameworks. Customer Experience – Lets Make it Happen
8.Cyber security – exposure to attack, downtime and recovery costs	Averse	12	6	6	Cyber Security Policy. Internal Audit Report and Plan. Internal & External Penetration testing. Training. Learning from cyber incidents. Cyber insurance increased. Desk top BC exercise.
Other risks					
9.Political, economical, affordability - impact of cost of living and inflation on customers and SLH, impact of political /policy changes	Cautious	12	6	6	Board Strategy days. CEO reports. Rent & SC Policy. Financial Plan - Stress Testing & Resilience Plan. Financial inclusion support.
10.Service charges – income recovery, consultation	Averse	12	9	6	Service Charge Project. Rents & Service Charge Lead. Leasehold Management Policy. Section 20 Consultation process.

Strategic Report for the Year ended 31 March 2023

Remuneration and pensions

The Board is responsible for setting the Association's remuneration policy and contract liabilities for its Executive Team. The Board approved policy provides a general commitment that SLH will not make non-contractual payments to any member of staff, unless considered in the best interests of the organisation when all the proposed costs of termination have been considered.

The Association currently participates in the Local Government Pension Scheme (a defined benefit pension scheme) and the Social Housing Pension Scheme (offering a range of defined benefit and defined contribution options). The assets of the scheme are invested and managed independently of the finances of the Association. Contributions are based on pension costs of the Association's units in the fund.

As at 31 March 2023, SLH's share of the LGPS scheme deficit was £nil (2022: £1.2m) and SLH's share of the SHPS scheme deficit was £258k (2022: £203k) as shown on the statement of financial position and in note 19.

Going concern and liquidity

At the 31 of March 2023 the Association had a restated 20-year financing agreement (maturing 2038) and an agreement split equally between 15-year and 25-year maturities (maturing 2037 - 2047) with M&G Investment Management Ltd, and restated facilities with National Westminster Bank Plc over a range of maturities from 4 years to 24 years (2027 - 2047).

Robust financial forecasting and monitoring systems in place give the Board reasonable expectation that the Association has adequate resources to continue in operational existence for the foreseeable future, and for this reason, it continues to adopt the going concern basis in the financial statements.

Stringent cashflow monitoring and reporting arrangements ensure SLH has sufficient liquidity at all times and that funders' covenants will continue to be met.

Statement of compliance

This Strategic Review has been prepared in accordance with the principles set out in the 2018 SORP Update for Registered Providers.

Disclosure of information to auditors

At the date of making this report each member of the Association's Board as set out on page 3, confirm the following:

- So far as each of them is aware, there is no relevant information needed by the Association's auditors in connection with preparing their report of which the Association's auditors are unaware, and
- Each of them has taken all the steps that (s)he ought to have taken as a director in order to make her/himself aware of any relevant information needed by the Association's auditors in connection with preparing their report and to establish that the Association's auditors are aware of that information.

Strategic Report for the Year ended 31 March 2023

Annual General Meeting and approval

Annual General Meeting

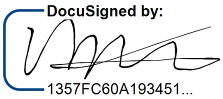
The Annual General Meeting is to be held on 21 September 2023 to receive the accounts to 31 March 2023.

Auditors

Beever and Struthers are the auditors of South Lakes Housing. The annual appointment is subject to a resolution at the Annual General Meeting.

Approval

The Report of the Board was approved on 10 August 2023 by the Board and was signed on its behalf by:



Ian Munro
Chair of the SLH Board

15-Aug-23

Independent Auditor's Report to the Members of South Lakes Housing

Opinion

We have audited the financial statements of South Lakes Housing (the Association) and its subsidiary (the Group) for the year ended 31 March 2023 which comprise the Consolidated and Association Statement of Comprehensive Income, Consolidated and Association Statement of Financial Position, Consolidated Statement of Changes in Equity (Reserves), Association Statement of Changes in Equity (Reserves), Consolidated Statement of Cash Flows and the notes to the financial statements, including a summary of significant accounting policies in note 1. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and of the Association's affairs as at 31 March 2023 and of the Group's income and expenditure and the Association's income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2019.

Basis for opinion

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

Conclusions relating to going concern

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's or the Association's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

Other information

The other information comprises the information included in the Strategic Report, other than the financial statements and our auditor's report thereon. The Board is responsible for the other information. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.
We have nothing to report in this regard.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters in relation to which the Co-operative and Community Benefit Societies Act 2014 or the Housing and Regeneration Act 2008 requires us to report to you if, in our opinion:

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

Responsibilities of the Board
As explained more fully in the Statement of Board's Responsibilities set out on page 24, the Board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Extent to which the audit was considered capable of detecting irregularities, including fraud
We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

In identifying and addressing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- We obtained an understanding of laws, regulations and guidance that affect the Group and Association, focusing on those that had a direct effect on the financial statements or that had a fundamental effect on its operations. Key laws, regulations and guidance that we identified included the Co-operative and Community Benefit Societies Act 2014, the Statement of Recommended Practice for registered housing providers: Housing SORP 2018, the Housing and Regeneration Act 2008, the Accounting Direction for Private Registered Providers of Social Housing 2022, tax legislation, health and safety legislation, and employment legislation.
- We enquired of the Board and reviewed correspondence and Board meeting minutes for evidence of non-compliance with relevant laws and regulations. We also reviewed controls the Board have in place, where necessary, to ensure compliance.
- We gained an understanding of the controls that the Board have in place to prevent and detect fraud. We enquired of the Board about any incidences of fraud that had taken place during the accounting period.

- The risk of fraud and non-compliance with laws and regulations was discussed within the audit team and tests were planned and performed to address these risks. We identified the potential for fraud in the following areas: laws related to the construction and provision of social housing recognising the regulated nature of the Group's activities.
- We reviewed financial statements disclosures and supporting documentation to assess compliance with relevant laws and regulations discussed above.
- We enquired of the Board about actual and potential litigation and claims.
- We performed analytical procedures to identify any unusual or unexpected relationships that might indicate risks of material misstatement due to fraud.
- In addressing the risk of fraud due to management override of internal controls we tested the appropriateness of journal entries and assessed whether the judgements made in making accounting estimates were indicative of a potential bias.

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

Use of our report

This report is made solely to the members of the Association, as a body, 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 and the members as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:

Helen Knowles

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Statutory Auditor: **Address**	Beever and Struthers One Express 1 George Leigh Street Manchester M4 5DL	**Date:**	20-Sep-23

Group Statement of Comprehensive Income for the year ended 31 March 2023

	Note	2023 £'000	2022 £'000
Turnover	2	22,064	19,939
Operating costs	2	(17,312)	(16,441)
Gain on disposal of fixed assets	6	421	182
Operating surplus		**5,173**	**3,680**
Interest receivable	7	166	-
Interest payable and financing costs	8	(1,796)	(1,234)
Taxation	12	-	-
Surplus for the year before and after taxation		**3,543**	**2,446**
Actuarial gain / (loss) in respect of pension schemes	19	5,810	2,649
Pension surplus not recognised	19	(4,843)	-
Total comprehensive income for the year		**4,510**	**5,095**

The financial statements on pages 33 to 73 were approved and authorised for issue by the Board on 10th August 2023 and were signed on its behalf by:

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I. Munro	**K. Bevan**	**J. Mansergh**
Chair of SLH Board	Chair of Audit and Risk Committee	Company Secretary

The results relate wholly to continuing activities and the notes on pages 39 to 73 form an integral part of these accounts.

Association Statement of Comprehensive Income for the year ended 31 March 2023

	Note	2023 £'000	2022 £'000
Turnover	2	21,419	19,463
Operating costs	2	(16,667)	(15,965)
Gain on disposal of fixed assets	6	421	182
Operating surplus		**5,173**	**3,680**
Interest receivable	7	166	-
Interest payable and financing costs	8	(1,796)	(1,234)
Taxation	12	-	-
Surplus for the year before and after taxation		**3,543**	**2,446**
Actuarial gain / (loss) in respect of pension schemes	19	5,810	2,649
Pension surplus not recognised	19	(4,843)	-
Total comprehensive income for the year		**4,510**	**5,095**

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I. Munro	**K. Bevan**	**J. Mansergh**
Chair of SLH Board	Chair of Audit and Risk Committee	Company Secretary

The results relate wholly to continuing activities and the notes on pages 39 to 73 form an integral part of these accounts.

Group Statement of Financial Position

	Note	2023 £'000	2022 £'000
Fixed Assets			
Tangible fixed assets	13a & b	123,547	113,332
Debtors: Amounts falling due after more than one year	24	26,775	32,376
Current assets			
Stock	14	1,876	1,693
Trade and other Debtors	15	7,006	7,451
Cash and cash equivalents		13,031	3,011
		21,913	12,155
Less: Creditors: Amounts falling due within one year	16	(9,294)	(11,349)
Net current assets		12,619	806
Total assets less current liabilities		162,941	146,514
Creditors: Amounts falling due after more than one year	17a	(105,773)	(92,716)
Provisions for liabilities			
Pension defined benefit liability	19	(258)	(1,398)
Total net assets		56,910	52,400
Capital and reserves			
Non-equity share capital	20	-	-
Income and expenditure reserve		56,910	52,400
Total reserves		56,910	52,400

The financial statements on pages 33 to 73 were approved and authorised for issue by the Board on 10th August 2023 and signed on its behalf by:

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Ian Munro
Chair of SLH Board

K. Bevan
Chair of Audit and Risk Committee

John Mansergh
Company Secretary

The notes on pages 39 to 73 form an integral part of these accounts.

Association Statement of Financial Position

	Note	2023	2022
		£'000	£'000
Fixed Assets			
Tangible fixed assets	13a & b	123,547	113,332
Debtors: Amounts falling due after more than one year	24	26,775	32,376
Current assets			
Stock		1,876	1,693
Trade and other Debtors	14	7,006	7,450
Cash and cash equivalents	15	13,031	3,011
		21,913	12,154
Less: Creditors: Amounts falling due within one year	16	(9,294)	(11,348)
Net current assets		12,619	806
Total assets less current liabilities		162,941	146,514
Creditors: Amounts falling due after more than one year	17a	(105,773)	(92,716)
Provisions for liabilities			
Pension defined benefit asset/(liability)	19	(258)	(1,398)
Total net assets		56,910	52,400
Reserves			
Non-equity share capital	20	-	-
Income and expenditure reserve		56,910	52,400
Total reserves		56,910	52,400

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Chair of SLH Board

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K. Bevan

Chair of Audit and Risk Committee

DocuSigned by:
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J. Mansergh

Company Secretary

The notes on pages 39 to 73 form an integral part of these accounts.

Group & Association Statement of Changes in Equity (Reserves)

For the Year ended 31 March 2023

	Income and Expenditure Reserve	Total Reserves
	£'000	**£'000**
Balance at 1 April 2021	**47,305**	**47,305**
Surplus for the year	2,446	2,446
Actuarial gain in respect of pension schemes	2,649	2,649
Balance at 31 March 2022	**52,400**	**52,400**
Surplus for the year	3,543	3,543
Actuarial gain in respect of pension schemes	5,810	5,810
Pension surplus not recognised	(4,843)	(4,843)
Balance as at 31 March 2023	**56,910**	**56,910**

The notes on pages 39 to 73 form an integral part of these accounts.

Group & Association Statement of Cash Flows

For the year ended 31 March 2023

	2023 £'000	2022 £'000
Net cash generated from operating activities	3,497	5,884
Cash inflow / (outflow) from investing activities		
Purchase of tangible fixed assets	(12,394)	(11,582)
Proceeds from sale of tangible fixed assets	1,683	1,301
Grants received	494	2,061
Interest received	166	-
	(6,554)	(2,336)
Cash inflow / (outflow) from financing activities		
Interest paid	(1,809)	(1,102)
New secured loans	25,000	4,500
Loan fees capitalised	(117)	(377)
Repayment of borrowings	(6,500)	-
Net change in cash and cash equivalents	10,020	685
Cash and cash equivalents at beginning of the year	3,011	2,326
Cash and cash equivalents at end of the year	13,031	3,011

Cash flow from operating activities

	2023 £'000	2022 £'000
Surplus for the year	3,543	2,446
Adjustments for non-cash items		
Depreciation & Amortisation of tangible fixed assets	1,524	1,491
Write out of replaced components	262	299
Interest and financing costs	1,796	1,234
Interest receivable	(166)	-
Gain on disposal of fixed assets	(421)	(182)
Increase in stock	(184)	(455)
Decrease in trade and other debtors	445	(1,027)
Decrease in trade and other creditors	(2,821)	2,078
Pension costs less contributions payable	(207)	274
Government grants utilised in the year	(274)	(274)
Net cash generated from operating activities	3,497	5,884

The notes on pages 39 to 73 form an integral part of these accounts.

South Lakes Housing Accounting Policies

For the year ended 31 March 2023

Legal Status

The Group comprises of the following:

South Lakes Housing Limited is incorporated in England under the Co-operative and Community Benefit Societies Act 2014 and is registered with the Regulator of Social Housing as a Private Registered Provider of Social Housing (Number 4686). The registered office is Bridge Mills Business Centre, Stramongate, Kendal, Cumbria, LA9 4BD.

Cumbrian Housing and Property Services Limited, a non-registered subsidiary, incorporated under the Companies Act 2006 (registration number 10519045).

1. Principal Accounting Policies

Basis of Accounting

The Group's financial statements have been prepared in accordance with applicable United Kingdom Accounting Generally Accepted Accounting Practice (UK GAAP) and the Statement of Recommended Practice for registered housing providers: Housing SORP 2018. The Group is required under the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969 to prepare consolidated Group financial statements.

The financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2022. The financial statements are prepared on the historical cost basis of accounting and are presented in sterling £'000, for the year ended 31 March 2023.

The Group's financial statements have been prepared in compliance with FRS102. The Group meets the definition of a Public Benefit Entity (PBE).

Parent company disclosure exemptions

In preparing the separate financial statements of the Parent Entity, advantage has been taken of the following disclosure exemption available in FRS 102:

- No cash flow statement has been presented for the Parent Entity.

Basis of Consolidation

The consolidated financial statements incorporate the results of South Lakes Housing and its subsidiary Cumbrian Housing and Property Services Limited as at 31 March 2023 using the merger method of accounting as required.

Going concern

The Group's financial statements have been prepared on a going concern basis which assumes an ability to continue operating for the foreseeable future, being a period of at least twelve months after the date on which the report and financial statements are signed. No significant concerns have been noted in the Financial Plan updated for 2023/24 and therefore we consider it appropriate to continue to prepare the financial statements on a going concern basis.

Robust financial forecasting and monitoring systems in place give the Board reasonable expectation that the Association has adequate resources to continue in operational existence for the foreseeable future, and for this reason, it continues to adopt the going concern basis in the financial statements.

South Lakes Housing Accounting Policies

For the year ended 31 March 2023

1. Principal Accounting Policies (continued)

Stringent cashflow monitoring and reporting arrangements ensure SLH has sufficient liquidity at all times and that funders' covenants will continue to be met.

Most of the Association's housing properties have been in stock for a significant period and are held at cost less depreciation. This significantly mitigates the impairment risk. A review considering evidence of indicators of impairment was conducted that concluded no indicators of impairment or triggers for impairment existed.

Critical accounting judgements and key sources of estimation uncertainty

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

a) **Development expenditure.** The Group capitalises development expenditure in accordance with the accounting policy for Housing properties set out in note 1 below. Initial capitalisation of costs is based on management's judgement that a development scheme is confirmed, usually when Board approval has taken place including access to the appropriate funding. In determining whether a project is likely to cease, management monitors the development and considers if changes have occurred that result in impairment.

b) **Categorisation of housing properties**. The Group has undertaken a detailed review of the intended use of all housing properties. In determining the intended use, the Group has considered if the asset is held for social benefit or to earn commercial rentals.

c) **Impairment**. The Group considers whether indicators of impairment exist in relation to tangible assets. Indicators considered include external sources of information such as market value, market interest rates and returns on investment, actual or proposed changes to the technological, economic or legal environment, obsolescence or damage to the asset, operational changes or internal reporting which indicates that the asset is performing worse than expected. The Group also considers expected future performance of the asset. Any impairment loss is charged to the Statement of Comprehensive Income.

   Impairment is recognised where the carrying value of a cash generating unit exceeds the higher of its net realisable value less costs to sell or its value in use. A cash generating unit is normally a group of properties at scheme level whose cash income can be separately identified.

   Following a trigger for impairment, the Group performs impairment tests based on fair value less costs to sell or a value in use calculation. The fair value less costs to sell calculation is based on available data from sales transactions in an arm's length transaction on similar cash generating units (properties) or observable market prices less incremental costs for disposing of the properties. The value in use calculation is based on either a depreciated replacement cost or a discounted cash flow model. The depreciated replacement cost is based on available data of the cost of constructing or acquiring replacement properties to provide the same level of service potential to the Group as the existing property. The cash flows are derived from the Long-Term Financial Plan for the next 30 years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the assets' performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes.

South Lakes Housing Accounting Policies

For the year ended 31 March 2023

1. Principal Accounting Policies (continued)

d) **Pension and other post-employment benefits.** The cost of defined benefit pension plans and other post-employment benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long-term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables for the specific sector. Future salary increases and pension increases are based on expected future inflation rates for the respective sector. Further details are given in note 19.

Other Key Sources of estimation and assumptions

a) **Tangible fixed assets.** Tangible fixed assets 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 technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values. The carrying value of fixed assets at 31 March 2023 was £123.55m.

b) **Lease accounting**. Whether the risks and rewards of ownership in relation to individual leases indicate that it should be accounted for as a finance lease or an operating lease.

Turnover and revenue recognition

Turnover represents rental income receivable, amortised capital grant, revenue grants from Local Authorities, income from the sale of shared ownership and other properties developed for outright sale and other income.

Rental Income is recognised when the property is available for let, net of voids. Income from property sales is recognised on legal completion.

Sales of properties developed for outright sales are included in Turnover and Cost of Sale and are recognised on legal completion.

Service charges

Service charge income and costs are recognised on an accrual’s basis. The Group operates variable service charges on a scheme by scheme basis in full consultation with residents. The charges will include an allowance for the surplus or deficit from prior years, with the surplus being returned to residents by a reduced service charge and deficit being recovered by a higher charge. Until these are returned or recovered, they are held as creditors or debtors in the Statement of Financial Position.

Where periodic expenditure is required, a provision may be built up over the years, in consultation with the residents; until these costs are incurred this liability is held in the Statement of Financial Position with long term creditors.

South Lakes Housing Accounting Policies

For the year ended 31 March 2023

1. Principal Accounting Policies (continued)

Loan Interest Costs

Loan interest costs are calculated using the effective interest method of the difference between the loan amount at initial recognition and amount of maturity of the related loan.

Loan Finance Issue Costs

These are amortised over the life of the related loan. Loans are stated in the Statement of Financial Position at the amount of the net proceeds after issue, plus increases to account for any subsequent amounts amortised. Where loans are redeemed during the year, any redemption penalty and any connected loan finance issue costs are recognised in the Statement of Comprehensive Income account in the year in which the redemption took place.

Taxation

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

The current income tax charge is calculated on the basis of United Kingdom tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred 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, associates and joint ventures 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 value of liabilities acquired and the amount that will be assessed for tax.

Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

Value Added Tax

The Group charges Value Added Tax (VAT) on some of its income and is able to recover part of the VAT it incurs on expenditure. The Group financial statements include VAT to the extent that it is suffered by the Group and is not recoverable from HM Revenue and Customs. Recoverable VAT arises from:

- an agreement with South Lakeland District Council to improve the transferred properties, with 50% of the amounts recoverable under this scheme being repayable to the Council and the remaining proportion credited to the Statement of Comprehensive Income.
- partially exempt activities and is credited to the Statement of Comprehensive Income.

The balance of VAT payable or recoverable at the year-end is included as a current liability or asset.

South Lakes Housing Accounting Policies

For the year ended 31 March 2023

1. Principal Accounting Policies (continued)

Tangible Fixed Assets and Depreciation

Housing Properties

Tangible fixed assets are stated at cost, less accumulated depreciation. Donated land / assets or assets acquired at below market value from a government source, i.e. Local Authority, are included as a liability in the Statement of Financial Position at the fair value less consideration paid.

Housing properties under construction are stated at cost and are not depreciated. These are reclassified as housing properties on practical completion of construction.

Freehold land is not depreciated.

Where a housing property comprises two or more major components with substantially different Useful Economic Lives (UELs), each component is accounted for separately and depreciated over its individual UEL. Expenditure relating to subsequent replacement or renewal of components is capitalised as incurred.

The Group depreciates freehold housing properties by component on a straight-line basis over the estimated UELs of the component categories.

UELS for identified components are as follows:

	Years
Structure	100
Roof structure and covering	70
Render	35
Insulation	35
Photovoltaic Panels	30
Windows	30
External Doors	30
Mechanical systems	30
Electrics	30
Bathrooms	25
Lifts	25
Kitchens	20
Gas boilers and fires	15
Air & Ground Source Heat Pumps	15
Building alarms	15
Solar battery storage	15
Ventilation systems	10
Disabled adaptations	10

The Group depreciates housing properties held on long term leases in the same manner as freehold properties, except where the unexpired lease term is shorter than the longest component life envisaged, in which case the unexpired term of the lease is adopted as the useful economic life of the relevant component category.

Depreciation is charged on other tangible fixed assets on a straight-line basis over the expected economic useful lives which are as follows:

	Years
IT equipment	3
IT Infrastructure and applications	7
Furniture & Fittings	10

South Lakes Housing Accounting Policies

For the year ended 31 March 2023

1. Principal Accounting Policies (continued)

Low-cost home ownership properties

The costs of low-cost home ownership properties are split between current and tangible fixed assets on the basis of the first tranche portion. The first tranche portion is accounted for as a current asset and the sale proceeds shown in turnover. The remaining element of the shared ownership property is accounted for as a tangible fixed asset and subsequent sales treated as sales of fixed assets/property sales in operating surplus.

Capitalisation of interest and administration costs

Interest on loans financing development is capitalised up to the date of the completion of the scheme and only when development activity is in progress.

Administration costs relating to development activities are capitalised only to the extent that they are incremental to the development process and directly attributable to bringing the property into their intended use.

Leasing and hire purchase

Where assets are financed by hire purchase contracts and leasing agreements that give rights approximating to ownership (finance leases), they are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as obligations to the lessor in creditors. They are depreciated over the shorter of the lease term and their useful economic lives.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to the Statement of Comprehensive Income over the term of the lease and is calculated so that it represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

Other leases are treated as operating leases and payments are charged to the Statement of Comprehensive Income on a straight-line basis over the term of the lease.

Stock and properties held for sale

Stocks of materials are valued at the lower of cost and net realisable value being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis.

Properties developed for outright sale are included in current assets as they are intended to be sold at the lower of cost or estimated selling price less costs to complete and sell.

At each reporting date, stock and properties held for sale are assessed for impairment. If there is evidence of impairment, the carrying value is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in the Statement of Comprehensive Income.

Short-term debtors and creditors

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the Statement of Comprehensive Income in other operating expenses.

South Lakes Housing Accounting Policies

For the year ended 31 March 2023

1. Principal Accounting Policies (continued)

Non-government grants

Grants received from non-government sources are recognised under the performance model. If there are no specific performance requirements the grants are recognised when received or receivable. Where grant is received with specific performance requirements it is recognised as a liability until the conditions are met and then it is recognised as Turnover.

Provisions for doubtful debts

The provision is calculated for each individual tenancy in line with the most recent payment patterns. The provision rates used at the reporting date have been reviewed in light of the current economic climate and rising costs of living, and are judged to be prudent and appropriate.

Social Housing and other government grants

Where developments have been financed wholly or partly by social housing and other grants, the amount of the grant received has been included as deferred income and recognised in Turnover over the estimated useful life of the associated asset structure (not land), under the accruals model. Social Housing Grant (SHG) received for items of cost written off in the Statement of Comprehensive Income Account is included as part of Turnover.

When SHG in respect of housing properties in the course of construction exceeds the total cost to date of those housing properties, the excess is shown as a current liability.

SHG must be recycled by the Association under certain conditions, if a property is sold, or if another relevant event takes place. In these cases, the SHG can be used for projects approved by the Homes England. However, SHG may have to be repaid if certain conditions are not met. If grant is not required to be recycled or repaid, any unamortised grant is recognised as Turnover. In certain circumstances, SHG may be repayable, and, in that event, is a subordinated unsecured repayable debt.

Recycling of Capital Grant

Where Social Housing Grant is recycled, as described above, the SHG is credited to a fund which appears as a creditor until used to fund the acquisition of new properties, where recycled grant is known to be repayable it is shown as a creditor within one year.

Holiday pay accrual

A liability is recognised to the extent of any unused holiday pay entitlement which has accrued at the reporting date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the reporting date.

Agreements to improve existing properties

Where the Association has entered into agreements to purchase property from a third party and subsequently enters into a sub-contracting agreement to carry out improvement works to the properties, the related assets and liabilities are shown at gross values unless the right of net settlement exists.

South Lakes Housing Accounting Policies

For the year ended 31 March 2023

1. Principal Accounting Policies (continued)

Retirement benefits

The Group operates two defined benefit plans for certain employees (note 19). The liability recognised in the balance sheet in respect of the defined benefit plans is the present value of the defined benefit obligations less the fair value of the plan assets at the reporting date. The defined benefit obligation is calculated using the projected unit credit method and the present value is determined by discounting the estimated future payments. The cost of the defined benefit plans is recognised in the Statement of Comprehensive Income in operating costs. The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligations and the fair value of plan assets. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income.

Loans

All loans held by the Group are classified as basic financial instruments in accordance with FRS 102. They are measured at transaction price plus transaction costs initially, and subsequently at amortised cost using the effective interest rate method. Loans repayable within one year are not discounted.

Financial Instruments

Financial assets and financial liabilities are measured at transaction price initially, plus, in the case of a financial asset or financial liability not at fair value through the Statement of Comprehensive Income, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

At the end of each reporting period, financial instruments are measured as follows, without any deduction for transaction costs the entity may incur on sale or other disposal:

- Debt instruments that meet the conditions in paragraph 11.8(b) or 11.8(bA) of FRS 102 are measured at amortised cost using the effective interest method, except where the arrangement constitutes a financing transaction. In this case the debt instrument is measured at the present value of the future payments discounted at a market rate of interest for a similar debt.
- Commitments to receive or make a loan to another entity which meet the conditions in para 11.8(c) of FRS 102 are measured at cost less impairment.

Financial instruments held by the Group are classified as follows:

- Financial assets such as cash, current asset investments and receivables are classified as loans and receivables and held at amortised cost using the effective interest method,
- Financial liabilities such as bonds and loans are held at amortised cost using the effective interest method,
- Loans to or from subsidiaries including those that are due on demand are held at amortised cost using the effective interest method,
- Commitments to receive or make a loan to another entity which meet the conditions above are held at cost less impairment.

South Lakes Housing Accounting Policies

For the year ended 31 March 2023

1. Principal Accounting Policies (continued)

Impairment of Financial Assets

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

The following financial instruments are assessed individually for impairment:

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

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

An impairment loss is measured as follows on the following instruments measured at cost or amortised cost:

a) For an instrument measured at amortised cost, the impairment loss is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.
b) For an instrument measured at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that the entity would receive for the asset if it were to be sold at the reporting date.

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed either directly or by adjusting an allowance account. The reversal cannot result in a carrying amount (net of any allowance account) which exceeds what the carrying amount would have been had the impairment not previously been recognised. The amount of the reversal is recognised in the Statement of Comprehensive Income immediately.

As part of the response to risks generated by the economic climate and rising costs of living, the estimation technique for calculating the impairment of arrears balances was reviewed to reflect the actual collection rates since year end.

Notes to the Financial Statements

For the year ended 31 March 2023

2. (a) Group turnover, operating expenditure, and operating surplus

31 March 2023	**Turnover**	**Operating Costs**	**Operating surplus**
	£000	£000	£000
Social Housing Lettings (note 3)	16,675	(13,486)	3,189
Other Social Housing Activities			
- Sale of first tranche shared ownership	3,418	(2,281)	1,137
- Development Activities not capitalised	-	(481)	(481)
- Other services	1,841	(943)	898
Activities other than Social Housing	130	(121)	9
Total	22,064	(17,312)	4,752

31 March 2022	**Turnover**	**Operating Costs**	**Operating surplus**
	£000	£000	£000
Social Housing Lettings (note 3)	15,733	(13,309)	2,424
Other Social Housing Activities			
- Sale of first tranche shared ownership	2,501	(2,074)	427
- Development Activities not. capitalised	-	(76)	(76)
- Other services	1,543	(864)	679
Activities other than Social Housing	162	(118)	44
Total	19,939	(16,441)	3,498

Notes to the Financial Statements

For the year ended 31 March 2023

2. (b) Association turnover, operating expenditure and operating surplus

31 March 2023	**Turnover £000**	**Operating Costs £000**	**Operating surplus £000**
Social housing lettings (note 3)	16,675	(13,486)	3,189
Other social housing activities			
- Sale of first tranche shared ownership	3,418	(2,281)	1,137
- Development activities not capitalised	-	(481)	(481)
- Other services	1,196	(298)	898
Activities other than social housing	130	(121)	9
Total	21,419	(16,667)	4,752

31 March 2022	**Turnover £000**	**Operating Costs £000**	**Operating surplus £000**
Social housing lettings (note 3)	15,733	(13,309)	2,424
Other social housing activities			
- Sale of first tranche shared ownership	2,501	(2,074)	427
- Development activities not capitalised	-	(76)	(76)
- Other services	1,067	(388)	679
Activities other than social housing	162	(118)	44
Total	**19,463**	**(15,965)**	**3,498**

Notes to the Financial Statements

For the Year ended 31 March 2023

3. (a) Group turnover and operating expenditure from social housing letting

	General needs housing	Housing for older people	Low cost home ownership	Total 2023	Total 2022
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Income					
Rent net of service charges and voids	14,072	1,765	134	15,971	15,080
Service charge income	49	361	20	430	379
Amortised government grants	254	14	6	274	274
Turnover from social housing lettings	**14,375**	**2,140**	**160**	**16,675**	**15,733**
Operating Expenditure					
Management	(3,952)	(595)	(43)	(4,590)	(4,911)
Service charge costs	(294)	(656)	(16)	(966)	(789)
Routine maintenance	(2,364)	(354)	-	(2,718)	(2,500)
Planned maintenance	(958)	(143)	-	(1,101)	(1,022)
Major repairs	(1,813)	(272)	-	(2,085)	(2,648)
Bad debts	(354)	(10)	(3)	(367)	187
Depreciation of housing properties:					
- annual charge	(1,286)	(94)	(17)	(1,397)	(1,327)
- on disposal of components	(240)	(22)	-	(262)	(299)
Operating expenditure of social housing lettings	**(11,261)**	**(2,146)**	**(79)**	**(13,486)**	**(13,309)**
Operating surplus on social housing lettings	**3,115**	**(6)**	**81**	**3,189**	**2,424**
Void losses	(69)	(19)	-	(88)	(144)

Notes to the Financial Statements

For the Year ended 31 March 2023

3. (b) Association turnover and operating expenditure from social housing letting

	General needs housing	**Housing for older people**	**Low cost home ownership**	**Total 2023**	**Total 2022**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Income					
Rent net of service charges and voids	14,072	1,765	134	15,971	15,080
Service charge income	49	361	20	430	379
Amortised government grants	254	14	6	274	274
Turnover from social housing lettings	**14,375**	**2,140**	**160**	**16,675**	**15,733**
Operating Expenditure					
Management	(3,952)	(595)	(43)	(4,590)	(4,911)
Service charge costs	(294)	(656)	(16)	(966)	(789)
Routine maintenance	(2,364)	(354)	-	(2,718)	(2,500)
Planned maintenance	(958)	(143)	-	(1,101)	(1,022)
Major repairs	(1,813)	(272)	-	(2,085)	(2,648)
Bad debts	(354)	(10)	(3)	(367)	187
Depreciation of housing properties:					
- annual charge	(1,286)	(94)	(17)	(1,397)	(1,327)
- on disposal of components	(240)	(22)	-	(262)	(299)
Operating expenditure of social housing lettings	**(11,261)**	**(2,146)**	**(79)**	**(13,486)**	**(13,309)**
Operating surplus on social housing lettings	**3,114**	**(6)**	**81**	**3,189**	**2,424**
Void losses	(69)	(19)	-	(88)	(144)

In line with Accounting Direction 2022, lease costs are analysed separately in Note 5 and Note 22 and are included within their relevant cost areas above.

Notes to the Financial Statements

For the Year ended 31 March 2023

4. Accommodation owned, managed and in development (Group & Association)

	2022	Additions	Disposals	Other	2023
	No.	No.	No.	No.	No.
In management and ownership					
General needs - social rent	2,633	13	(19)	-	2,627
General needs - affordable rent	128	33	(1)	1	161
General needs - intermediate rent	14	-	-	-	14
General needs - rent to buy	2	-	-	(1)	1
Housing for older people - social rent	420	-	-	-	420
Low cost home ownership	44	33	-	-	77
Total	**3,241**	**79**	**(20)**	**-**	**3,300**
In Management, but not ownership:					
Properties managed for local authorities	2	-	-	-	2
Properties managed for private parties	2	-	-	-	2
Properties managed for other registered providers	102	4	-	-	106
Leasehold properties	271	4	-	-	275
Total	**377**	**8**	**-**	**-**	**385**

As at 31 March 2023 there were 71 properties under development that were either committed purchases from developers under S106 agreements or SLH led projects that were under contract (156 as at 31 March 2022).

Notes to the Financial Statements

For the Year ended 31 March 2023

5. Surplus on ordinary activities

	2023	2022
	£'000	£'000
The operating surplus is stated after charging:		
Auditor's remuneration (excluding VAT):		
for external audit services	20	19
for non-audit services (accountancy, tax advisory)	3	2
Operating lease rentals:		
Land and buildings	171	186
Office equipment	8	7
Motor vehicles	196	159
Depreciation of housing properties (including write out of components)	1,659	1,626
Impairment of housing properties	-	-
Depreciation of other fixed assets (including write out of assets)	126	164
Gain on disposal of fixed assets	421	182

6. Gain on disposal of fixed assets (Group & Association)

	Right to buy sales	Other social housing property sales	Total	Total
	2023	2023	2023	2022
	£'000	£'000	£'000	£,000
Proceeds of sales	1,503	180	1,683	1,301
Less: cost of sales	(1,164)	(98)	(1,262)	(1,119)
Surplus	339	82	421	182

7. Interest receivable (Group & Association)

	2023	2022
	£'000	£,000
Bank & building society interest receivable	166	-

Notes to the Financial Statements

For the Year ended 31 March 2023

8. Interest payable and financing costs (Group & Association)

	2023	**2022**
	£'000	**£,000**
On defined benefit pension schemes	34	80
On loans repayable within 5 years	293	**-**
On loans wholly or partly repayable in more than 5 years	1,339	991
Total interest	**1,666**	**1,071**
Arrangement fees amortised or written off	74	52
Other finance costs including non-utilisation & trustee fees	187	111
	1,927	**1,234**
Interest payable capitalised on housing properties under construction	(131)	-
Total interest payable and similar charges	**1,796**	**1,234**

Capitalised interest was charged at a rate of 3.09%, based on the average weighted cost of borrowing during the year.

9. Employee information (Group & Association)

	2023	**2022**
	Number	**Number**
The average number of persons employed during the year, expressed in full time equivalents (37 hours per week) was:	116	116
Employee costs	**2023**	**2022**
	£'000	**£,000**
Wages and salaries	4,134	4,285
Social security costs	435	428
Other pension costs	329	788
	4,898	**5,501**

Wages and salaries include exceptional restructure costs of £nil for 2022/23, including buy-out of contractual benefits (2021/22: £482k).

Social Security costs includes exceptional National Insurance Contributions of £nil in respect of the buy-out of contractual benefits (2021/22: £38k).

Other pension costs include a defined benefit pension cost accounting adjustment of (£207k) for 2022/23 (£274k for 2021/22) and exceptional expenditure of £nil (2021/22: £14k).

Notes to the Financial Statements

For the Year ended 31 March 2023

The aggregate number of full time equivalent staff whose remuneration, including pension contributions, exceeded £60,000 in the period:	**2023 Number**	**2022 Number**
£60,000 to £69,999	5	1
£70,000 to £79,999	1	2
£80,000 to £89,999	1	1
£90,000 to £99,999	3	2
£100,000 to £109,999	-	-
£110,000 to £119,999	-	-
£120,000 to £129,999	-	2
£130,000 to £139,999	1	1

10. Key Management personnel remuneration (Group & Association)

	2023	**2022**
	£'000	**£,000**
The aggregate emoluments paid to or receivable by non-executive directors and former non-executive directors	38	38
The aggregate emoluments paid to or receivable by executive directors and former executive directors	541	569
The emoluments paid to the highest paid director excluding pension contributions	118	118

Remuneration payable to the highest paid director in relation to the period of account amounted to £117,687 (2022: £117,697), excluding pension contributions.

The Chief Executive of South Lakes Housing received remuneration for the year ended 31 March 2023, excluding pension contribution of £117,687 (2022: £113,772).

The Chief Executive was a member of a defined benefit pension scheme during the year. The defined benefit pension scheme is a Career Average Revalued Earnings (CARE) scheme funded by annual contributions by the employer and employee. No enhanced or special terms apply. There are no additional pension arrangements.

Key management personnel are defined as the members of the Board, the Chief Executive and any other person who is a member of the executive management team or their equivalent.

During the year, the aggregate compensation for loss of office of key management personnel was £nil (2022: £63,652).

Notes to the Financial Statements

For the Year ended 31 March 2023

11. Non-executive Board Members remuneration (Group & Association)

	2023	**2022**
	£'000	**£,000**
Ian Munro	6,000	6,000
Steve Bentley	3,000	2,884
Keith Bevan	4,000	4,000
Loraine Birchall	1,500	3,000
Stephen Bolton	2,250	3,000
John Burt	3,500	3,500
Kerry Byrne	3,000	3,000
Silas Heys	3,000	3,000
John Holmes	-	500
Susanne Long	3,000	3,000
Brain McDonough	1,500	3,000
George Taylor	1,500	3,083
Catherine Lindsay	1,500	-
Anthony Muir	1,500	-
Nicola Haywood-Alexander	1,500	-
Lesley Peters	1,500	-
Total	**38,250**	**37,968**

Notes to the Financial Statements

For the Year ended 31 March 2023

12. Tax on Surplus on Ordinary Activities (Group & Association)

	2023	**2022**
	£'000	**£,000**
Current Taxation:		
UK Corporation Tax charge for the year	**-**	**-**
Deferred taxation:		
Net origination and reversal of timing differences	**-**	**-**
Tax on surplus on ordinary activities	**-**	**-**

The tax assessed

The tax assessed in the year is lower than the standard rate of corporation tax in the United Kingdom at 0% (2022: 0%). The differences are explained as follows:	**2023**	**2022**
Total tax reconciliation	**£'000**	**£'000**
Surplus on ordinary activities before taxation	3,544	2,446
Theoretical tax at UK corporation tax rate of 19% (2022: 19%)	673	465
Effects of:		
Surpluses relating to charitable period	(673)	(465)
Total taxation charge	-	-

Notes to the Financial Statements

For the Year ended 31 March 2023

13. (a) Tangible fixed assets (Group & Association)

	Social Housing Properties for Letting Completed	Social Housing Properties for letting under Construction	Shared Ownership Housing Properties Completed	Shared Ownership Housing Properties Under Construction	Total Housing Properties
	£'000	£'000	£'000	£'000	£'000
Cost					
As at 1 April 2022	113,607	3,386	3,539	1,254	121,786
Additions	-	5,346	-	3,709	9,055
Components capitalised	3,496	-	-	-	3,496
Schemes completed	7,400	(7,400)	3,400	(3,400)	-
Disposals	(718)	-	(80)	-	(798)
Component disposals	(323)	-	-	-	(323)
As at 31 March 2023	**123,462**	**1,332**	**6,859**	**1,563**	**133,216**
Depreciation and impairment					
As at 1 April 2022	(8,919)	-	(7)	-	(8,926)
Charge for the year	(1,380)	-	(17)	-	(1,397)
Disposals	114	-	-	-	114
Component disposals	61	-	-	-	61
As at 31 March 2023	**(10,123)**	**-**	**(24)**	**-**	**(10,148)**
Net book value 31 March 2023	**113,338**	**1,332**	**6,835**	**1,563**	**123,068**
Net book value 31 March 2022	104,688	3,386	3,532	1,254	112,860

Expenditure to works on existing properties

	2023	**2022**
	£'000	**£,000**
Amounts capitalised: energy efficiency for the decarbonisation of properties	626	-
Amounts capitalised: excluding energy efficiency for the decarbonisation of properties	2,870	2,735
Capitalised Major Repairs	3,496	2,735
Amounts charged to Statement of Comprehensive Income	2,085	2,648
Total Major Repairs	**5,581**	**5,383**

Notes to the Financial Statements

For the Year ended 31 March 2023

13. (b) Other tangible fixed assets (Group & Association)

	Computer Equipment	IT Infrastructure & Applications	Furniture & Fittings	Total
	£'000	£'000	£'000	£'000
Cost				
As at 1 April 2022	644	586	425	1,655
Additions	48	87	-	135
Disposals	-	-	-	-
As at 31 March 2023	**692**	**673**	**425**	**1,790**
Depreciation and Impairment				
As at 1 April 2022	(622)	(240)	(322)	(1,184)
Charge for the year	(20)	(64)	(43)	(127)
Disposals	-	-	-	-
As at 31 March 2023	**(642)**	**(304)**	**(365)**	**(1,311)**
Net book value 31 March 2023	**50**	**369**	**60**	**479**
Net book value 31 March 2022	22	346	103	471

14. Stock (Group & Association)

	2023	**2022**
	£'000	**£,000**
First tranche shared ownership properties:		
Completed	951	897
Under construction	837	728
	1,788	1,625
Materials in Stock	88	68
	1,876	**1,693**

Notes to the Financial Statements

For the Year ended 31 March 2023

15a. Group Trade and Other Debtors

	2023	2022
	£'000	£,000
Rent and service arrears	1,043	1,028
Less: provision for bad debts	(715)	(402)
	328	**626**
Other debtors	188	157
Prepayments and accrued income	198	377
Value Added Tax	143	161
Stock transfer obligation (note 24)	6,149	6,130
	7,006	**7,451**

15b. Association Trade and Other Debtors

	2023	2022
	£'000	£,000
Rent and service charge arrears	1,043	1,028
Less: provision for bad debts	(715)	(402)
	328	**626**
Other debtors	188	157
Prepayments and accrued income	198	376
Value Added Tax	143	161
Stock transfer obligation (note 24)	6,149	6,130
	7,006	**7,450**

Notes to the Financial Statements

For the Year ended 31 March 2023

16a. Group Creditors: Amounts falling due within one year

	2023	2022
	£'000	£,000
Rent and service charges received in advance	340	429
Trade creditors	253	1,057
Accruals and deferred income	2,098	3,204
Other taxation and social security	101	92
Other creditors	24	145
Deferred capital grant (note 17c)	329	292
Stock transfer obligation (note 24)	6,149	6,130
	9,294	**11,349**

16b. Association Creditors: Amounts falling due within one year

	2023	2022
	£'000	£,000
Rent and service charges received in advance	340	429
Trade creditors	253	1,084
Accruals and deferred income	2,098	3,204
Other taxation and social security	101	92
Other creditors	24	117
Deferred capital grant (note 17c)	329	292
Stock transfer obligation (note 24)	6,149	6,130
	9,294	**11,348**

Notes to the Financial Statements

For the Year ended 31 March 2023

17a. Creditors: Amounts falling due after more than one year (Group & Association)

	2023	**2022**
	£'000	**£,000**
Loans	54,115	35,611
Deferred capital grant	24,883	24,728
Stock transfer obligation (note 24)	26,775	32,377
	105,773	**92,716**

17b. Debt Analysis (Group & Association)

	2023	**2022**
	£'000	**£,000**
Loans repayable by instalments		
Within one year	-	-
In five years or more	30,000	20,000
Loans not repayable by instalments		
Within one year	-	-
In two years or more but less than five	10,000	-
In five years or more	15,000	16,500
Less loan arrangement fees	(885)	(889)
	54,115	**35,611**

M&G Investments have provided finance of £20m since May 2017 at a fixed interest rate of 3.18%. This facility is fully drawn and secured by a fixed charge over association assets, based on a mixture of Existing Use Value and Market Value (Tenanted) valuation bases. A further £15m was drawn in the year being £7.5m maturing 2037 at 3.27% and £7.5m maturing 2047 at 3.32%. The Association's total facilities with M&G Investments facilities as at 31 March 2023 are £35m.

National Westminster Bank Plc have provided facilities of £20m since May 2017. During 2020/21 this facility was increased to £40m. A further £10m was approved and secured in 2021/22 resulting in total facilities of £50m. As at 31 March 2023, £20m was drawn, with £10m at fixed interest rates (£5m at 2.98% and £5m at 2.882%) and £10m at fixed interest rates of 2.784%. The facilities are secured by a fixed charge over Association assets, on a mixture of Existing Use Value and Market Value (Tenanted) valuation bases.

Loan arrangement fees are capitalised and amortised over the remaining life of the loans. No material amendment was made to existing facilities as part of the 2021/22 refinancing. Charges to the revenue account for 2022/23 reflect only the regular amortisation of fees over the life of the loans.

Notes to the Financial Statements

For the Year ended 31 March 2023

17c. Deferred capital grant (Group & Association)

	2023	**2022**
	£’000	**£,000**
Gross as at 1 April	27,395	25,462
Recognised as income 1 April	(2,375)	(2,101)
Net as at 1 April	25,020	23,361
Grant received in the year	584	2,061
Released to income in the year	(274)	(274)
Relating to disposals in the year	(118)	(128)
As at 31 March	**25,212**	**25,020**
Amount to be released < 1year	329	292
Amount to be released > 1year	24,883	24,728
As at 31 March	**25,212**	**25,020**

18. Analysis of changes in net debt (Group & Association)

	At 1 April 2022	Cash Flows	Non-cash Movements	At 31 March 2023
	£’000	£’000	£’000	£’000
Cash and cash equivalents	3,011	10,020	-	13,031
Housing loans due in one year	-	-	-	-
Housing loans due after one year	(35,611)	(18,430)	(74)	(54,115)
	(32,600)	**(8,410)**	**(74)**	**(41,084)**

Notes to the Financial Statements

For the Year ended 31 March 2023

19. Pension obligations (Group & Association)

	2023	2022
	£'000	£,000
Actuarial (losses) and gains on defined benefit pension schemes:		
Local Government Pension Scheme (note 19a)	1,259	2,065
Social Housing Pension Scheme (note 19b)	(292)	584
Statement of Total Comprehensive Income	**967**	**2,649**
Pension liability:		
Local Government Pension Scheme (note 19a)		
Present value of funded obligations	(14,900)	(22,658)
Fair value of plan assets	19,743	21,463
Surplus not recognised	(4,843)	-
	-	(1,195)
Social Housing Pension Scheme (note 19b)		
Present value of funded obligations	(1,458)	(2,264)
Fair value of plan assets	1,200	2,061
	(258)	(203)
Pension liability	**(258)**	**(1,398)**

19a. Local Government Pension Scheme (LGPS)

The LGPS is a funded defined-benefit scheme, with the assets held in separate funds administered by Westmorland and Furness Council. The total contributions made for the year ended 31 March 2023 were £79,943 of which employer's contributions totalled £64,142 and employees' contributions totalled £15,801. The agreed contribution rates for future years are 22.9% for employers and range from 5.5% to 12.5% for employees, depending on salary.

The Association's participation in the plan has a gross surplus at the reporting date of £4,843,000, as reported by the independent scheme actuaries. In accordance with Financial Reporting Standard 102 (FRS102) an asset can be recognised to the extent that it is able to recover the surplus through either reduced contributions in the future, or through refunds from the plan. As at the reporting date the Association has only nine employees in the scheme and the scheme has confirmed a reduction in employer contributions of 2.9% effective from the reporting date. The reduction in contributions will result in an immaterial recovery of the gross surplus and therefore the Association has not recognised the surplus of £4,843,000 in the SOFP and limited the recognition of the actual gains in the Statement of Comprehensive Income to £1,195,000, representing a recognition of gains to report a £nil surplus / (deficit) position as at the reporting date in the SOFP.

Notes to the Financial Statements

For the Year ended 31 March 2023

Principal Actuarial Assumptions:
The following information is based upon a full actuarial valuation of the fund at 31st March 2022 updated to 31st March 2023 by a qualified independent actuary.

	2023	2022
	% per annum	% per annum
Rate of increase in salaries	4.2	4.8
Rate of increase in pensions in payment	3.4	3.4
Discount rate	4.8	2.8
Inflation assumptions (CPI)	2.7	3.3

The current mortality assumptions include sufficient allowance for future improvements in mortality rates. The assumed life expectations on retirement age 65 are:

	2023	2022
	Years	Years
Retiring today		
Males	21.9	22.6
Females	24.2	25.3
Retiring in 20 years		
Males	23.3	24.1
Females	26.0	27.1

Analysis of the amounts charged to operating costs in the Statement of Comprehensive Income

	2023	2022
	£'000	£,000
Employer service cost (net of employee contributions)	96	181
Total operating charge	**96**	**181**

Analysis of pension finance income / (costs)

	2023	2022
	£'000	£,000
Expected return on assets	(593)	(415)
Interest on pension liabilities	625	480
Amounts charged / (credited) to financing costs	**32**	**65**

Notes to the Financial Statements

For the Year ended 31 March 2023

19a. Pension obligations (Group & Association) (continued)

Amount of gains and losses recognised in the Statement of Comprehensive Income

	2023 £'000	2022 £,000
Actuarial (losses) / gains on pension scheme assets	(1,744)	1,509
Actuarial gains / (losses) on scheme liabilities	7,846	556
Surplus not recognised	(4,843)	-
Actuarial gain / (loss) recognised	**1,259**	**2,065**

Movement in surplus / (deficit) during the year

	2023 £'000	2022 £,000
(Deficit) in scheme at 1 April	(1,195)	(3,124)
Movement in year:		
Employer service cost (net of employee contributions)	(94)	(177)
Employer contributions	64	110
Net (interest) / return on assets	(32)	(65)
Re-measurements	6,102	2,065
Administration expenses	(2)	(4)
Surplus / (Deficit) in scheme at 31 March	**4,843**	**(1,195)**

Asset and Liability Reconciliation

Reconciliation of liabilities	2023 £'000	2022 £,000
Liabilities at start of period	22,658	23,073
Service cost	94	177
Interest cost	625	480
Employee contributions	16	30
Re-measurements	(7,846)	(556)
Benefits paid	(647)	(546)
Liabilities at end of period	**14,900**	**22,658**

Notes to the Financial Statements

For the Year ended 31 March 2023

19a. Pension obligations (Group & Association) (continued)

Reconciliation of assets	**2023 £'000**	**2022 £'000**
Assets at start of period	21,463	19,949
Return on plan assets	593	415
Re-measurements	(1,744)	1,509
Administration expenses	(2)	(4)
Employer contributions	64	110
Employee contributions	16	30
Benefits paid	(647)	(546)
Assets at end of period	**19,743**	**21,463**
Actual return on plan assets	**(832)**	**1,923**

19b. Pension obligations (Group & Association)

Social Housing Pension Scheme

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.

Notes to the Financial Statements

For the Year ended 31 March 2023

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 28 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.

Principal Actuarial Assumptions

The following information is based upon a full actuarial valuation of the fund at 30 September 2020 updated to 31st March 2023 by a qualified independent actuary.

	2023	**2022**
	% per annum	**% per annum**
Rate of increase in salaries	3.8	4.1
Discount rate	4.8	2.8
Inflation assumptions (CPI)	2.8	3.1

The assumed life expectancy on retirement age 65 are

	2023	**2022**
	Years	**Years**
Retiring today		
Males	21.0	21.1
Females	23.4	23.7
Retiring in 20 years		
Males	22.2	22.4
Females	24.9	25.2

Analysis of the amounts charged to operating costs in the Statement of Comprehensive Income

	2023	**2022**
	£'000	**£'000**
Employer service cost (net of employee contributions)	173	552
Expenses	10	-
Total operating charge	**183**	**552**

Notes to the Financial Statements

For the Year ended 31 March 2023

19b. Pension obligations (Group & Association) (continued)

Analysis of pension finance costs

	2023	**2022**
	£'000	**£'000**
Expected return on assets	(65)	(32)
Interest on pension liabilities	67	47
Amounts charged / (credited) to financing costs	**2**	**15**

Amounts of gains and losses recognised in the statement of Comprehensive Income

	2023	**2022**
	£'000	**£'000**
Actuarial (losses) / gains on pension scheme assets	(1,494)	356
Actuarial gains / (losses) on scheme liabilities	1,202	228
Actuarial (loss) / gain recognised	**(292)**	**584**

Movement in deficit during the year

	2023	**2022**
	£'000	**£'000**
(Deficit) in scheme at 1 April	(203)	(569)
Movement in the year:		
Employer service cost (net of employee contributions)	(173)	(552)
Employer contributions	422	349
Net (interest) / return on assets	(2)	(15)
Re-measurements	(292)	584
Administration expenses	(10)	-
(Deficit) in scheme at 31 March	**(258)**	**(203)**

Notes to the Financial Statements

For the Year ended 31 March 2023

19b. Pension obligations (Group & Association) (continued)

Asset and Liability Reconciliation

Reconciliation of liabilities	**2023 £'000**	**2022 £'000**
Liabilities at start of period	2,264	1,805
Service cost	173	552
Interest cost	67	47
Employee contributions	192	128
Re-measurements	(1,202)	(228)
Benefits paid	(46)	(40)
Expenses	10	-
Liabilities at end of period	**1,458**	**2,264**

Reconciliation of assets	**2023 £'000**	**2022 £'000**
Assets at start of period	2,061	1,236
Return on plan assets	65	32
Re-measurements	(1,494)	356
Employer contributions	422	349
Employee contributions	192	128
Benefits paid	(46)	(40)
Assets at end of period	**1,200**	**2,061**
Actual return on plan scheme assets	**(1,429)**	**388**

Notes to the Financial Statements

For the Year ended 31 March 2023

20. Non-equity share capital (Group & Association)

	2023	**2022**
	No. of shares	**No. of shares**
Allotted, Issued and Fully paid		**23**
As at 1 April	23	23
Shares issued during the year	4	1
Cancelled during the year	(3)	(1)
As at 31 March	**24**	**23**

The par value of each share is £1. The shares do not have a right to any dividend or distribution in a winding-up and are not redeemable. Each share had full voting rights. All shares are fully paid.

21. Capital commitments (Group & Association)

	2023	**2022**
	£'000	**£'000**
Capital expenditure that has been contracted for but has not been provided for in the financial statements	6,136	15,267
Capital expenditure that has been authorised by the committee of management but has not yet been contracted for.	24,864	30,528
	31,000	**45,795**

Capital expenditure from 1st April 2023 includes proposed development costs to build and acquire new properties during the period to 2025. The Association expects to finance the above expenditure with a combination of public authority grants, loans drawn down under existing loan arrangements and cash reserves generated from operations and property sales.

In addition, Board approved £482k (2021/22: £503k) of non-housing capital budget and £7,494k (2021/22: £3,847k) of capital major repairs and energy efficiency works to achieve EPC band 'C' for 2023/24, these are included within the authorised not contracted total.

Notes to the Financial Statements

For the Year ended 31 March 2023

22. Operating leases (Group & Association)

SLH holds properties, vehicles and plant and equipment under non-cancellable operating leases. At the end of the year commitments of future minimum lease payments were follows:

	2023	2022
	£'000	£'000
Land and buildings		
In one year or less	197	142
In one year or more but less than two years	197	69
In two years or more and less than five years	464	85
In five years or more	629	634
Others		
In one year or less	103	4
In one year or more but less than two years	105	-
In two years or more and less than five years	296	-
In five years or more	0	-
	1,991	**934**

The lease agreements do not include any contingent rent or restrictions. Leases for land and buildings include renewal periods after 5 years throughout the lease except for the long lease for land at Halton which was entered into during 2021/22 as part of the Halton Passivhaus development scheme. This is an annual rental of £4.4k with a 150 year lease term, with a break option at year 55. This was assessed against the FRS102 criteria for lease classification and has been accounted for as an operating lease.

23. Related party transactions

Tenant Board Members

The Board has tenant members who hold tenancy agreements on normal terms and cannot use their position to their advantage. Rent & services charged to the tenant board members, during their period of board membership, within the year ended 31 March 2023 was £8,139 (2022: £8,800). There are arrears on their tenancies at the reporting period end of £356 (2022: £268).

24. Stock transfer obligations

Immediately prior to entering into the Stock Transfer Agreement between the Council and the Association, the Council and Association entered into a contract for the Association to perform the refurbishment works required to bring the properties into an agreed state.

The contract was for a fixed sum equal to the expected cost of the works i.e. £96.04 million. At transfer the Association contracted with the Council to acquire the benefit of the agreed refurbishment works (£96.04 million). The nature of the works under the initial agreement was specified and a right of set off exists between the contracts. These contracts have enabled the Association to recover VAT on repair/improvement costs that would otherwise have been expensed.

Notes to the Financial Statements

For the Year ended 31 March 2023

The impact of these two transactions is that whilst the Council has a legal obligation to the Association to complete the refurbishment works this work has been contracted back to the Association who are also legally obligated. The underlying substance of the transaction is therefore that the Association has acquired the properties in their existing condition at their agreed value and will complete certain repairs/improvements in line with guarantees to tenants of not less than £96.04 million.

The amount outstanding at the 31st March 2023 was £32,924k of which £6,149k is due in less than one year and £26,775k is due in more than one year (2023: £38,507k, £6,130k & £32,377k respectively). The gross value of the major repairs programme for the period to the end of the VAT shelter is £38,979k which is greater than the balance of the outstanding obligation.

25. Contingent liability

In the year ended 31 March 2022, the Association acquired 11 properties from Great Places Housing Group. The properties were acquired and capitalised based on a £700k net acquisition cost (£1,450k gross valuation less of £750k of grant). The grant (or part thereof) may become re-payable should the properties (or individual property) be disposed of. Any grant repayable would likely be met in full out of the sales receipt.

Senior managers were consulted on their knowledge of any other events which could result in contingent liabilities requiring disclosure as at 31 March 2023. No further contingent liabilities were identified (2022: none).

26. Group Undertakings

The Consolidated financial statements incorporate the results of Cumbrian Housing and Property Services (CH&PS) Limited. South Lakes Housing provides the labour and associated costs to CH&PS which is a cost sharing vehicle. Costs are shared with another Housing Association and are allocated between the two organisations according to volume of work each organisation provides. There is no mark up or profit generated as all transactions are made at cost. During the year CH&PS charged £3.14m to SLH from of a gross turnover of £3.78m.

CH&PS ceased all operations 31 March 2023 and since this date the company is dormant. The provision of responsive maintenance services provided in the year ended March 2023 by CH&PS are, with effect from 1 April 2023, provided directly by South Lakes Housing to the unrelated Housing Association.

27. Post Balance Sheet Events

The Regulator of Social Housing (RSH) undertook an In Depth Assessment (IDA) regulatory review of the Association in April to June 2023 as part of the routine four yearly cycle. The RSH confirmed on 5 July 2023 that SLH has retained the highest governance rating of G1 and retained Financial Viability rating of V2, confirming the Association continues to meet the Regulatory Standards.