karbon homes

Providing a strong foundation for life.

Financial Statements 2022/2023

for the year ended 31 March 2023

Contents

About us

At Karbon Homes, we build, manage and look after affordable homes for people across the North. And then we go further, we give them the strong foundations they need to get on with life.

Since our formation in 2017, we've focused on delivering our three strategic aims – to provide as many good quality homes as we can, to deliver an excellent customer experience, and to shape strong, sustainable places for our communities.

Our footprint covers the North East of England and Yorkshire, with around 32,000 homes across diverse communities, all facing different opportunities and challenges.

We always make the effort to understand our customers. We believe that everyone deserves respect and everyone's voices should be heard.

Some customers just need an affordable home, or a way onto the property ladder. Others might need more – financial advice, community services, sheltered accommodation or even training that can lead to a new job. Whatever people need to feel more secure, confident and happy with where they're at, we work hard to provide it.

As a profit-for-a-purpose organisation, we invest any surplus we generate into improving our properties and communities, building new homes and delivering services which provide sustainable outcomes for our customers and communities.

We believe that by combining a sound business head with a strong social heart and staying true to our values, we can build strong foundations for even more people.

Karbon Homes is a charitable registered society and is regulated by the Regulator of Social Housing.

Operating and financial review

Looking back on 2022/23

The last year has been an incredibly challenging one for the housing sector and for our customers.

But despite the difficult external environment we have found ourselves in, facing lots of competing demands and expectations, we haven't lost sight of our core purpose, to provide our customers, colleagues and communities with a strong foundation for life.

We have pushed on with a number of new and exciting projects across the organisation and have continued to invest in ensuring Karbon Homes is a supportive and empowering place to work for our colleagues.

But most importantly we have kept our customers at the heart of everything we have done, investing in the services we offer which help provide strong foundations for life.

Providing as many good quality homes as we can

Despite a challenging environment, our new homes development programme has remained strong and we've celebrated the start of 762 and completion of 529 new homes across the region.

Home ownership remains an aspiration for many of our customers and we've seen a growth in demand for affordable home ownership tenures. Our low-cost home ownership sales had a strong year, handing over 77 homes.

These achievements give us great strides in achieving our ambitious target of delivering 4,000 new homes across the North East and Yorkshire by 2028.

The challenge of achieving net zero by 2050 remains front and centre within our new homes programme and we've continued to explore more ways in which we can ensure the homes we build are as energy efficient as possible.

We have also continued to invest in improving the energy efficiency of our existing homes, spending £3.2m on improvements to help bring our lowest performing homes up to EPC C by 2030.

Ongoing routine planned and responsive investment to ensure our homes are of good quality remains a top priority and, through our planned maintenance programme, we have spent over £30m on ensuring our existing homes continue to meet the Decent Homes Standards.

We have also invested £12.6m in a range of building and customer safety programmes of work to help ensure our customers are as safe and secure in their homes as they can be.

The recent high-profile cases of damp and mould in the media have put this issue into sharp focus for us. We began to review our approach to tackling damp and mould early last year and continue to look to improve it to ensure it is as robust and proactive as possible.

We have been carrying out extensive stock condition surveys of every one of our homes and will have attempted to gain access to 100% of homes by the end of the summer 2023.

Delivering an excellent customer service

Our customers are at the heart of everything we do and we aim to provide them with an excellent experience each and every time.

To ensure we are reaching service excellence, we rolled out a new suite of customer service skills training modules, to improve the way we handle customer enquiries. Modules include training on empathy, active listening and managing difficult and tense interactions.

We have also updated our Complaints, Compliment and Suggestions Policy and Procedure, to make it as clear as possible to residents what they can expect from us when they make a complaint and how to progress their complaint. We have also made some improvements to our complaints management system, helping all colleagues to accurately capture, monitor and update case work relating to customer complaints.

Our customer Net Promoter Score (NPS), which establishes how likely customers are to recommend us to their friends and family if they were in a similar situation and looking for housing, sits at +39.8.

Ranging from -100 to +100, any score above 0 is considered good and above 50 is excellent.

We have developed more ways for customers to get involved with the work we're doing, including setting up a Customer Scrutiny Bank to provide opportunities for customers to scrutinise different Karbon Homes' services. The bank's first review focused on customer and building safety and a number of their recommendations have been implemented into our action plans.

As we continue to see the cost of living rise and more customers turning to us for help, our Money Matters Team have helped 4,569 new customers maximise their income through money, benefits and debt advice, generating close to £4m of income gains.

We have also invested more into our customer hardship fund enabling frontline colleagues to make non-repayable awards of up to £100, in a combination of cash and fuel vouchers, to customers who are facing going hungry or without heating and electricity.

Shaping strong, sustainable places

Our mission is to provide people with a strong foundation for life. However, in some areas, place-based challenges can hold local communities back and has an impact on whether people living there get to reach their potential.

This year we launched Fair Foundations, our refreshed approach to supporting our communities. This moves away from a concentration on investment in alleviating the problems places face and focuses on setting new goals that help tackle the roots of these problems, in order to prevent them and facilitate long-lasting change.

We are piloting this approach in two Karbon Impact Areas – Byker and Stanley. We have worked closely with customers, colleagues and the local community there to understand the challenges they face and what sustainable difference we can make.

To help tackle issues around the lack of employment opportunities we launched our second round of New Start, our innovative paid placement programme providing career starter roles with a range of local employers. We have set up 15 paid, five-month work placements, helping residents there to overcome the barriers around getting into employment and changing career.

We are also embarking on an extensive £11m neighbourhood improvement plan on the Byker Estate to help improve the physical fabric of the place.

Made up of 11 neighbourhood masterplans, each influenced by the residents living there, the plan sets to address each neighbourhood's specific challenges, from waste management improvements to car parking and safe play spaces.

Alongside the intensive work we're doing in our two impact areas, we intend to make a positive contribution across our geographical footprint. Through our Community Investment Fund, we have supported 176 initiatives with grants totalling over £317,000.

Our Foundations for Life employability and skills team have supported more than 400 customers, 169 of which they have helped into employment or to complete training or qualifications.

We also had three Karbon customers join the organisation in apprenticeship roles.

Create enablers of our success

We have worked hard over the last year to provide colleagues with the right environment and a supportive culture, constantly investing in our people and ways of working.

In 2022 we held our first in-person, all colleague conference, designed to help colleagues feel connected to our purpose, the leadership team and each other and understand their role in delivering our mission.

We also co-created with colleagues our new blended and agile working approach, which empowers and trusts colleagues to find the right balance between their needs and the needs of the business and our customers. Alongside this we refreshed our flexible working policy and have granted 30 flexible working requests.

To support agile working we rolled out our Get Back 30 project, which has helped improve the efficiency of lots of our day-to-day operations and processes through digitalisation and automation.

For the year, our Employee Net Promoter Score (eNPS), a metric which measures how likely employees are to recommend an organisation as a good place to work, sat at +23. Scored between -100 and +100, -10 to +20 scores are considered good.

We are always looking for new opportunities to build our capacity, creating efficiencies through growth and in December 2023 we welcomed 54North Homes to the Karbon Group, a merger between Leeds & Yorkshire Housing Association and our subsidiary York Housing Association.

The new organisation has created a stronger, more effective organisation, with a continued local approach and understanding of its customer base, and has strengthened Karbon's presence in Yorkshire.

We have continued to maintain the highest standards of governance practice and have retained our G1/V1 rating, certifying that we continue to meet the Regulator of Social Housing's high governance standards (G1) and its financial viability requirements (V1).

We have also had our external group credit rating boosted from 'A stable' to 'A positive', reflecting our strong key financial metrics despite challenges affecting the social housing sector.

Operating and financial review

Overview of business

The principal activity of Karbon Homes is the provision of affordable homes for rent and low-cost home ownership, together with housing for customers with additional support needs.

Karbon Homes is registered with the Regulator of Social Housing (RSH) as a registered provider of affordable housing.

Karbon Homes is the parent association of 54North Homes Limited (54NH) formerly York Housing Association Limited (YHA), which is also registered with the RSH.

Both associations are charitable and are registered as societies under the Co-operative and Community Benefit Societies Act 2014.

Karbon Homes Limited engages in commercial activities through its subsidiary companies: Prince Bishops Homes Limited (market rent and for-sale development), Karbon Solutions Limited (cost sharing group), Enterprise Durham Partnership Limited (social enterprise), Next Level Developments Limited (residential development), Karbon Developments Limited (development services) and Karbon Land Ventures Limited (property development).

Following a robust due diligence process and consultation with customers, on 16 December 2022 York Housing Association acquired Leeds & Yorkshire Housing Association via a transfer of engagement. York Housing Association then proceeded to change its name to 54North Homes Limited. The purpose of the partnership is to create a stronger, more effective organisation with a continued local approach and understanding of its customer base, and a strengthened presence in Yorkshire.

IC Realisations Limited, previously called Invisible Creations Limited, went into liquidation in January 2023. The investment was written off and the provision against the loss written back. This is disclosed in note 17.

During 2020/21, Next Level Developments Limited entered into a limited liability partnership (LLP) with JC Quay Limited and UKQ Residential Investments Limited to develop new apartments at the Fish Quay at North Shields. Following the completion of this development in 2022/23 Next Level Developments Limited ceased to be a member of the LLP on 24 January 2023.

Karbon Homes is responsible for establishing the group's overall policies and strategies, and for monitoring compliance with group values and performance against group targets, within a clearly defined framework of delegation and system of control.

The group's head office is based in Newcastle upon Tyne and its homes are primarily in the North East of England and Yorkshire.

More detail of the group's structure is provided in note 18.

Financial performance in the period

The detailed results for the year are set out in the group's Consolidated Statement of Comprehensive Income on page 46 and the notes to the financial statements on pages 53 to 112. The following table provides a summary of the group's results:

For the year ended 31 March	2023	2022	2021	2020	2019	2018
		Restated				
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Turnover	**165,604**	155,186	142,400	135,933	129,426	126,678
Negative goodwill	**53,483**	8,561	-	-	-	1,693
Operating surplus	**100,395**	52,625	38,757	38,622	33,538	32,980
Deficit on sale of other fixed assets	**(346)**	(146)	-	-	-	(21)
Net interest payable, other finance costs	**(17,799)**	(19,608)	(19,190)	(17,684)	(18,559)	(12,939)
Unrealised gain/(loss) on revaluation of housing properties	**1,140**	2,740	2,794	1,223	(8,827)	2,574
Share of operating deficit in associate	**-**	-	(67)	-	-	-
Surplus for the year before tax	**83,390**	35,611	22,294	22,161	6,152	22,594

Turnover has increased year on year by 7%, mainly as a result of the rent increase of 4.1% and rent from the development of new properties. We have also seen growth in our subsidiary in York, now re-branded as 54North Homes, following the merger of York Housing Association and Leeds & Yorkshire Housing Association in December 2022. This has resulted in a negative goodwill adjustment in 2023 and in 2022 there was a negative goodwill adjustment in relation to the transfer of Byker Community Trust. Operating surplus has also increased as a result of these changes. Net interest payable has reduced year on year due to the increase in interest receivable which is due to more favourable rates on investments. There has been a gain on the revaluation of investment properties, predominately held in our Prince Bishops Homes subsidiary, which is a sign of the current strong housing market. As a housing association, our surplus will be re-invested in the development of new homes and improvements to existing homes.

Statement of financial position

The detailed Consolidated Statement of Financial Position is provided on page 48 and supporting details can be found in the notes to the financial statements on pages 53 to 112.

For the year ended 31 March	2023	2022	2021	2020	2019	2018
		Restated				
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Fixed assets	**1,232,785**	1,054,319	974,766	921,732	867,549	789,745
Net current assets	**28,671**	85,674	129,500	34,928	66,524	27,386
Total assets less current liabilities	**1,261,456**	1,139,993	1,104,266	956,660	934,073	817,131
Creditors falling due after more than one year	**(511,757)**	(486,419)	(501,669)	(381,796)	(389,804)	(291,341)
Deferred grants	**(297,028)**	(284,695)	(272,742)	(267,670)	(260,841)	(253,935)
Provision for liabilities and charges	**(1,978)**	(1,855)	(1,186)	(394)	(2,476)	(2,445)
Pension liability	**(8,588)**	(24,403)	(40,925)	(27,975)	(35,503)	(22,490)
Reserves	**442,105**	342,621	287,744	278,825	245,449	246,920

The increase in fixed assets reflects the transfer of Leeds & Yorkshire Housing Association into 54North Homes, the investment in the development of new homes and our continued investment in our existing homes. The investment in new homes and in existing homes has been financed primarily by the £250.0m bond financing which we have put in place over the last three years. The movement in net current assets is mainly due to a decrease in cash and investments as this is used for working capital. The reduction in pension liability is due to a £16.9m surplus on Tyne and Wear and Durham pension schemes which converted the 2021/22 deficit to a surplus in 2022/23.

Operating and financial review (continued)

Capital structure, treasury policy and activity

The group had £594.8m of committed debt funding of which £479.2m is drawn. £115.6m remained undrawn and available to fund the group's asset management and ongoing new homes development programmes.

Debt is secured by specific charges on housing land and buildings.

The group borrows, principally from banks, building societies and capital markets, at both fixed and floating rates of interest. The Group Treasury Management Policy includes a target of maintaining a portfolio of fixed rate borrowing of between 70% to 90%. The proportion of fixed rate borrowings at 31 March 2023 was 95% (2022: 96%). Board approved the original divergence outside of our typical 70 to 90% fixed rate funding range back in October 2018, as a result of the process of issuing £250.0m in bonds on the capital markets. Board are continually updated as to the position of this each year within treasury management reports and, in approving treasury policies each year, recognise that this is a range which is only part of our considerations within our funding portfolio.

The group's lending agreements require compliance with a number of financial and non-financial covenants. The group's position is monitored on an ongoing basis and reported to the board each quarter. The group monitors cash flow forecasts closely to ensure that sufficient funds are available to meet liabilities when they fall due, whilst not incurring unnecessary finance costs, by only drawing on loan facilities when required. Recent reports confirmed that the group was in compliance with its loan covenants at the balance sheet date and the board expects to remain compliant in the foreseeable future.

Our strong financial performance ensures we have ample headroom on interest cover requirements. The gearing ratio, which is a measure of net debt (short and long term loans less cash) as a % of gross cost of housing properties, is currently 31% and remains well within our most restrictive covenant of 45%. This is based on covenants agreed with our lenders and differs from the calculation in the value for money (VFM) metric as required by the Regulator of Social Housing as shown on page 15.

The group has cash balances of £31.8m at 31 March 2023 (2022: £30.1m) and cash investments of £39.6m (2022: £93.4m). The current assets to current liabilities ratio stands at 1.39 (2022: 2.41).

The group has sufficient funds to meet its requirements for the next 12 months from the date of this report.

Strategic performance and value for money

We recognise that if we want to deliver our strategic aims we have to find the additional financial capacity through a combination of managed cost savings and income generation. We need to provide more for less and use any spare capacity that we have available in our business plan.

Our aim in relation to value for money is to create **a balance of cost, quality and benefit** to our customers and the business. We aim to **"make the best use of our money, assets and people to deliver our objectives and maximise quality and value for our customers and the business."**

By ensuring that everything we do is as effective and efficient as possible, any capacity within our resources can be reinvested into our communities, either in terms of new homes or improved services. Continued growth, sensible asset management, the use of benchmarking, sustainable procurement, a rounded review of current performance and stretching targets for the future remain key, but we also plan to release the untapped capacity within our business plan to provide added value.

In achieving VFM we understand the balance between **economy, efficiency and effectiveness**. Targets for key performance measures are agreed with the board each financial year to aid continuous improvement. On a monthly basis, we review our key performance measures and how they compare with others, reporting quarterly to our customer committee and board.

VFM metrics and benchmarking

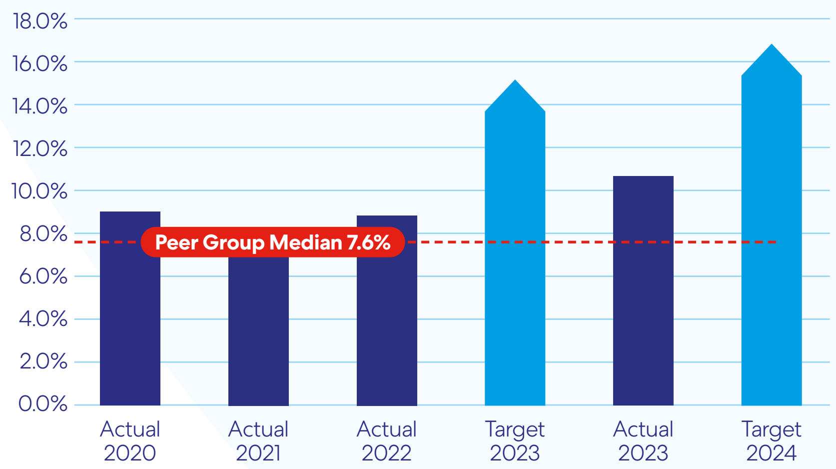
Benchmarking is important to any business. It provides key comparisons with similar organisations, enabling understanding of strengths and weaknesses, and underpinning an evidence-based approach to resource allocation, cost reduction and target setting. The group's operating costs and key financial indicators are benchmarked annually using a variety of sources, including data from the Regulator for Social Housing (RSH) Global Accounts.

These are supplemented further through our operational key performance indicators, which we monitor against our peer group using the sector benchmarking club HouseMark. Benchmarking ourselves with our peers , through HouseMark, enables us to better understand which areas of our business meet our ambition for top-quartile performance and where we have more work to do.

In April 2018, a Value for Money Standard was introduced by the Regulator, along with a sector-wide set of metrics which aids direct comparison between housing providers. These metrics are included within our key performance indicators below.

Aim 1 – provide as many good quality homes as we can

Reinvestment %



2023 performance

Performance has increased from 8.8% in 2022 to 10.8% in 2023. Investment in the development of new properties and purchase of newly built properties is £96.4m (£67.3m in 2022) and works to existing properties is £30.5m (£20.3m in 2022). Our target for 2023 was 15.2%. This was not achieved due to the development of 241 fewer properties than target, which was impacted by the volatility in the economy and industry pressures due to labour and material supply.

2024 target

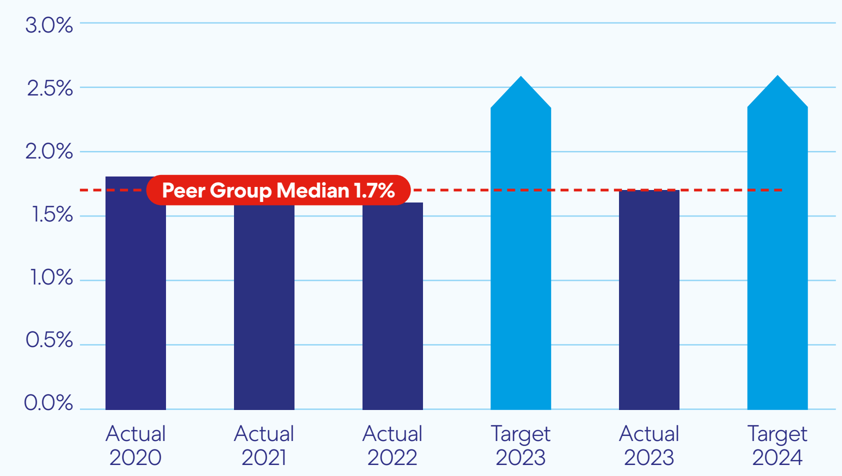
Our target for 2024 is 16.8% which assumes £179.7m investment in the development of new properties and £29.9m works to existing properties.

Operating and financial review (continued)

Value for money (VFM) (continued)

Aim 1 – provide as many good quality homes as we can (continued)

New social housing supply %



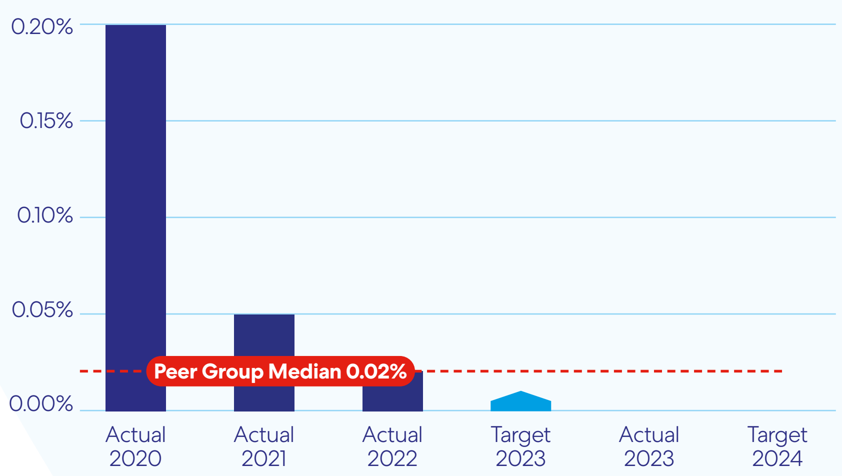
2023 performance

In 2023 the total number of social housing units developed was 529 which equates to 1.7% of social housing units owned. In 2022 a total of 458 social housing units were developed which equates to 1.6% of social housing units owned. Our target for 2023 was 2.6% which was not achieved due to 241 fewer properties being developed, mainly due to the volatility in the economy and current industry pressures around labour and material supply and delays.

2024 target

Our target for 2024 is 2.6% which equates to the development of 781 social housing units.

New non-social housing supply %



2023 performance

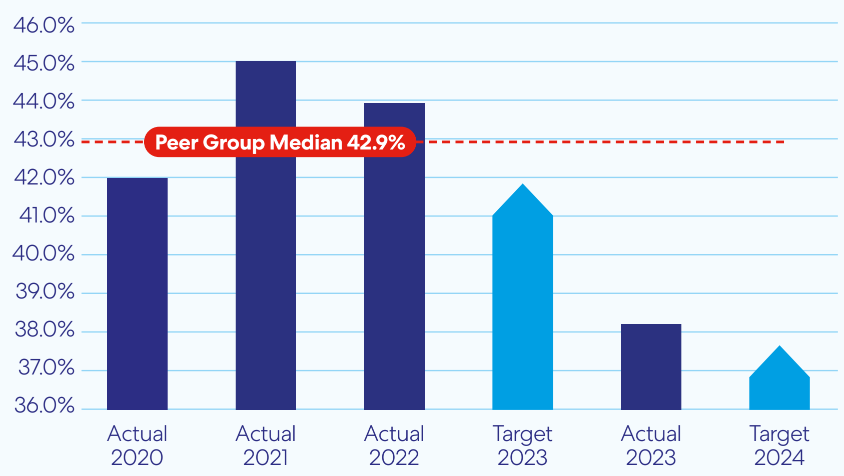
In 2023 we developed zero non-social housing properties compared to five in 2022. This equates to 0.00% of total social and non-social housing units owned compared to 0.02% in 2022.

2024 target

Our target for 2024 is 0.0% which equates to the development of zero non-social housing units.

Aim 1 – provide as many good quality homes as we can (continued)

Gearing



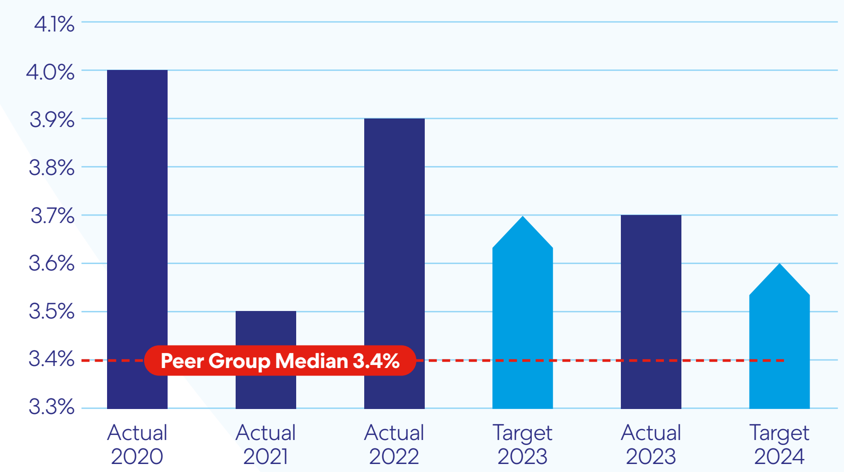
2023 performance

Our 2023 actual performance was 38.2% compared to 43.9% in 2022. Loans less cash has increased by £10.2m (2%) from 2022, however fixed assets at cost have increased by a higher proportion (18%) due to the growth in our subsidiary in Yorkshire, as a result of the merger of Leeds & Yorkshire Housing Association and York Housing Association. Gearing was lower than target for this reason.

2024 target

Our target for 2024 is 37.6%.

Return on capital employed (ROCE)



2023 performance

In 2023 return on capital employed (ROCE) was 3.7% compared to 3.9% in 2022, and a target of 3.7%. This is mainly due to an increase in operating surplus of £3.0m (7%) compared to 2022, whilst assets less liabilities have increased at a higher rate by 10.7%. Negative goodwill has been excluded from the operating surplus.

2024 target

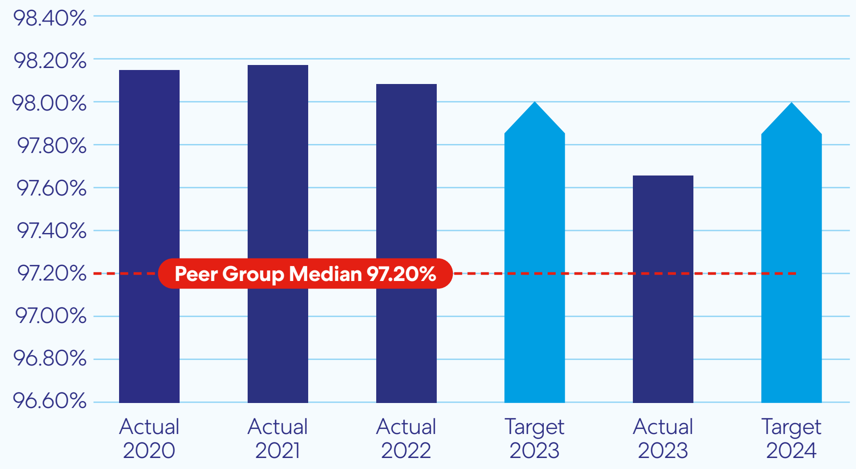
Our target for 2024 is 3.6%.

Operating and financial review (continued)

Value for money (VFM) (continued)

Aim 2 – deliver excellent customer service

Repairs appointments made and kept (Karbon Association only)



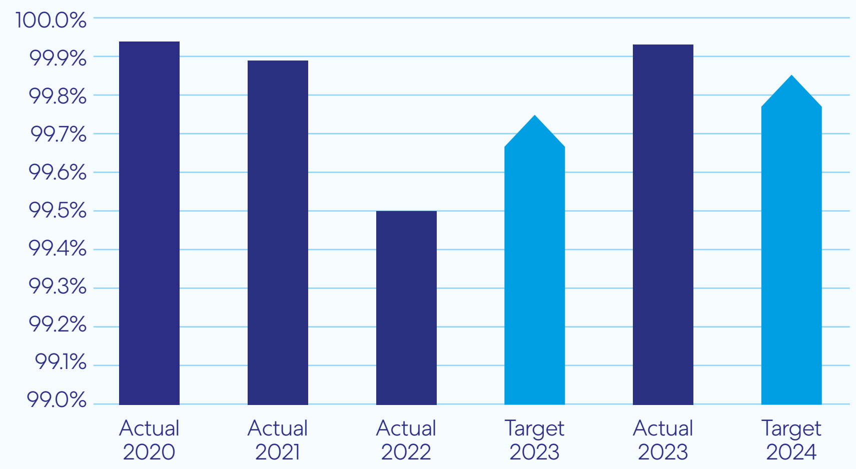
2023 performance

In 2023 our repairs appointments made and kept has dropped slightly to 97.66% from 98.08% in 2022. This has not led to any increase on an already low level of complaints relating to missed appointments and 93% of customers reported that they were offered a convenient appointment for their repair.

2024 target

Our target for 2024 is 98.00%.

Percentage of emergency works completed on time



2023 performance

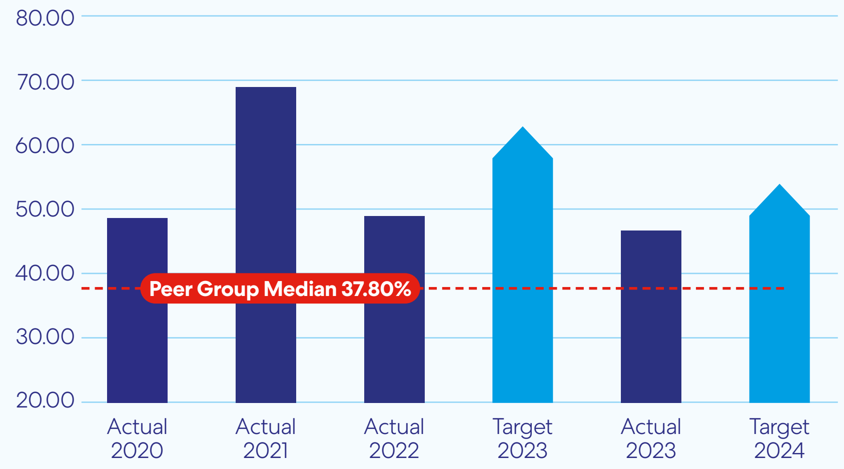
Emergency works completed on time has improved from 2022 and is at 99.93% in 2023. This performance is higher than the target of 99.75% as we continue to respond to urgent repairs in a timely manner.

2024 target

Our target for 2024 is 99.85%.

Aim 3 – shape strong, sustainable places

Average re-let time



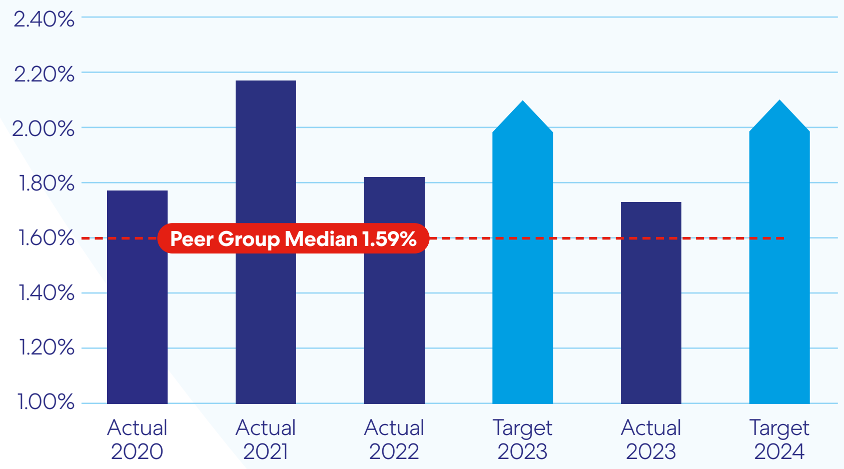
2023 performance

Average re-let time is the average time taken (in days) to re-let standard voids. It excludes voids that underwent major works, and is generally considered to be an indication of voids and lettings performance. In 2023 our performance has improved to an average of 46.72 days from 48.96 days in 2022.

2024 target

Our target for 2024 is 54 days.

Void rent loss as percentage of annual rent debit



2023 performance

Void rent loss performance has improved to 1.73%, down from 1.82% in 2022. We allocated 2,115 homes which is over 200 more than the previous year. We continue to work hard to reduce the number of empty homes and ended the year with 443 empty homes. This represents a reduction of 48 from the same time the year before. Whilst our three-year empty homes project has now ended, we continue to implement a number of incremental improvements to reduce the number of homes that are empty, the average days to let a home and the amount of rent lost as a result.

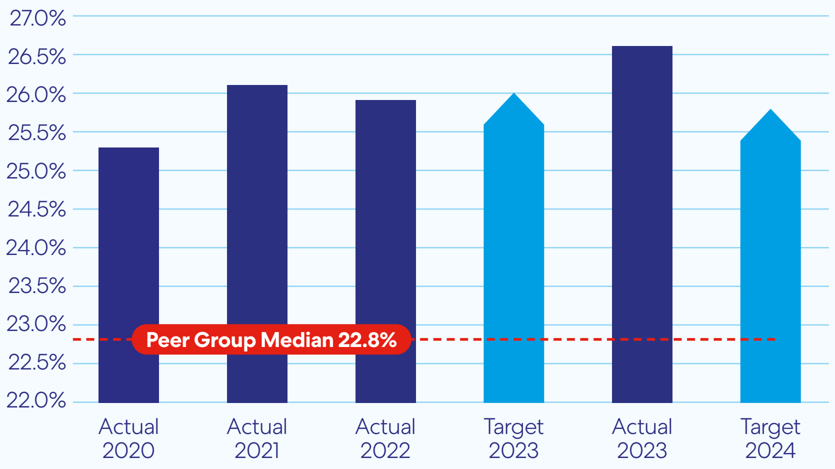
2024 target

Our target for 2024 is 2.10%.

Operating and financial review (continued)

Enabler - growth and financial strength

Operating margin overall



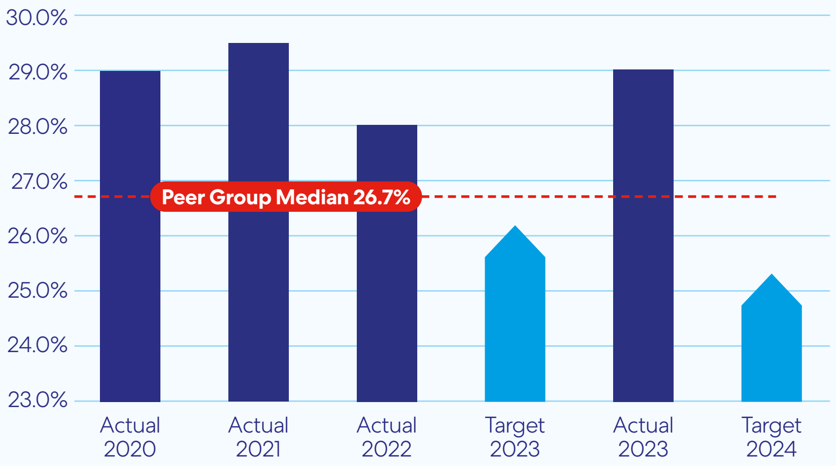
2023 performance

Operating margin is 26.6% in 2023 compared to 25.9% in 2022, an increase of 7 basis points. It is higher than the target set which is mainly due to year-end pension adjustments, of which £1.9m is included in operating surplus. Negative goodwill has been excluded from the operating surplus.

2024 target

Our target for 2024 is 25.8%.

Operating margin social housing lettings



2023 performance

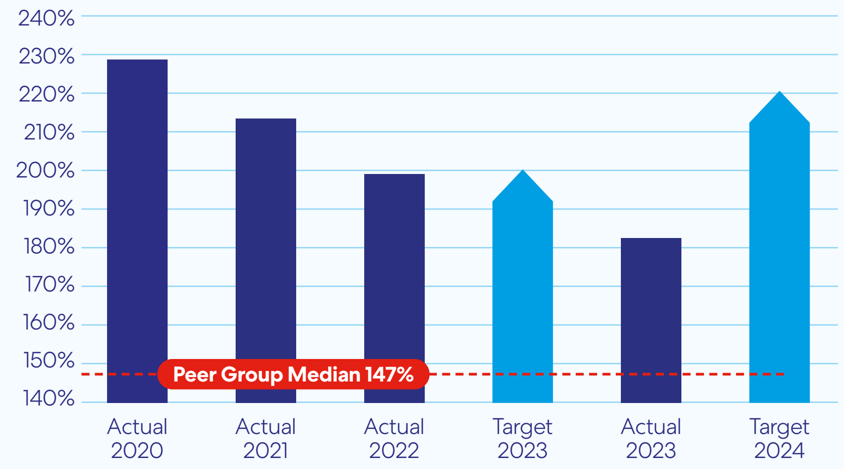
Around 89% of our operating surplus relates to social housing lettings. Our performance is 29.0% in 2023 which compares favourably to our peer group median which is 26.7%. It is higher than the target set, mainly due to year-end pension adjustments of which £1.7m is included in social housing operating surplus.

2024 target

Our target for 2024 is 25.3%.

Enabler - growth and financial strength (continued)

EBITDA MRI Interest Cover



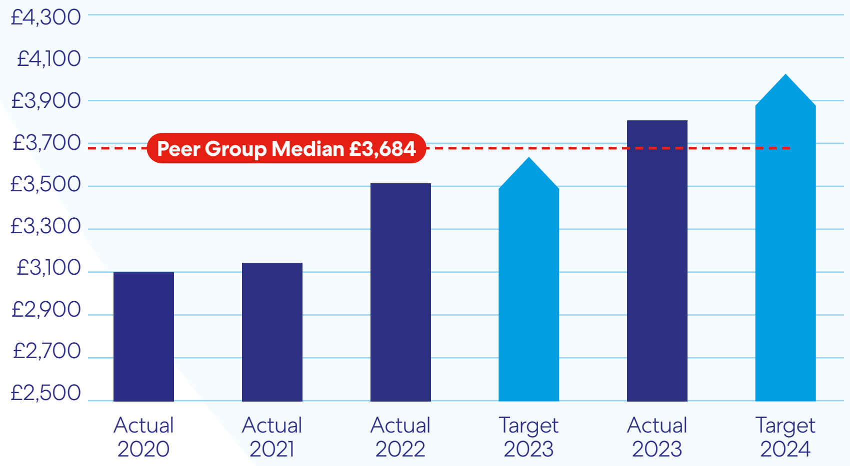
2023 performance

Our performance is 182% in 2023 compared to 199% in 2022, mainly due to an increase of £10.2m in capitalised major repairs. Operating surplus was also higher than forecast mainly due to year-end pension adjustments with £1.9m impacting surplus. Negative goodwill has been excluded from the operating surplus.

2024 target

Our target for 2024 is 221%.

Headline social housing cost per unit



2023 performance

Our social housing cost per unit has increased from £3,519 in 2022 to £3,809 in 2023, mainly due to an increase of £10.2m (51%) in capitalised repairs and additional investment in property assets. We have also seen increased service costs from high inflation impacting utility costs. These costs also resulted in the target not being achieved.

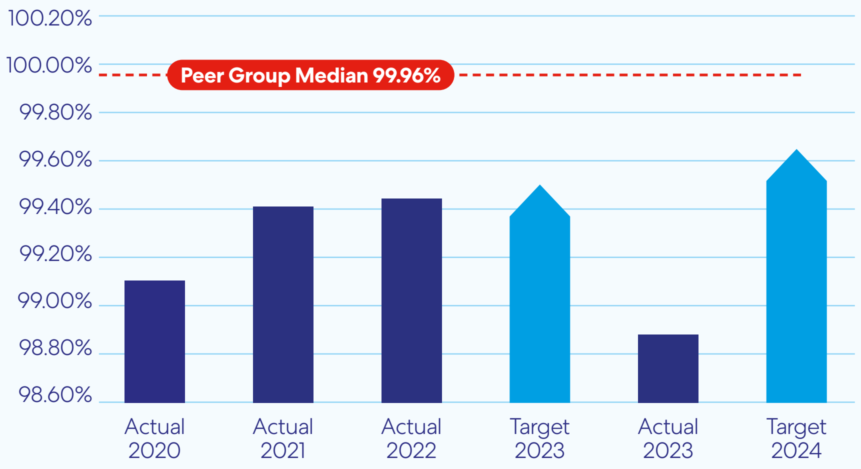
2024 target

Our target for 2024 is £4,032.

Operating and financial review (continued)

Enabler - growth and financial strength (continued)

Rent collected as a percentage of annual rent debit



2023 performance

Rent collected as a percentage of the annual rent debit was behind target in 2023, largely due to the way in which the rent year fell with only 11 first of the month payment dates falling within the 52 week rent cycle. This resulted in c.£1m of income falling into 2024 rather than 2023.

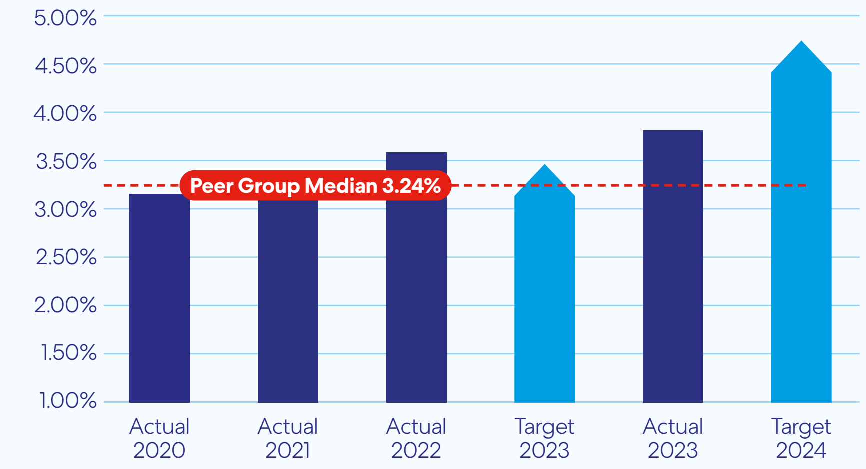
During 2022/23 we completed an income maximisation review to identify opportunities to improve our approach to rent collection. As a result of this project we implemented improved communications to customers, identified opportunities for earlier intervention with customers to provide access to social tariffs and realised efficiency savings from automating elements of our processes. During 2024 we will continue to realise further efficiencies from automation to enable our frontline teams to further engage with customers and maximise rent collection for the group.

2024 target

Our target for 2024 is 99.65%.

Enabler - growth and financial strength (continued)

Current rent arrears net of housing benefit as a % of rent debit



2023 performance

Current rent arrears net of housing benefit as a percentage of rent debit increased from 3.58% to 3.83% in 2023. This has been largely driven by increased pressure on household budgets as a result of the cost of living crisis. As customers face higher energy, food and other costs, rent payments are more likely to be missed. We have established a cost of living working group to help increase awareness of our services and target resources at customers most in need, promoting the support available for customers, and offering benefit and money advice. In addition we have invested in a new engagement platform that will automate contact with customers about their rent arrears to increase available staff time to engage with customers and negotiate repayment arrangements.

2024 target

Our target for 2024 is 4.74%.

Operating and financial review (continued)

Risk management

Effective risk management runs through everything that we do. We recognise that managing our risks and opportunities is a normal, day-to-day part of our business, enabling us to deliver our services, improve and grow.

Over the past year we have reviewed our risk management and business continuity frameworks as we have continued to respond to an ever-changing environment. Stress testing and resilience planning forms a cornerstone of our approach to risk management, particularly in the light of continued economic volatility and high inflation, utility and material prices. Effective financial and legal due diligence forms a key element of growth and acquisition decisions.

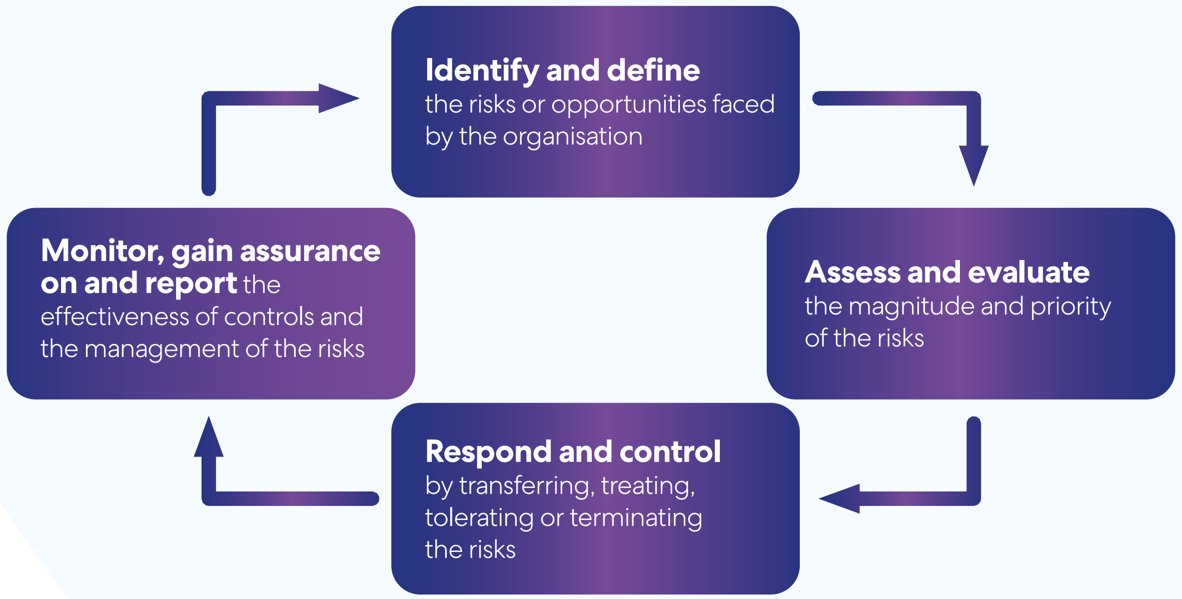
Our board oversees our risk management approach, set out in our risk management framework. Once a year the board takes a close look at our risk appetite statement, to make sure that this remains current and fit-for-purpose. Our board also receives regular updates on key risk areas, including health and safety, financial resilience, regulatory changes and specific risks that might affect the continuity of the business. Risk is an integrated strand of our corporate and resource planning processes.

Our Group Audit and Risk Committee is responsible for ensuring that all of our risks are well managed, that there are risk registers in place to monitor key corporate risks and operational risks, and that there is a regular and effective system of assurance, including through our internal audit programme. Group Audit and Risk Committee is responsible for informing quarterly risk management updates to Group Board.

All of our committees are involved in the scrutiny of our risks, with each committee taking responsibility for a selection of risks from the strategic risk register and reporting to Group Audit and Risk Committee on their findings.

Our risk management approach

We have adopted a risk management approach that ensures that risks are identified in a consistent way, and once accepted, are evaluated, controlled, monitored and managed. Risks can be identified in a number of ways, which includes strategic planning events, horizon scanning and sector monitoring, and through our own internal management processes.



Assurance

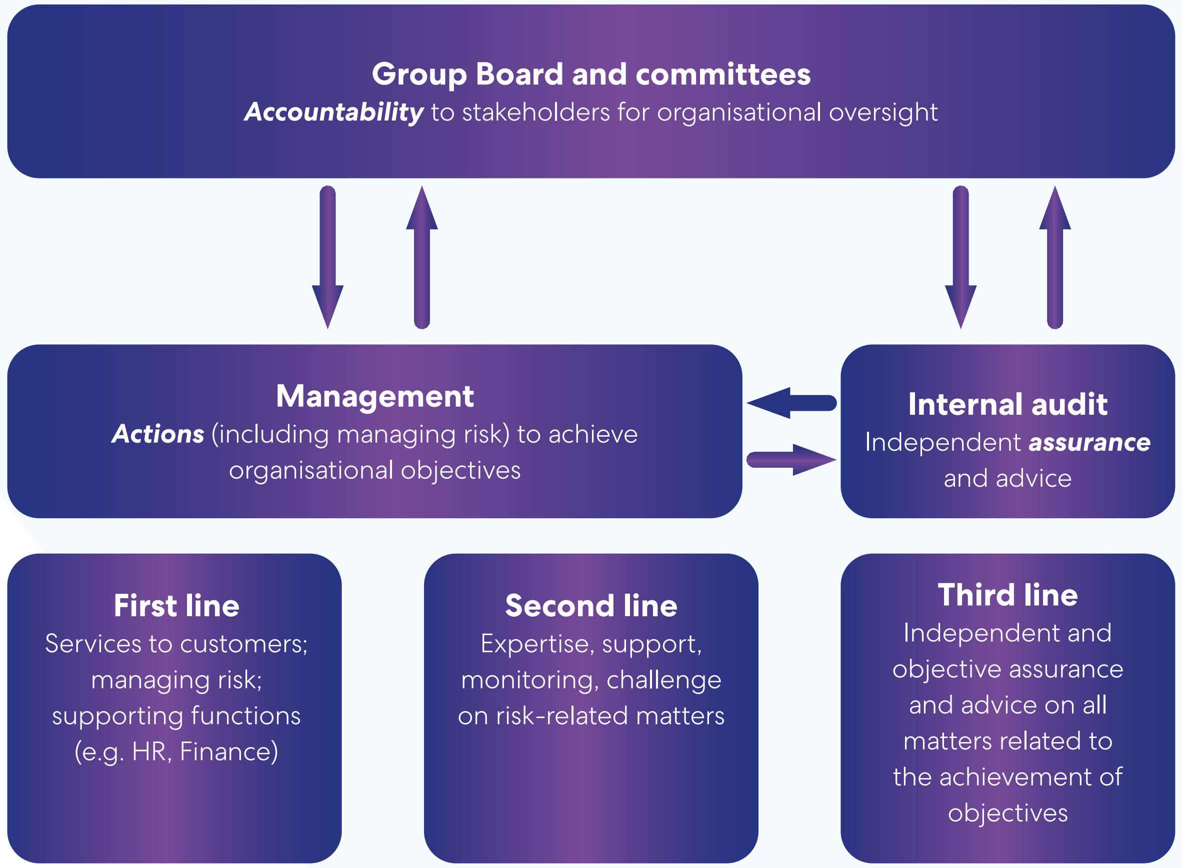
We follow the three lines approach to assurance, which ensures separation of risk and control ownership (first line), oversight, support and challenge (second line), and audit assurance (third line).

Operational teams use the risk management frameworks to help them manage risks in line with our defined risk appetite and through operational risk registers. Assurance is provided by the first line through its managerial and supervisory activities.

Our second line functions set the frameworks for managing risk, overseeing compliance and provide guidance and challenge to the first line. A governance and risk business partnering model supports operational teams in managing risks and internal audit responses. This is further supported by risk and compliance deep dives and reporting, which gives assurance that risks are being managed in line with our risk appetite.

Internal audit provides independent, objective assurance to management and the board over the effectiveness of first and second lines, and is independent of our executive management. An agreed programme of reviews highlights areas where risks are not being managed within our appetite or where we may need to recalibrate our appetite in the context of internal and external changes.

Additional assurance is provided from external sources, such as external audit, technical specialists and regulatory checks.



Operating and financial review (continued)

Risk appetite

Our board has agreed risk appetite statements for each of our key risk themes. These describe the type and amount of risk that we are prepared to accept or take as we deliver our strategy and plans and run day-to-day operations. Overall, our approach is balanced, ensuring that we carefully evaluate risks and opportunities and guides our decisions accordingly. Our risk appetite is clearly stated in each of our board and committee reports.

Governance and control	Risk appetite: Minimum
In our arrangements for managing the organisation at the highest level, including allocating resources and protecting assets, we seek to reduce corporate risk whilst accepting that more risk is occasionally inevitable.	
Financial resilience	**Risk appetite: Cautious**
In managing and maintaining financial capacity, we seek to accept risk to maintain a modest return on investment and continuous improvement of services to residents and communities.	
Value for money	**Risk appetite: Cautious**
When we procure goods and services and in our overall use of resources, we seek to accept risk, to maintain a modest return on investment and continuously improve services to residents and communities.	
Health and safety compliance	**Risk appetite: Averse**
In meeting our compliance thresholds and in our approach to health and safety, we will seek to remove or reduce risk.	
Regulatory compliance	**Risk appetite: Minimum**
In meeting our economic and consumer regulatory compliance thresholds and in our approach to data protection, information governance, cyber resilience and legislative and regulatory requirements, we seek to reduce corporate risk whilst accepting that more risk is occasionally inevitable.	
Development and asset management	**Risk appetite: Open**
In our development of new homes and investment in existing homes we accept risk, to generate an improving return on our investments and improving our services to residents and communities.	

Mergers and acquisitions	Risk appetite: Open
We will be open to growth through joining with other providers, accepting risk to generate an improving return on our investments and continuously improving services to residents and communities.	
Diversification and innovation	**Risk appetite: Open**
We will be open to other forms of growth, changing service delivery methods and business transformation, again accepting risk to generate an improving return on our investments and continuously improving services to residents and communities.	
Reputation	**Risk appetite: Cautious**
We are keenly aware of reputational risk, our external profile and how we manage critical feedback. Our approach is cautious, seeking to accept risk, to maintain a modest return on investment and continuously improve services to residents and communities.	
Technology	**Risk appetite: Open**
This theme is about how we engage our ICT capability and digital media to deliver better services to our customers, ensuring that our ICT infrastructure is resilient. Our approach is open, seeking to accept risk to generate an improving return on investment and improving services to residents and communities.	
People	**Risk appetite: Open**
We are aware that the recruitment, retention and development of colleagues is key to our ability to deliver and develop services and maintain our resilience in a rapidly changing environment. We seek to accept risk to generate an improving return on investment and improve services to residents and communities.	
Environmental sustainability	**Risk appetite: Open**
In our approach to protecting the natural environment and resources, including decarbonisation and standards adopted in housing development and asset management, we seek to accept risk to generate an improving return on investment and improve services to residents and communities. We will take a cautious approach to adopting new technologies as these develop.	

Operating and financial review (continued)

Our principal risks

In addition to the principal risks set out below, we monitor operational and escalating risks, and report these through the governance structures. Group Audit and Risk Committee receive reports on risks that are on the 'watch' list and receive updates on sector risks from the internal auditor.

During 2022/2023 one of our escalating risks was within our supply chains and our dependency on third parties and counterparties to deliver our strategic objectives. Whilst we have experienced no major disruptions to date, this risk will be one of our key areas for monitoring and assurance in 2023/2024.

Risk	Response
Financial risks	
Failure to adhere to **financial golden rules** or to comply with loan agreements leads to a breach, resulting in the organisation being vulnerable to the threat of repricing and being put into special measures.	We have a financial resilience framework and carry out regular stress testing sessions on the financial plan with the board. We also have early warning indicators. We regularly monitor changes in our environment (such as higher than expected inflation) that might impact our golden rules and we carefully evaluate our investment decisions.
Failure to maintain the resilience of our **income** streams and sufficiently mitigate the impact on the business and customers of welfare reform and other economic changes, resulting in a negative impact on our income and costs.	We work with our customers to keep them informed of changes and help them access support and benefits. We continually monitor arrears and have an active management process. Our community-based teams actively support customers to seek and find employment opportunities.
Existing **pension schemes** may become unaffordable due to benefits being paid out not being covered by new employees paying into the scheme.	We are continually monitoring our pension position and options, and have recently reviewed our Pension Strategy in May 2023 based upon recent scheme costs. In 2022 we introduced a revised contributions policy following consultation and introduced new pensions and salary sacrifice options for colleagues.
Failure to **use resources economically, efficiently and effectively** in the best interests of our stakeholders, leading to high costs, low performance, poor customer satisfaction and non-compliance with regulatory requirements.	We have developed and are implementing procurement and value for money strategic plans with metrics to monitor progress. We have a contracts register and have carried out a full review of our framework of delegations.

Risk	Response
Health and safety risks	
Failure to meet compliance thresholds and to take an approach that maintains the **health and safety** of residents, colleagues and partners.	We carry out regular health and safety risk assessments and undertake an annual review of our health and safety policies. Our corporate Health and Safety Group continues to meet monthly. Colleagues are regularly trained and we employ health and safety specialists to provide advice and guidance. There is a specialist building and customer safety post in our structure. Health and safety performance measures are monitored at executive and committee level. Updates are received at each group board meeting. We have had a damp and mould working group in place for some time and are taking a proactive, planned approach to identifying damp and mould in properties as part of our stock condition survey programme.
Regulation and compliance risks	
Failure to maintain our **cyber resilience** and to secure and manage data in accordance with relevant regulations, particularly in light of the **data protection legislation**.	We carry out regular security maintenance of our systems and have a 'patch' management policy to implement security updates in a timely manner. We have an ICT Disaster Recovery Plan and actively manage our recovery systems. We are working towards Cyber Essentials accreditation. We handle large volumes of data, some of which is confidential and sensitive. Our data protection policies and procedures and IT security are part of our management measures. All colleagues have received data protection training and we have data protection and cyber resilience expertise. We have started a number of projects relating to data quality and have recently introduced a new Information Governance and Data Quality Framework.
Failure to comply with all statutory compliance and the Regulator of Social Housing's **Regulatory Framework**.	We have a process of governance and compliance, supported by external advice where necessary. We have delivered actions arising from our 2020/2021 external governance review which has included a full review of our Group Delegatory Framework. Internal assurance processes, supported by internal audit, provide the board with assurance and the board also received an annual report on compliance with the regulatory standards. We have completed assurance work around the rent standard and will be following this up in 2023/2024.

Operating and financial review (continued)

Our principal risks (continued)

Risk	Response
Development and asset management risks	
Failure to meet the **housing needs** of a broad range of customers, across a range of tenures, to **manage assets effectively,** or to develop our approach to **environmental sustainability and decarbonisation**.	We have controls in place to mitigate programme, funding, market and asset management risks. Controls include a governance framework, access to sufficient funding, commercial skills at executive and board level and an effective asset management strategy. Our strategic approach to environmental sustainability and decarbonisation has developed through the course of the year and we have a response to climate change project group.
Growth and innovation risks	
Failure to **manage business growth and development effectively, whilst protecting assets**.	We have a clearly defined strategic approach and criteria for appraising new opportunities and innovation, and have skills and processes in place to ensure the effectiveness of business cases. There is strong board involvement in the process, and a robust legal and financial process of due diligence.
Counterparty risks	
Failure to effectively manage **contractors and supply chains**, particularly in relation to our development programme and management of our assets.	We regularly monitor our exposure to contractors and aim to spread risk across a range of different contractors. We have regular partnership review meetings with contractors and monitor our programme completions carefully for quality and cost. We have a due diligence process in place for engagement of contractors on large schemes and have been reviewing our procurement processes. We have actively monitored our supply chains in the light of global events and have business continuity arrangements in place to mitigate impacts. A supplier management system has been implemented. The volatility of the external counterparty environment means that we have responded to key contractor failures during 2022/2023, notably GoCentric (out of hours provider) and Tolent Construction (development programme). In both cases, our continuity plans have enabled us to respond quickly and effectively to get alternative arrangements in place. We continue to monitor contractors and are improving our market intelligence and escalation systems, particularly in higher risk areas.

Risk	Response
People risks	
Unable to recruit, retain and develop **Karbon colleagues** to ensure delivery of strategic objectives.	We regularly benchmark our salaries to ensure that we have a competitive remuneration strategy. We have reviewed our People Strategic Plan in 2022 and have reviewed our reward and recognition package. We have a Colleague Engagement Plan and carry out regular surveys using the Hive platform, and 'people' elements have formed an important part of our Karbon Ways of Working project. We have a learning and development plan in place and an online learning platform, which can be accessed by all colleagues. We have a colleague forum and engage with our trade union representatives through the Joint Consultative Committee.
Reputational risk	
Failure to develop and maintain **Karbon's reputation and brand**, and to effectively manage complaints and critical feedback.	We have communications and marketing, complaint handling, customer engagement, inclusion and belonging and external affairs expertise within the business. We take a proactive approach to developing and maintaining our relationships with customers and other stakeholders, both local and national. We maintain a reputational risk log and report communications and media activity through the governance structure. We have the Institute of Customer Services ServiceMark accreditation and are seeking accreditation for our inclusion and belonging work.

Statement of compliance

In preparing this Operating and Financial Review, the board has followed the principles set out in Part 3 of the Statement of Recommended Practice 2018.

The board is pleased to present its report, together with the audited financial statements of Karbon Homes Limited (the association) and Karbon Group for the year ended 31 March 2023.

Report of the board

Board members, executive directors, advisors and bankers

Board

Chairman	Sir David Bell KCB DL
Vice Chair	Alexis Cleveland
Other members	Paul Fiddaman Anne Mulroy Adrian Stanley (resigned 1 June 2023) Stephen Spill Michael Mullaney Sarah Salter Hanif Malik Stephen Secker Gill Moy Neil Revely

Executive Directors

Group Chief Executive	Paul Fiddaman
Executive Director of Resources	Scott Martin
Executive Director of Growth and Business Development	Charlotte Carpenter
Executive Director of Customer Services	Ian Johnson (appointed 1 May 2022) Josephine Ray (resigned 31 May 2022)
Executive Director of Governance and Integration	Richard Fryer
Managing Director 54North Homes (formerly York Housing Association)	Mark Pearson (from 16 December 2022) Julia Histon (resigned 15 December 2022)
Registered office	Number Five, Gosforth Park Avenue, Gosforth Business Park, Newcastle upon Tyne, NE12 8EG
Registered number	A Registered Society under Co-operative and Community Benefits Societies Act 2014; No: 7529 Registered with the Regulator of Social Housing; No. 4846
Auditors	Beever and Struthers One Express, 1 George Leigh Street, Manchester, M4 5DL
Solicitors	Womble Bond Dickinson (UK) LLP St Ann's Wharf, 112 Quayside, Newcastle upon Tyne, NE1 3DX
Principal bankers	NatWest (Part of Royal Bank of Scotland Group) 2nd Floor, 1 Trinity Gardens, Broadchare, Newcastle upon Tyne, NE1 2HF

Principal activity

Details of the group's principal activities, its performance during the year and factors likely to affect its future developments, are contained within the Operating and Financial Review, which precedes this report.

The board of Karbon Homes Limited

The present board members and executive directors in place during the financial year are set out on page 30. They served throughout the year unless where indicated.

During the year payments made to board members were £137.1k (2022: £129.4k), which were 0.08% (2022: 0.08%) of the annual turnover. The payment of Group Chairman and group board members is calculated by taking into account the size of the group and independent benchmarking, last undertaken in 2022. The board carries out an annual appraisal of its performance and an annual appraisal of individual board members. The last appraisal took place in July 2022 which included an appraisal of the Chair, carried out by the Vice Chair following feedback from the other board members.

Executive directors

Whilst the group board is responsible for the group's overall policy and strategy, management is delegated to the Group Chief Executive. The executive directors are the senior management team and act as executives within the authority delegated by the board. They meet formally under the chairmanship of the Group Chief Executive, to consider all major management issues.

This meeting is a key decision-making forum for the management of the group, reviewing all proposed policy changes and performance. The executive directors hold no interest in the share capital of any member of the Karbon Group. The executive directors are employed on service contracts with the same terms as other staff, except for their notice periods which are six months. The executive directors are members of the Social Housing Pension Scheme. They participate in the scheme on the same terms as all other eligible staff and the group contributes to the scheme on behalf of its employees. The executive directors are entitled to other benefits such as the provision of a cash equivalent car allowance and health care insurance. Details of their remuneration are included in note 10 to the audited financial statements.

Corporate governance

The group board is committed to integrity and accountability in the stewardship of the group's affairs. During the year, Karbon Homes complied with the NHF's Code of Governance 2020 which it adopted because it is tailored to the housing sector and it is a widely recognised example of best practice. The group board received self-assessments against the code in July 2023 demonstrating full compliance.

The group regularly reviews its governance arrangements including its committee and subsidiary structures. It also undertakes a biennial review of governance, including roles, responsibilities and accountabilities of the group board, Chairman and Group Chief Executive, and is satisfied that its arrangements are clear and effective. The Group Audit and Risk Committee has agreed a protocol with the external auditors, which sets out policies for determining what non-audit work can be undertaken by the external auditors and procedures for periodic review and selection of external auditors. The level of fees paid for this work is set out in note 5 of the financial statements.

Assurance was provided to the group and 54North Homes Limited boards in July 2023, following scrutiny by the Group Customer and Audit and Risk Committees, that the group continues to meet the regulatory standards. The Regulator confirmed our rating of G1/V1, following Karbon's second, in-depth assessment in June 2022, and this was also re-confirmed in January 2023 following the annual stability check. We maintain the highest rating of financial viability and governance.

Report of the board (continued)

Corporate role of the board

For the financial year 2022/23 the board comprised up to 12 board members. The board currently has 11 members including the Group Chief Executive. Terms of reference for the board are part of the group's framework of delegations. Board members act in the interest of the Karbon Group and not on behalf of any other interest group.

The group board was drawn from a wide range of backgrounds and its members selected to ensure that they bring relevant experience, skills and understanding to the discussions and decision-making process of the board.

Each subsidiary had a board of directors chosen for their specific area of expertise, with the Chairs of each subsidiary board also being members of the group board.

The group board met formally six times during the year. These meetings were complemented by regular strategy sessions that considered financial planning, credit rating, cost of living, ambitions for 54North Homes, risk, resilience and the sector's approach. The executive directors also attended group board meetings.

Reporting to the board were the Group Remuneration and Nominations Committee, the Group Audit and Risk Committee, the Group Development Committee, the Group Customer Committee, the Chairman's Committee and the Byker Community Trust Committee. The summary terms of reference for the committees follow. Membership of the committees throughout the year, drawn from the group and 54North Homes board membership along with independent committee members, is shown in the table opposite.

Group Remuneration and Nominations Committee	Group Audit and Risk Committee	Group Development Committee	Group Customer Committee	Chairs' Committee	Byker Community Trust Committee
Sarah Salter (C)	Stephen Spill (C)	Adrian Stanley (C)	Hanif Malik (C)	Sir David Bell (C)	Anne Mulroy (C)
Sir David Bell KCB DL	Alexis Cleveland	Anne Mulroy	Anne Mulroy	Sarah Salter	Lisa French (ICM)
Alexis Cleveland	Gill Moy	Michael Mullaney	Sarah Salter	Stephen Spill	Caroline Prince (ICM)
Stephen Spill	Stephen Secker	Neil Revely	Alexis Cleveland	Adrian Stanley	Anthony Itiat (ICM)**
Jeremy Earnshaw (54NH)	Peter Rudge (YHA)	Carol McTaggart (YHA/54NH)	Gill Moy	Hanif Malik	Nicola Snowdon**
	Matt Edgar (54NH)	Michael Pattison (ICM)	Steven Waddington (YHA)	Anne Mulroy	Stephen Sheraton (ICM)**
		Robert Armstrong (ICM)	Michael Lisle (ICM)**	Stephen Secker (54NH)	Neil Cawson (ICM)
			Ann Potts (ICM)**	Alexis Cleveland	Simon Aldred (ICM)
			Jon Prashar (54NH)		Veronica Dunn (ICM)
					Amanda Senior (ICM)
					Ian Johnson*

C – chair; 54NH – 54North Homes Limited; ICM – independent committee member; YHA York Housing Association (member up to the formation of 54North Homes Limited in December 2022)
*Executive Director; **customer/resident committee member
Board member profiles are available on the Karbon Homes website at www.karbonhomes.co.uk within the About Us, Who we are, Our Board section.

Report of the board (continued)

Corporate role of the board (continued)

Group Remuneration and Nominations Committee

This is a non-executive committee. It has the responsibility for overseeing the group's remuneration and people policies and recommends the annual colleague pay award to the group board. It ensures the group has a transparent approach to the appointment of board members and advises the board on the remuneration and terms and conditions of the Group Chief Executive and other executive directors after taking external advice. The executive directors are not present at the meeting when their salaries are determined. The committee met five times during the year.

Group Audit and Risk Committee

The Group Audit and Risk Committee is a non-executive committee, ensuring appointment of independent internal and external auditors, addressing internal and external audit issues, scrutinising areas of risk and assurance, and advising the board on risk management policies and processes. It also considers the financial statements and recommends their approval by board. The committee met six times during the year.

Group Development Committee

The Group Development Committee is a non-executive committee that advises the group board on the group's development and asset management strategies, ensuring that the group's approach to capital investment is co-ordinated, challenging and dynamic. It also considers, approves and oversees the group's development programme in accordance with the framework set out by the group board. The committee met four times during the year.

Group Customer Committee

The Group Customer Committee is a non-executive committee and is responsible for reviewing the financial and service performance of the group. It is also responsible for overseeing customer experience and engagement and for making recommendations to the group board on material matters relating to how services are delivered to residents. The committee has two members who are Karbon customers. The committee met four times during the year.

Chairs' Committee

The Chairs' Committee comprises the Group Chair, the Chair of 54North Homes Board and the chairs of the committees outlined above. The committee assists with the effective communication and co-ordination of the group's various committees. The committee met four times during the year.

Byker Community Trust Committee

The Byker Community Trust (BCT) Committee was established after the transfer of engagements between Karbon and Byker on 1 April 2021. The committee includes Karbon non-executive and executive members, as well as independent members, customers and residents from the Byker Estate and representatives from Newcastle City Council. It has the responsibility of overseeing the delivery of the Community Pledge and business case agreed between Karbon and Byker, monitoring the level and quality of services provided to the residents of the Byker Estate, the investment programme and community initiatives. The committee met four times during the year with an additional strategy session.

Internal controls assurance

The group board is the ultimate governing body and is responsible for establishing and maintaining the whole system of internal control and for reviewing its effectiveness across the group. The group board is supported by the Group Audit and Risk Committee in this work.

The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and to provide reasonable, and not absolute, assurance against material misstatement or loss.

The process for identifying, evaluating, and managing the significant risks faced by the group is continuous and has been in place throughout the period commencing 1 April 2022 up to the date of approval of the report and financial statements.

The group board is the ultimate governing body and is responsible for establishing and maintaining the whole system of internal control and for reviewing its effectiveness across the group.

Key elements of the control framework include:

- Group board approved terms of reference and delegated authorities for the Group Audit and Risk Committee
- Clearly defined management responsibilities for the identification, evaluation and control of significant risks, within a well-defined risk management framework
- Robust strategic, financial planning, stress testing and resilience planning processes, with detailed financial budgets and forecasts
- Formal recruitment, retention, training and development policies for all staff
- Established authorisation and appraisal procedures for all significant new initiatives and commitments, with a tried and tested due diligence process
- A sophisticated approach to treasury management
- Regular reporting on covenant compliance, financial golden rules and compliance with regulatory requirements associated with listed status
- Regular reporting to the board or committees on key business objectives, targets and outcomes
- Reporting to board on significant incidents that may affect the continuity of the business and an annual update on business continuity and incident management to the Group Audit and Risk Committee
- Board-approved whistleblowing (speak out), anti-money laundering and anti-theft, corruption, bribery and fraud policies
- Reporting of company registers to Group Audit and Risk Committee, with regular reporting of specific items of note within the registers
- Standing reports to the Group Audit and Risk Committee on the progress of action plans developed to remedy any weaknesses and to implement recommendations from both the internal and external auditors
- Fraud register reviewed annually at the Group Audit and Risk Committee meeting and new entries reported separately
- Annual self-assessments against the Regulatory Standards and Code of Governance, reported to group board

The Regulator of Social Housing requires incidents of fraud and loss to be reported on an annual basis, by September of each year for the previous financial year. There were no instances of fraud or theft reported to the Group Audit and Risk Committee for Karbon. There was one theft of a vehicle recorded for 54North Homes.

Report of the board (continued)

Corporate role of the board (continued)

The group board cannot delegate ultimate responsibility for the system of internal control, but it can, and has, delegated authority to the Group Audit and Risk Committee to regularly review the effectiveness of the system of internal control. The board receives quarterly reports from the Group Audit and Risk Committee together with minutes of the Group Audit and Risk Committee meetings.

The Group Audit and Risk Committee has received the Group Chief Executive's annual review of the effectiveness of the system of internal control for the association and its subsidiaries, and the annual report of the internal auditors. It has reported its findings to the group board.

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

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

The Co-operative and Community Benefit Societies Act 2014 requires the board to prepare financial statements for each financial year. Under the legislation, the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws). Under the Co-operative and Community Benefit Societies Act 2014 the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and surplus or deficit of the group for that period.

In preparing those financial statements the board is required to:

- select suitable accounting policies and apply them consistently
- make judgements and accounting estimates that are reasonable and prudent
- state whether applicable United Kingdom Accounting Standards and the Statement of Recommended Practice 2018, have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on a going concern basis unless it is appropriate to presume that the group will not continue in business.

The board is responsible for keeping and maintaining proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the group and association and enable it to ensure that the financial statements comply with 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 2022. It is also responsible for safeguarding the assets of the group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Post balance sheet events

When approving the financial statements, the board is required to make an assessment of the group's ability to continue as a going concern. In doing this the board is required to consider all available information about the future, which is at least, but not limited to, 12 months from the date when the financial statements are approved and signed.

In May 2023, the boards of South Tyneside Housing Ventures Trust Limited (STHVT) and Karbon Homes (KHL) approved an outline business case to bring about a merger by a transfer of engagements of STHVT into KHL. On 17 July 2023, after a process of due diligence and further approvals from the board and shareholders, all STHVT's assets, liabilities, operations and contractual positions transferred to KHL.

Going concern

After making enquiries, the Karbon Homes Board has a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future, being a period of at least 12 months after the date on which the report and financial statements are signed. For this reason, it continues to adopt the going concern basis in the financial statements.

Future developments

A key influence on the timing of borrowings is the rate at which development activity takes place. The Karbon Board has approved plans to spend £179.8m during the next financial year developing and acquiring additional homes and £77.0m will be spent on planned and responsive maintenance. £13.5m of this investment will be funded through new borrowings, £132.4m through social housing and other grant, and the balance from existing cash and operational cash flows.

The group's entities have bilateral or ring-fenced loan facilities in place with their respective funders. As at 31 March 2023 the group had total loan facilities of £594.8m, of which £115.6m remained undrawn, and a cash balance including liquid investments of £71.3m.

The group has sufficient funds to meet its requirements for the next 12 months from the date of this report.

External auditors

Beever and Struthers are willing to remain in office and a resolution to re-appoint them as auditors to the group was approved by the board on 25 July 2023.

Approval

The Report of the board was approved by the board on 25 July 2023 and signed on its behalf by:

R Fryer
Company Secretary

Independent auditor's report to the members of Karbon Homes Limited

Opinion

We have audited the financial statements of Karbon Homes Limited (the association) and its subsidiaries (the group) for the year ended 31 March 2023 which comprise the Consolidated and Association Statement of Comprehensive Income, the Consolidated and Association Statement of Financial Position, the Consolidated and Association Statement of Changes in Reserves, the Consolidated Statement of Cash Flows and the notes to the financial statements, including a summary of significant accounting policies in note 2. 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 2022.

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 a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Group Audit and Risk Committee.

Independence

We were first appointed as auditor of Karbon Homes Limited by the board for the period ending 31 March 2015. The period of total uninterrupted engagement for the group is for nine financial years ending 31 March 2023. We have fulfilled our ethical responsibilities under, and we remain independent of the association in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

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 association's or group's ability to continue as a going concern for a period of at least 12 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.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. We summarise below the key audit matters in arriving at our audit opinion above, together with our key audit procedures to address these matters and, as required for public interest entities, our results from those procedures. These matters were addressed and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Housing property additions - group and parent association

The risk – significant risk high value

The group's additions to properties under construction total £69.2m as at 31 March 2023 (2022: £47.7m). Refer to pages 53, 55-56 and 57 (accounting policies) and page 87 (financial disclosures).

Development is a key activity for the group. This, alongside judgements as to whether expenditure is capital or revenue in nature, is an area that we feel had a key impact on our overall audit approach. Our overall assessment of misstatement is therefore that housing property additions is a significant risk within our audit approach.

Our response

Our procedures included:

- **Controls testing:** Evaluating the procedure and review process for development appraisals, including key assumptions used.
- **Test of detail:** We agreed a sample of capital additions in the year to invoice or certificate, and reviewed material revenue transactions for capital items.
- **Review against accounting standards:** We reviewed amounts capitalised in our sample testing versus requirements in FRS 102 and the guidance in the Statement of Recommended Practice 2018.
- **Test of detail:** We considered Karbon Homes' assessment of whether there was any evidence of impairment, in particular, for schemes under development.
- **Test of detail:** We evaluated that accruals have been made for material development expenditure incurred up to 31 March 2023 but not yet invoiced.

Our results

We noted no material exceptions through performing these procedures.

Treasury management and going concern - group and parent association

The risk – significant risk high value

The group posted a full year surplus of £83.5m before actuarial gains on pension schemes (refer to page 46 (financial disclosures)). At 31 March 2023 the group had borrowings of £478.6m (refer to page 101 (financial disclosures)).

Independent auditor's report to the members of Karbon Homes Limited (continued)

The group is operating in a current economic and political climate which is challenging, with the prospect of costs continuing to rise in excess of increases in rental income. There is a direct impact on the group's activities and a continuing cost of living crisis that directly affects the group's customers and residents. This implies a direct risk to the group's ability to maintain income collection rates and increases the risk of arrears and bad debts.

Stress testing the business plan can illustrate the level of financial resilience and the group's ongoing capability to manage sequences of negative events.

The risk is that the group might have insufficient liquidity to finance its development programme or might breach a funding covenant set out within the agreements in place with a range of funders.

Our response

Our procedures included the following:

- **Confirmation of value:** Agreed loan balances to the accounting records, having regard to drawdowns and repayments in the year, and to external confirmation from the funders. We agreed the bond opening position to the prior year signed financial statements and supporting workings. We reviewed the calculation of amortisation during the year.
- **Test of detail:** We tested the detailed calculations for loan covenant compliance prepared by management, both for the year ended 31 March 2023 and projected future performance.
- **Review of business plan:** We have reviewed and challenged the group's long term financial plans and covenant projections, and the underlying assumptions, to assess the group's ability to service and repay the debt, including the availability of funding.
- **Review of stress testing:** We have reviewed the stress testing of the business plan and considered the potential impact on the financial statements, as well as on the group's financial viability into the foreseeable future and its status as a going concern.
- **Disclosure:** Evaluated the disclosures in the financial statements with regard to going concern.

Our results

The group's 30-year financial plan is forecast to retain compliance with banking covenants for the foreseeable future. The group has applied a range of stress testing scenarios to the financial plan, including those linked to macro-economic conditions.

Defined benefit pension schemes - group, parent association and 54North Homes

The risk – significant risk medium value

The group participates in the following multi-employer, defined benefit pension schemes:

- The Social Housing Pension Scheme.
- The Tyne and Wear Pension Scheme, a local government defined benefit pension scheme.
- The Durham County Council Pension Fund, also a local government defined benefit pension scheme.

The pension scheme assets and liabilities are valued for Section 28 FRS 102 purposes and the financial statements disclose the results and the assumptions used by the group in completing the pension valuation and the movements in the year. The valuation requires a calculation which uses a number of assumptions, and variations in these assumptions could significantly affect the result.

For the year anding 31 March 2023 the two local government pension schemes reported a net pension asset position, with subsequent judgement by management that there is insufficient evidence to support the recoverability of the respective surplus with regard to either reduced contributions or via refunds from the scheme, therefore the results were capped to £nil.

The effect of these matters is that we determined that the defined benefit pension scheme obligation has a high degree of estimation uncertainty.

At 31 March 2023, the group's results showed a pension liability of £8.6m (2022: £24.4m). Refer to pages 53 and 55 (accounting policies) and pages 71 to 83 (financial disclosures).

Our response

Our procedures included the following:

- **Assessing the credentials of the schemes' actuaries:** We reviewed the credentials of the scheme actuaries to assess that they are one of the small number of experienced, skilled advisors appointed to undertake the pension scheme valuations.
- **Confirmation of value:** We challenged, with the support of our own auditor's expert, the key assumptions and actuarial methodology applied to calculate the valuations, including the discount rate, inflation rate and mortality/life expectancy to ensure they are consistent with wider sector expectations.
- **Assessment of asset values:** We reviewed the split of assets held in the schemes and movements in the asset valuations, including an assessment of hard to value assets.
- **Accounting treatment of schemes in a net asset position:** We reviewed management's judgement that there is insufficient evidence available to support the recoverability of the net asset position in two local government pension schemes.
- **Confirmation of reporting:** We agreed the relevant accounting entries and reviewed the disclosures and the notes to the accounts to ensure they comply with Section 28 of FRS 102.

Our results

We agree with the treatment of capping the local government pension scheme net assets to £nil, given that there is no definitive evidence that future contributions will reduce sufficiently to support the asset position, or that the group is entitled to a refund from the schemes at the reporting date.

We confirmed that the assumptions used in the calculation of the balances in the financial statements are in line with the recommendations of the schemes' actuaries and are within reasonable parameters.

We noted no material exceptions through performing these procedures..

Investment properties - group, parent association and 54North Homes

The risk – significant risk medium value

At 31 March 2023, the group held £49.9m of investment properties (2022: £47.3m). Refer to pages 54 and 56 (accounting policies) and page 91 (financial disclosures).

Investment properties are required to be stated at fair value at each reporting date. The group instructs independent valuers to assist in this exercise, which involves a degree of judgement and estimation. Therefore, we have determined that this area has a high degree of estimation uncertainty.

Independent auditor's report to the members of Karbon Homes Limited (continued)

Our response

Our procedures included the following:

- **Assessing the credentials of the investment property valuers:** We reviewed the credentials of the valuers to assess that they are sufficiently experienced and qualified to undertake the valuation.
- **Confirmation of value:** We agreed the year end valuations to reports from independent valuers, which included an assessment of key assumptions used in the valuation. We considered and challenged and compared the overall movement from the prior year versus the movement in available market indices, to assess reasonableness.
- **Confirmation of reporting:** We agreed the relevant accounting entries and reviewed the disclosures and the notes to the accounts to ensure they comply with Section 16 of FRS 102.

Our results

We noted no material exceptions through performing these procedures.

Acquisition: Leeds & Yorkshire Housing Association Limited (LYHA) – group and 54North Homes

The risk – significant risk significant value

The accounting and disclosure in relation to the business combination with LYHA is a significant transaction in terms of scale and given the complexities and judgements involved regarding the fair value of assets and liabilities, particularly with regard to the following:

- Housing properties
- Investment properties
- Defined benefit pension scheme
- Loan portfolio

The significance of assumptions and judgement involved in the accounting and disclosure of the transaction means that this has been identified as a key audit matter. Refer to pages 55 and 57 (accounting policies) and pages 105-106 (financial disclosures).

Our response

Our procedures included the following:

- **Accounting treatment:** Assessment of management's treatment of the transaction as an acquisition.
- **Confirmation of value:** Challenge of the fair values used by management and their experts.
- **Confirmation of reporting:** We agreed the relevant accounting entries and disclosures included in the financial statements.

Our results

We noted no material exceptions through performing these procedures.

Our application of materiality and an overview of the scope of the audit

The materiality applied to the group for the year ending 31 March 2023 is based on 1.5% of turnover, being £2.5m (2022: 1.5% of turnover, being £2.3m).

We consider turnover to be the most appropriate benchmark, and more appropriate than a profit-based benchmark, as Karbon Homes Limited is a not-for-profit organisation that reinvests any surpluses generated from its activities within the group and does not make any distributions of profit to external parties.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. We used 75% as the performance materiality threshold, being £1.9m (2022: £1.7m) for the group.

We agreed to report to the Group Audit and Risk Committee any corrected or uncorrected identified misstatements exceeding £124k (2022: £113k) for the group, in addition to other identified misstatements that warranted reporting on qualitative grounds.

We set materiality for each component of the group based on a percentage of turnover or of net assets/liabilities, dependent on the size and our assessment of the risk of material misstatement of that component.

Materiality for the parent association financial statements was set at £2.1m, determined with reference to the benchmark of association turnover (of which it represents 1.5%) and we ensured it was at a level to ensure that the risk of errors exceeding group materiality was appropriately mitigated. The parent association performance materiality was 75% and £1.6m.

Of the group's reporting components, we subjected all to full scope audits for group purposes, except for Agnes Marsden Trust, Emily Bentley Homes and Marsden Memorial Homes to which we provide Independent Examination Reports (and are not consolidated into group financial statements on the grounds of materiality). The work on all components, including the audit of the parent association, was performed by the group team.

Other information

The other information comprises the information included in the annual 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.

Independent auditor's report to the members of Karbon Homes Limited (continued)

Responsibilities of the board

As explained more fully in the Statement of the Responsibilities of the Board for the report and financial statements set out on page 36, 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 and regulations 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 and regulations 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 has 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 association's activities.
- We reviewed financial statements disclosures and tested to 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 association's members, 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's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the association and the association's members as a body for our audit work, for this report or for the opinions we have formed.

Beever and Struthers

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

Date: 31 July 2023

Financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2023

	Note	2023 £ '000	2022 Restated £ '000
Turnover	3	165,604	155,186
Cost of sales	3	(9,197)	(8,857)
Operating expenditure	3	(112,768)	(106,074)
Negative goodwill	3/31	53,483	8,561
Surplus on sale of housing properties	6	3,273	3,809
Operating surplus	5	100,395	52,625
Deficit on sale of property, plant and equipment – other fixed assets		(346)	(146)
Interest receivable and other income	7	1,931	300
Interest payable and similar charges	8	(19,088)	(19,003)
Other finance costs	9	(642)	(905)
Unrealised gain on revaluation of investment properties	14	1,140	2,740
Surplus before taxation		83,390	35,611
Tax on surplus on ordinary activities	11	63	102
Surplus for the financial year	32	83,453	35,713
Actuarial gain in respect of pension schemes	9	16,031	19,164
Total comprehensive income for the year		99,484	54,877

The consolidated results relate to continuing and acquired activities.
The notes on pages 53 to 112 form part of these financial statements.
The financial statements were authorised for issue and approved by the Karbon Homes Board on 25 July 2023 and signed on its behalf by:

Sir David Bell KCB DL
Chairman

Alexis Cleveland
Vice Chair

Richard Fryer
Company Secretary

Financial statements

ASSOCIATION STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2023

	Note	2023 £ '000	2022 £ '000
Turnover	3	158,099	150,684
Cost of sales	3	(11,477)	(11,289)
Operating expenditure	3	(106,430)	(101,825)
Negative goodwill	3/31	-	8,561
Surplus on sale of housing properties	6	3,098	3,492
Operating surplus	5	43,290	49,623
Deficit on sale of property, plant and equipment - other fixed assets		(97)	(71)
Interest receivable and other income	7	2,602	1,280
Interest payable and similar charges	8	(17,606)	(18,045)
Other finance costs	9	(607)	(876)
Unrealised gain on revaluation of investment properties	14	455	1,378
Surplus before taxation		28,037	33,289
Tax on surplus on ordinary activities	11	131	(11)
Surplus for the financial year	32	28,168	33,278
Actuarial gain in respect of pension schemes	9	15,892	18,974
Total comprehensive income for the year		44,060	52,252

The association's results relate to continuing activities.
The notes on pages 53 to 112 form part of these financial statements.
The financial statements were authorised for issue and approved by the Karbon Homes Board on 25 July 2023 and signed on its behalf by:

Sir David Bell KCB DL
Chairman

Alexis Cleveland
Vice Chair

Richard Fryer
Company Secretary

Financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2023

	Note	2023 £ '000	2022 Restated £ '000
Fixed assets			
Tangible fixed assets			
Housing properties at cost less depreciation	12	1,170,548	994,618
Other tangible fixed assets	13	12,139	12,192
Investment properties	14	49,904	47,325
HomeBuy loans receivable	15	184	184
Fixed asset investment	16	10	-
Investment in associate	17	-	-
		1,232,785	1,054,319
Current assets			
Properties for sale	19	3,907	2,052
Deferred asset	20	-	-
Consumable stock		973	815
Debtors due within one year	21	24,018	15,443
Debtors due after one year	22	2,765	4,585
Investments	23	39,566	93,352
Cash and cash equivalents		31,752	30,135
		102,981	146,382
Creditors: Amounts falling due within one year	24	(74,310)	(60,708)
Net current assets		28,671	85,674
Total assets less current liabilities		1,261,456	1,139,993
Creditors: Amounts falling due after more than one year	25	(511,757)	(486,419)
Deferred grants	27	(297,028)	(284,695)
Provision for liabilities and charges	29	(1,978)	(1,855)
Pension liability	9	(8,588)	(24,403)
		(819,351)	(797,372)
Total net assets		442,105	342,621
Capital and reserves			
Non-equity share capital	30	-	-
Restricted reserve	32	450	450
Revenue reserve	32	441,655	342,171
Consolidated funds	32	442,105	342,621

The notes on pages 53 to 112 form part of these financial statements.
The financial statements were authorised for issue and approved by the Karbon Homes Board on 25 July 2023 and signed on its behalf by:

Sir David Bell KCB DL
Chairman

Alexis Cleveland
Vice Chair

Richard Fryer
Company Secretary

Financial statements

ASSOCIATION STATEMENT OF FINANCIAL POSITION

At 31 March 2023

	Note	2023 £ '000	2022 £ '000
Fixed assets			
Tangible fixed assets			
Housing properties at cost less depreciation	12	1,016,425	927,223
Other tangible fixed assets	13	9,761	10,070
Investment properties	14	17,653	16,841
HomeBuy loans receivable	15	184	184
Investment in associate	17	-	-
		1,044,023	954,318
Current assets			
Properties for sale	19	3,838	1,918
Deferred asset	20	-	-
Consumable stock		973	815
Debtors due within one year	21	26,551	17,075
Debtors due after one year	22	21,772	22,615
Investments	23	37,551	93,142
Cash and cash equivalents		25,318	27,364
		116,003	162,929
Creditors: Amounts falling due within one year	24	(65,834)	(57,350)
Net current assets		50,169	105,579
Total assets less current liabilities		1,094,192	1,059,897
Creditors: Amounts falling due after more than one year	25	(457,247)	(462,235)
Deferred grants	27	(277,292)	(265,131)
Provision for liabilities and charges	29	(1,900)	(1,845)
Pension liability	9	(6,627)	(23,620)
		(743,066)	(752,831)
Total net assets		351,126	307,066
Capital and reserves			
Non-equity share capital	30	-	-
Restricted reserve	32	450	450
Revenue reserve	32	350,676	306,616
Consolidated funds	32	351,126	307,066

The notes on pages 53 to 112 form part of these financial statements.
The financial statements were authorised for issue and approved by the Karbon Homes Board on 25 July 2023 and signed on its behalf by:

Sir David Bell KCB DL
Chairman

Alexis Cleveland
Vice Chair

Richard Fryer
Company Secretary

Financial statements

CONSOLIDATED STATEMENT OF CHANGES IN RESERVES

	Income and expenditure reserve £ '000	Restricted reserve £ '000	Total £ '000
Balance at 1 April 2021	**287,294**	**450**	**287,744**
Surplus for the year	35,713	-	35,713
Actuarial gain on pension scheme	19,164	-	19,164
Balance at 31 March 2022	**342,171**	**450**	**342,621**
Surplus for the year	83,453	-	83,453
Actuarial gain on pension scheme	16,031	-	16,031
Balance at 31 March 2023	**441,655**	**450**	**442,105**

The notes on pages 53 to 112 form part of these financial statements

Financial statements

ASSOCIATION STATEMENT OF CHANGES IN RESERVES

	Income and expenditure reserve £ '000	Restricted reserve £ '000	Total £ '000
Balance at 1 April 2021	**253,767**	**450**	**254,217**
Gift aid	597	-	597
Surplus for the year	33,278	-	33,278
Actuarial gain on pension scheme	18,974	-	18,974
Balance at 31 March 2022	**306,616**	**450**	**307,066**
Surplus for the year	28,168	-	28,168
Actuarial gain on pension scheme	15,892	-	15,892
Balance at 31 March 2023	**350,676**	**450**	**351,126**

The notes on pages 53 to 112 form part of these financial statements

Financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

	2023 £ '000	2022 £ '000
Net cash generated from operating activities (See Note 35)	62,682	63,865
Cash flow from investing activities		
Purchase and construction of housing properties	(95,250)	(66,736)
Works to existing properties capitalised	(30,526)	(20,272)
Purchase of other fixed assets	(1,756)	(2,069)
Sale of housing properties	6,616	7,879
Payments to local authorities re sale of properties	(388)	(233)
Sale of other fixed assets	-	75
Social housing grant received	33,706	19,393
Interest received	1,749	771
	(85,849)	(61,192)
Cash flow from financing activities		
Interest paid	(20,634)	(19,675)
New secured loans	2,450	8,400
Repayment of HomeBuy loan	-	16
Repayment of borrowings	(15,347)	(19,658)
Acquisition - cash and investments	4,529	4,842
Money market and investment movements	53,786	(9,033)
	24,784	(35,108)
Net change in cash and cash equivalents	**1,617**	**(32,435)**
Cash and cash equivalents at beginning of the year	**30,135**	**62,570**
Cash and cash equivalents at end of the year	**31,752**	**30,135**

The notes on pages 53 to 112 form part of these financial statements

Notes to the financial statements

1. Legal status

The association is a Registered Society in England under the Co-operative and Community Benefit Societies Act 2014 and is registered as a housing provider with the Regulator for Social Housing. The registered office is Number Five, Gosforth Park Avenue, Gosforth Business Park, Newcastle upon Tyne, NE12 8EG.

2. Accounting policies

Basis of accounting

The financial statements of the group and association are prepared in accordance with the Co-operative and Community Benefit Societies (Group Regulations) 1969, the Housing and Regeneration Act 2008, the Statement of Recommended Practice 2018 and comply with the Accounting Direction for Private Registered Providers of Social Housing 2022.

The accounts are prepared on the historical cost basis of accounting modified to include certain items at fair value and are presented in sterling £000s for the year ended 31 March 2023.

The group's financial statements have been prepared in compliance with FRS 102. The group meets the definition of a Public Benefit Entity.

Going concern

The group's business activities, its current financial position, and factors likely to affect its future development are set out within the Operating and Financial Review. The group has in place long-term debt facilities which provide adequate resources to finance committed reinvestment and development programmes, along with the group's day-to-day operations. The group also has a long-term business plan which shows that it is able to service these debt facilities whilst continuing to comply with its lenders' covenants.

Basis of consolidation

The group accounts consolidate the accounts of the association and its subsidiaries at 31 March each year.

54North Homes Limited is the Corporate Trustee of three almshouse charities: Emily Bentley Homes (EBH), Marsden Memorial Homes (MMH) and Agnes Marsden Trust (AMT). These three charities own 14 homes in total and exist to provide homes to people in need in their specific localities in West Yorkshire. The three entities are registered charities and EBH and MMH are registered with the RSH. The financial performance of these subsidiary charities are not consolidated into either the financial performance of 54N or Karbon Group on the basis that the impact is not material.

The financial statements of these almhouses can be obtained from the Charity Commissioners for England and Wales.

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 date of the Statement of Financial Position 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 described on page 55. Initial capitalisation of costs is based on management's judgement when a development scheme is confirmed, usually when board approval has taken place. 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:** Reviews for impairment of housing properties are carried out when a trigger has occurred and any impairment loss in a cash generating unit is recognised by a charge 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 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.

d. **Pensions:** The cost of defined benefit pension plans are determined using actuarial valuations. The actuarial valuation involves making assumptions about discounts 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. Further details are given in note 9.

2. Accounting policies (continued)

e. **Revaluation of investment properties:** The group carries its investment properties at market values, with changes in market value being recognised in the Statement of Comprehensive Income. The group engages independent valuation specialists to determine market value at the reporting period date. The valuers used a valuation technique based on a discounted cash flow model. Further details are given in note 14.

Other key sources of estimation and assumption:

a. **Tangible fixed assets:** Other than investment properties, 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 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.

b. **Amortisation of gap funding:** Gap funding is amortised over the useful economic life of the components.

c. **Amortisation of social housing and other government grants:** Social housing and other government grants are amortised over the useful economic life of the structure of the properties.

Turnover and revenue recognition

Turnover comprises rental income receivable in the year, amortised capital grant, revenue grants receivable in the year, income from low-cost home ownership first tranche sales, other services included at the invoiced value (excluding VAT where recoverable) of goods and services supplied in the year.

Rental income is recognised from the point when properties under development reach practical completion or otherwise become available for letting. Income from first tranche sales and sales of properties built for sale is recognised at the point of legal completion of the sale. Revenue grants are receivable when the conditions for receipt of agreed grant funding have been met. Charges for support services funded under Supporting People are recognised as they fall due under the contractual arrangements with administering authorities. Turnover in respect of construction contracts is recognised in proportion to the physical completion of the underlying construction works.

Sales of properties developed for outright sale are included in turnover and cost of sales.

Service charges

The group operates both fixed and variable service charges on a scheme by scheme basis in full consultation with residents. Where variable service charges are used, the charges will include an allowance for the surplus or deficit from prior years, with the surplus being returned to residents by a reduced charge and a deficit being recovered by a higher charge. Until these are returned or recovered, they are held 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.

Taxation

The parent company became an exempt charity on 3 April 2017 and, from this date, any surpluses or deficits arising from its charitable activities will be exempt from corporation tax. Any activity relating to non-charitable activity will be subject to corporation tax.

Deferred taxation

The payment of taxation is deferred or accelerated because of timing differences between the treatment of certain items for accounting and taxation purposes. Except as noted below, full provision for deferred taxation is made under the incremental liability method on all timing differences that have arisen, but not reversed by the balance sheet date.

Deferred tax is not provided for gains on the sale of non-monetary assets if the taxable gain will probably be rolled over.

Deferred tax is measured at the tax rates that are expected to apply in the periods when the timing differences are expected to reverse, based on tax rates and law enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are not discounted.

Value added tax (VAT)

The group charges VAT on some of its income and is able to recover part of the VAT it incurs on expenditure. The financial statements include VAT to the extent that it is suffered by the group and not recoverable from HM Revenue and Customs. The group has three VAT Shelter Agreements in place; as a result, the VAT incurred on first time works on the social housing

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

Loan interest costs

Interest payable is charged to the Statement of Comprehensive Income in the year. No interest is capitalised.

Pensions

The group participates in three funded multi-employer defined benefit schemes, the Social Housing Pension Scheme ('SHPS'), the Tyne and Wear Pension Fund ('TWPF") and the Durham County Council Pension Scheme ('DCCPF') and one defined contribution scheme with SHPS for employees of Karbon Homes Limited and 54North Homes Limited.

For the SHPS, TWPF and DCCPF defined benefit schemes, the net scheme liability is recognised in the Statement of Financial Position whereas the net scheme asset is restricted to £nil where the group is unable to either request a refund or reduce employer contributions. The operating costs of providing retirement benefits to participating employees are recognised in the accounting periods in which the benefits are earned. The related finance costs, expected return on assets and any other changes in the fair value of the assets and liabilities are recognised in the accounting period in which they arise. The operating costs, finance costs and expected return on assets are recognised in the Statement of Comprehensive Income along with any other changes in fair value of assets and liabilities.

Supporting People

Charges for support services funded under Supporting People are recognised as they fall due under the contractual arrangements with administering authorities.

Business combinations

A combination in which the controlling parties of the combining entities have come together in a partnership for the mutual sharing of risks and benefits and in which no party to the combination in substance obtained control over any other, or has been otherwise seen to be dominant, is accounted for as a merger.

Acquisitions of other entities in the social housing sector that are in substance a gift are treated as non-reciprocal transfers where the substance of the transaction is gifting control of one entity to another. These are also known as non-exchange transactions. In this case the fair value of the gifted assets and liabilities are recognised as a gain or loss in the Statement of Comprehensive Income in the year of the transaction.

Joint ventures and associates

An entity is treated as a joint venture where the group holds an interest and shares control under a contractual arrangement with one or more parties external to the group.

An entity is treated as an associated undertaking where the group has a participating interest and exercises significant influence over its operating and financial policies.

In the group financial statements, joint ventures are accounted for using the equity method. Under this method an equity investment is initially recognised at the transaction price (including transaction costs) and is subsequently adjusted to reflect the investor's share of the profit or loss, other comprehensive income and equity of the associate. The Consolidated Statement of Comprehensive Income indicates the group's share of the joint venture's turnover and includes the group's share of the operating results, interest, pre-tax results, and attributable taxation of such undertakings based on audited financial statements. In the Consolidated Statement of Financial Position, the group's share of the identifiable gross assets (including any amortised premium paid on acquisition) and its share of the gross liabilities attributable to its joint venture are shown separately.

Where the equity treatment is not appropriate due to the nature of the members' agreement, we have accorded the shareholding as an investment.

Housing properties

Housing properties are principally properties available for rent and are stated at cost less accumulated depreciation. Cost includes the cost of acquiring land and buildings, development costs and expenditure incurred in respect of improvements.

Works to existing properties which replace a component that has been treated separately for depreciation purposes, along with those works that result in an increase in net rental income over the lives of the properties, thereby enhancing the economic benefits of the assets, are capitalised as improvements. Such capital expenditure is subsequently subject to the application of the depreciation policy whereby the accumulated cost (less any residual values) of the capital asset is reduced over the useful life of the asset.

All other expenditure incurred in respect of general repairs to the housing stock is charged to the Statement of Comprehensive Income in the year in which it is incurred.

2. Accounting policies (continued)

Housing properties (continued)
Low-cost home ownership properties are split proportionally between current and fixed assets based on the element relating to expected first tranche sales. The first tranche proportion is classed as a current asset and related sales proceeds included in turnover, and the remaining element is classed as fixed asset and included in housing properties at cost, less any provisions needed for depreciation or impairment.

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

Social housing grants
Social housing grant (SHG) is receivable from Homes England and is used to reduce the capital costs of housing properties, including land costs. 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. SHG acquired by either an acquisition or transfer of engagement is recorded as a contingent liability. SHG received for items of cost written off in the Statement of Comprehensive Income is included as part of turnover.

SHG must be recycled by the group under certain conditions, if a property is sold, or if another relevant event takes place. In these cases, SHG is credited to Recycled Capital Grant Fund in creditors in the Statement of Financial Position and can be used for projects approved by 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 (SHG) is recycled, as described above, it 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.

Stock transactions
Where an agreement is entered into with another social landlord to purchase housing properties from one another in return for non-monetary assets or a combination of non-monetary assets and monetary assets, the outgoing stock is treated as a disposal with a gain/loss recorded in profit or loss. The incoming stock is measured at fair value.

Where there is a government grant associated with the housing properties that are part of the stock transaction, the fair value of the obligation to repay or recycle the government grant is reflected in the fair value of the housing properties and therefore no additional value should be attributable to the government grant transferred.

Donated land
Land donated by local authorities and others is added to cost at the market value of the land at the time of the donation.

Investment properties
Housing properties held as investments are stated at valuation on the Statement of Financial Position. The aggregate surplus or deficit arising on the valuation is accounted for through the Statement of Comprehensive Income.

Each property is subject to a year-end valuation to establish the fair value. Permanent deficits on individual investment properties are charged to the Statement of Comprehensive Income.

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

Other 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.

Other grants include Gap Funding received from Homes England and have been used to reduce the capital costs of works to housing properties.

Notes to the financial statements

Depreciation of housing properties
The group separately identifies the major components which comprise its housing properties, and charges depreciation, so as to write down the cost of each component to its estimated residual value, on a straight-line basis, over its estimated useful economic life.

Where a housing property comprises two or more major components with substantially different useful lives (UELs), each component is accounted for separately and depreciated over its UEL. Expenditure relating to subsequent replacement or renewal of components is capitalised as incurred. Depreciation charges are part of the group's running costs and are recognised in the Statement of Comprehensive Income over the useful life of the asset.

The group depreciates the major components of its housing properties held for letting at the following lifespan and annual rates:

	Years
Structure	30 - 125
Roofs	30 - 60
Flat roofs	20
External works	2 - 50
Kitchens	20 - 25
Bathrooms	25 - 33
Windows	30
Doors	2 - 30
Garages/outbuildings	2 - 30
Under floor heating	30
Disabled adaptations	2 - 30
Heating systems	15 - 30
Rewires	25 - 40
Boiler systems	15 - 23
Solar panels	25
Environmentals	20 - 25
Communal lifts	25 - 40
Communal boilers	20
Communal doors and windows	30
Communal lighting	40
Communal roof	60
Communal stairwell flooring	5
Communal door entry	15
Positive ventilation systems	15
Estate improvements	15
Fire risk works	10
Smoke alarms	10
Building safety works	10

Freehold land is not depreciated. Properties held on leases are amortised over the life of the lease or their estimated useful economic lives in the business, if shorter.

Impairment
Assets are reviewed for impairment if there is an indication that impairment may have occurred. Indicators considered include external sources of information such as market value, actual or proposed changes to technological, economic, or legal environment, obsolescence or damage to the asset, operational changes or internal reporting indicates that the asset is performing worse than expected. Where there is evidence of impairment, fixed assets are written down to their recoverable amount. Impairment is recognised where the carrying value of a cash generating unit exceeds the higher of its net realisable value or its value in use. Any such write down is charged to operating surplus.

Positive and negative goodwill
On acquisition, the recognised assets and liabilities of the acquired asset or entity will be measured at a fair value that reflects the conditions at the date of the acquisition. Positive or negative goodwill that arises will be treated as a gain or loss to the Statement of Comprehensive Income in the year the transaction occurs.

Current asset investments
Investments are held at market value.

Other tangible fixed assets
Depreciation is provided evenly on the cost of other tangible fixed assets to write them down to their estimated residual values over their expected useful lives. No depreciation is provided on freehold land.

The principal annual rates used for other assets are:

	Years
Freehold buildings	10 - 100
Long leasehold property	Over life of lease
Furniture, fixtures, and fittings	5 - 10
Fire alarm upgrades	15
Computers and office equipment	3 - 5
Motor vehicles	3 - 5
Plant and equipment	5
Commercial premises	25 - 45

Leased assets
Rentals payable under operating leases are charged to the Statement of Comprehensive Income on a straight-line basis over the lease term.

2. Accounting policies (continued)

Properties held for sale
Properties developed for outright sale, low-cost home ownership first tranche sales and properties under construction 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. Cost comprises materials, direct labour and direct development overheads. Net realisable value is based on estimated sales price after allowing for all further costs of completion and disposal.

At each reporting date, stock and properties held for sale are assessed for impairment. If there is evidence of impairment, the carrying amount 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.

Liquid resources
Liquid resources are readily disposable current asset investments. They include investments held for more than 24 hours, which can only be withdrawn without penalty on maturity or by giving notice of more than one working day. These are shown as cash within the Statement of Financial Position.

Provisions
The group provides for contractual liabilities and constructive liabilities, where a past event has created valid expectations in other parties that the group will discharge and where the obligation can be reliably estimated.

Financial instruments
Financial assets measured at amortised cost comprise cash and cash equivalents, investments, trade debtors, other debtors, accrued income and amounts owed by association undertakings.

Financial liabilities measured at amortised cost comprise bank loans, trade creditors and other creditors.

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 in the year in which the redemption took place.

Loan breakage costs
Any breakage costs which are not cash settled when first incurred are included in lenders' future margins and are therefore paid over the remaining life of the loan. The breakage costs are provided for in the Statement of Comprehensive Income when first incurred and released over the life of the loan with the effect of reducing future year interest payable charges accordingly.

Loan prepayment
The group's debt has been treated as "basic" in accordance with paragraphs 11.8 and 11.9 of FRS 102. The group has some fixed rate loans which have a two-way break clause (i.e. in addition to compensation being payable by a borrower to a lender if a loan is prepaid where the prevailing fixed rate is lower than the existing loan's fixed rate, compensation could be payable by the lender to the borrower in the event that a loan is prepaid and the prevailing fixed rate is higher than the existing loan's fixed rate). The group has treated these loans as basic in accordance with paragraph 11.9 (c).

Restricted reserve
The group holds a restricted reserve which has been utilised in accordance with the wishes of the benefactor. Movements in reserves are shown in the Consolidated Statement of Changes in Equity.

Revenue reserves
There are several reasons why the group needs to generate reserves:

- to provide a cushion against risk and uncertainty of future operations
- to finance future major repairs and improvements
- to provide internal subsidy for new homes and property development.

Due to the reduction in social housing grant (SHG) and other capital grants available to the sector over recent years, the group needs to commit more of their reserves to financing investment in new homes and larger maintenance programmes. This approach not only enables greater investment, but it also reduces interest costs as further loans can be kept to a minimum.

Segmental reporting
For the purpose of segmental reporting, the chief operating decision maker (CODM) is considered to be the board.

In line with the segments reported to the CODM, the presentation of these financial statements and accompanied notes are in accordance with the Accounting Direction for Private Registered Providers of Social Housing from April 2022 and is considered appropriate. Information about income, expenditure and assets attributable to material operating segments are presented on the basis of the nature and function of housing assets held by the group.

This is appropriate on the basis of the similarity of the services provided, the nature of the risks associated, the type and class of customer and the nature of the regulatory environment across all of the geographical locations in which the group operates. The CODM does not review disaggregated financial information of assets and liabilities at this level of operating segment. Refer to note 3(a) for further disclosed information.

Notes to the financial statements

3. Turnover, cost of sales, operating expenditure and operating surplus

GROUP

	2023 Group			
	Turnover	Cost of sales	Operating expenditure	Operating surplus
	£ '000	£ '000	£ '000	£ '000
Social housing lettings Note 3(a)	144,897	-	(102,948)	41,949
Other social housing activities				
Development services	2,906	(2,815)	(1,035)	(944)
Support services	1,922	-	(2,216)	(294)
Community investment	934	-	(3,657)	(2,723)
First tranche low-cost home ownership sales	6,097	(3,950)	(307)	1,840
Provision of furniture	1,666	-	(795)	871
Other	854	-	(888)	(34)
	14,379	(6,765)	(8,898)	(1,284)
Non-social housing activities				
Other rental income	496	-	(146)	350
Properties developed for outright sale	288	(227)	-	61
Market rentals	3,083	(117)	(300)	2,666
External services	2,456	(2,088)	(423)	(55)
Other	5	-	(53)	(48)
	6,328	(2,432)	(922)	2,974
Total before sale of housing properties	165,604	(9,197)	(112,768)	43,639
Negative goodwill arising on transfer of engagement (Note 31)	53,632	-	(149)	53,483
Sale of housing properties	6,872	(3,524)	(75)	3,273
	226,108	(12,721)	(112,992)	**100,395**

Costs of £149k associated with the Leeds & Yorkshire Housing Association transfer of engagement have been written off against negative goodwill (see note 31).

Notes to the financial statements

3. Turnover, cost of sales, operating expenditure and operating surplus (continued)

GROUP

	2022 Group - restated			
	Turnover	Cost of sales	Operating expenditure	Operating surplus
	£ '000	£ '000	£ '000	£ '000
Social housing lettings Note 3(a)	135,041	-	(97,200)	37,841
Other social housing activities				
Development services	2,632	(2,423)	(1,174)	(965)
Support services	1,890	-	(2,151)	(261)
Community investment	271	-	(2,997)	(2,726)
First tranche low-cost home ownership sales	6,219	(3,561)	(320)	2,338
Provision of furniture	1,632	-	(936)	696
Other	892	-	(508)	384
	13,536	(5,984)	(8,086)	(534)
Non-social housing activities				
Other rental income	515	-	(158)	357
Properties developed for outright sale	1,142	(980)	-	162
Market rentals	3,036	(131)	(435)	2,470
External services	1,909	(1,747)	(176)	(14)
Other	7	(15)	(19)	(27)
	6,609	(2,873)	(788)	2,948
Total before sale of housing properties	155,186	(8,857)	(106,074)	40,255
Negative goodwill arising on transfer of engagement (Note 31)	9,085	-	(524)	8,561
Sale of housing properties	8,000	(4,116)	(75)	3,809
	172,271	(12,973)	(106,673)	**52,625**

Costs associated with the Byker Community Trust transfer of engagement were written off against negative goodwill.

2022 has been restated to disclose the provision of furniture packs which were previously included in other social housing activities, in the category other and the disaggregation of a deficit on sale of other fixed assets from operating expenses.

Notes to the financial statements

3. Turnover, cost of sales, operating expenditure and operating surplus (continued)

ASSOCIATION

	2023 Association			
	Turnover £ '000	Cost of sales £ '000	Operating expenditure £ '000	Operating surplus £ '000
Social housing lettings Note 3(a)	136,693	-	(96,784)	39,909
Other social housing activities				
Development services	182	-	(848)	(666)
Support services	1,893	-	(2,181)	(288)
Community investment	934	-	(3,657)	(2,723)
First tranche low-cost home ownership sales	5,684	(3,590)	(307)	1,787
Provision of furniture	1,666	-	(1,487)	179
Other	1,362	-	(672)	690
	11,721	(3,590)	(9,152)	(1,021)
Non-social housing activities				
Other rental income	275	-	(72)	203
Properties developed for outright sale	288	(227)	-	61
Market rentals	1,282	-	(204)	1,078
External services	7,835	(7,660)	(205)	(30)
Other	5	-	(13)	(8)
	9,685	(7,887)	(494)	1,304
Total before sale of housing properties	158,099	(11,477)	(106,430)	40,192
Negative goodwill arising on transfer of engagement (Note 31)	-	-	-	-
Sale of housing properties	5,906	(2,737)	(71)	3,098
	164,005	(14,214)	(106,501)	**43,290**

Notes to the financial statements

3. Turnover, cost of sales, operating expenditure and operating surplus (continued)

ASSOCIATION

	2022 Association - restated			
	Turnover £ '000	Cost of sales £ '000	Operating expenditure £ '000	Operating surplus £ '000
Social housing lettings Note 3(a)	129,790	-	(93,149)	36,641
Other social housing activities				
Development services	191	-	(1,164)	(973)
Support services	1,859	-	(2,116)	(257)
Community investment	271	-	(2,997)	(2,726)
First tranche low-cost home ownership sales	5,775	(3,245)	(320)	2,210
Provision of furniture	1,632	-	(1,436)	196
Other	1,390	-	(208)	1,182
	11,118	(3,245)	(8,241)	(368)
Non-social housing activities				
Other rental income	311	-	(65)	246
Properties developed for outright sale	1,142	(980)	-	162
Market rentals	1,252	-	(254)	998
External services	7,064	(7,064)	(107)	(107)
Other	7	-	(9)	(2)
	9,776	(8,044)	(435)	1,297
Total before sale of housing properties	150,684	(11,289)	(101,825)	37,570
Negative goodwill arising on transfer of engagement (Note 31)	9,085	-	(524)	8,561
Sale of housing properties	6,759	(3,192)	(75)	3,492
	166,528	(14,481)	(102,424)	**49,623**

Costs associated with the Byker Community Trust transfer of engagement were written off against negative goodwill.

2022 has been restated to disclose the provision of furniture packs which were previously included in other social housing activities, in the category other.

Notes to the financial statements

3. (a) Turnover, cost of sales, operating expenditure and operating surplus (continued)

GROUP - Particulars of income and expenditure from social housing lettings

	2023 Group				2022
	General housing £'000	Supported and sheltered housing £'000	Low-cost home ownership £'000	Total £'000	Total £'000
Turnover from social housing lettings					
Rent receivable net of identifiable service charges and net of voids	114,992	8,744	1,820	125,556	116,940
Service charges income	8,759	3,201	726	12,686	11,527
Net rental income	123,751	11,945	2,546	138,242	128,467
Revenue grants	34	64	-	98	80
Amortised government grants	5,007	119	6	5,132	5,151
Other income	1,360	59	6	1,425	1,343
Turnover from social housing lettings	130,152	12,187	2,558	144,897	135,041
Management	(15,371)	(3,754)	(401)	(19,526)	(18,449)
Service charge costs	(15,812)	(3,165)	445	(18,532)	(16,624)
Routine maintenance	(26,330)	(1,405)	(39)	(27,774)	(26,793)
Planned maintenance	(6,519)	(2,800)	(506)	(9,825)	(9,162)
Major repairs	-	-	-	-	-
Bad debts	(1,155)	(51)	(1)	(1,207)	(1,127)
Depreciation of housing properties	(25,770)	(299)	(32)	(26,101)	(23,930)
Impairment of housing properties	55	-	-	55	(630)
Release of impairment on freehold property	-	-	-	-	61
Write off - housing properties demolished	(38)	-	-	(38)	(546)
Operating expenditure on social housing lettings	(90,940)	(11,474)	(534)	(102,948)	(97,200)
Operating surplus on social housing lettings	39,212	713	2,024	41,949	37,841
Void losses	1,769	518	41	2,328	2,310

Notes to the financial statements

3. (a) Turnover, cost of sales, operating expenditure and operating surplus (continued)

ASSOCIATION - Particulars of income and expenditure from social housing lettings

	2023 Association				2022
	General housing £'000	Supported and sheltered housing £'000	Low-cost home ownership £'000	Total £'000	Total £'000
Turnover from social housing lettings					
Rent receivable net of identifiable service charges and net of voids	110,159	7,132	1,591	118,882	112,819
Service charges income	8,440	2,397	662	11,499	10,722
Net rental income	118,599	9,529	2,253	130,381	123,541
Revenue grants	29	-	-	29	16
Amortised government grants	4,890	-	-	4,890	4,917
Other income	1,360	27	6	1,393	1,316
Turnover from social housing lettings	124,878	9,556	2,259	136,693	129,790
Management	(14,480)	(3,145)	(346)	(17,971)	(17,418)
Service charge costs	(15,395)	(2,600)	464	(17,531)	(15,846)
Routine maintenance	(25,541)	(1,074)	(30)	(26,645)	(26,193)
Planned maintenance	(6,125)	(2,582)	(505)	(9,212)	(8,859)
Major repairs	-	-	-	-	-
Bad debts	(1,094)	(22)	-	(1,116)	(1,091)
Depreciation of housing properties	(24,326)	-	-	(24,326)	(22,627)
Impairment of housing properties	55	-	-	55	(630)
Release of impairment on freehold property	-	-	-	-	61
Write off - housing properties demolished	(38)	-	-	(38)	(546)
Operating expenditure on social housing lettings	(86,944)	(9,423)	(417)	(96,784)	(93,149)
Operating surplus on social housing lettings	37,934	133	1,842	39,909	36,641
Void losses	1,757	450	35	2,242	2,184

Notes to the financial statements

4. Accommodation in management and development

At the end of the year accommodation in management for each class of accommodation was as follows:

Group Owned and managed	2022 Restated No.	New units developed or acquired No.	Units sold or demolished No.	Transfers from/(to) other RPs No.	Other No.	2023 No.
Social housing						
General housing - social rent	22,442	36	(85)	1,101	11	23,505
General housing - affordable rent	3,202	415	(6)	367	(9)	3,969
Supported and housing for older people - social rent	1,320	-	-	76	86	1,482
Supported and housing for older people - affordable rent	324	-	-	-	-	324
Low-cost home ownership	832	78	(6)	58	-	962
	28,120	529	(97)	1,602	88	30,242
Non-social						
Market rented	459	-	(6)	13	(3)	463
Student housing	27	-	-	-	-	27
Temporary accommodation	24	-	-	-	-	24
	510	-	(6)	13	(3)	514
Owned and managed by others						
General housing - social rent	1	-	-	4	1	6
General housing - affordable rent	-	-	-	-	-	-
Supported and housing for older people - social rent	230	-	-	-	(90)	140
Supported and housing for older people - affordable rent	1	-	-	-	-	1
Low-cost home ownership	-	-	-	-	-	-
Care home	14	-	-	-	-	14
	246	-	-	4	(89)	161
Total owned	**28,876**	**529**	**(103)**	**1,619**	**(4)**	**30,917**
Managed on behalf of others						
Social housing						
General housing - social rent	60	-	-	-	-	60
General housing - affordable rent	22	-	-	-	2	24
Supported and housing for older people - social rent	-	-	-	68	-	68
Low-cost home ownership	26	-	(1)	-	8	33
	108	-	(1)	68	10	185
Other						
Accommodation managed for others - non-social	10	-	-	-	(8)	2
Accommodation managed for others - leasehold	6	-	-	-	-	6
Total managed for others	124	-	(1)	68	2	193
Total owned and managed	29,000	529	(104)	1,687	(2)	31,110
Leasehold units	649	-	(2)	-	14	661
Total	29,649	529	(106)	1,687	12	**31,771**

Notes to the financial statements

4. Accommodation in management and development (continued)

At the end of the year accommodation in management for each class of accommodation was as follows:

Association Owned and managed	2022 No.	New units developed or acquired No.	Units sold or demolished No.	Transfers from/(to) other RPs No.	Other No.	2023 No.
Social housing						
General housing - social rent	21,972	-	(85)	-	11	21,898
General housing - affordable rent	2,791	203	(6)	-	(5)	2,983
Supported and housing for older people - social rent	1,114	-	-	-	(3)	1,111
Supported and housing for older people - affordable rent	321	-	-	-	-	321
Low-cost home ownership	697	13	(5)	-	(6)	699
	26,895	216	(96)	-	(3)	27,012
Non-social						
Market rented	194	-	-	-	(3)	191
Student housing	-	-	-	-	-	-
Temporary accommodation	-	-	-	-	-	-
	194	-	-	-	(3)	191
Owned and managed by others						
General housing - social rent	82	36	-	-	1	119
General housing - affordable rent	272	171	-	-	(4)	439
Supported and housing for older people - social rent	141	-	-	-	(1)	140
Supported and housing for older people - affordable rent	1	-	-	-	-	1
Low-cost home ownership	70	61	-	-	6	137
Care home	14	-	-	-	-	14
	580	268	-	-	2	850
Total owned	**27,669**	**484**	**(96)**	**-**	**(4)**	**28,053**
Managed on behalf of others						
Social housing						
General housing - social rent	1	-	-	-	-	1
General housing - affordable rent	5	-	-	-	-	5
Supported and housing for older people - social rent	-	-	-	-	-	-
Low-cost home ownership	-	-	-	-	-	-
	6	-	-	-	-	6
Other						
Accommodation managed for others - non-social	9	-	-	-	(8)	1
Accommodation managed for others - leasehold	-	-	-	-	-	-
Total managed for others	15	-	-	-	(8)	7
Total owned and managed	27,684	484	(96)	-	(12)	28,060
Leasehold units	639	-	(2)	-	14	651
Total	28,323	484	(98)	-	2	**28,711**

Notes to the financial statements

4. Accommodation in management and development (continued)

The group prior year has been restated to reflect the movement of properties owned by Karbon Homes but managed by 54North Homes from owned and managed by others to owned and managed by Karbon Group.

5. Operating surplus

This is arrived at after charging/(crediting):

	Group		Association	
	2023 £ '000	**2022 £ '000**	**2023 £ '000**	**2022 £ '000**
Depreciation of housing properties	24,397	22,875	23,106	22,059
Depreciation of housing properties - write off fair value	469	469	-	-
Depreciation of housing properties - write off on replacement	1,253	611	1,220	568
Amortisation of deferred capital grant	(5,121)	(5,099)	(4,879)	(4,865)
Amortisation of deferred grant - write off on replacement	(11)	(52)	(11)	(52)
Impairment of housing properties	(55)	630	(55)	630
Release of impairment on freehold property	-	(61)	-	(61)
Depreciation of other tangible fixed assets	1,592	1,631	1,122	1,268
Operating lease rentals:				
- land and buildings	394	499	266	375
- office equipment, computers and motor vehicles	1,635	1,765	1,635	1,765
Auditors' remuneration (excluding VAT):				
- audit of the group financial statements	57	52	57	52
- audit of subsidiaries	41	21	-	-
Fees payable to the company's auditor and its associates for other services				
- service charge certification	12	10	12	10
- other	-	4	-	4

Notes to the financial statements

6. Surplus on sale of fixed assets – housing properties

	Group		Association	
	2023 £ '000	**2022 £ '000**	**2023 £ '000**	**2022 £ '000**
Proceeds from sale of properties	6,872	8,000	5,906	6,759
Less:				
Net book value of properties	(2,998)	(3,475)	(2,223)	(2,561)
Proceeds to be returned to local authorities	(284)	(388)	(284)	(388)
Grant written off on disposal	133	271	136	272
Recyclable grants on disposal	(197)	(360)	(197)	(360)
Administration charges	(253)	(239)	(240)	(230)
Net surplus from sale of properties	3,273	3,809	3,098	3,492

7. Interest receivable and other income

	Group		Association	
	2023 £ '000	**2022 £ '000**	**2023 £ '000**	**2022 £ '000**
Interest receivable and other income	1,931	300	2,602	1,280

The £1,931k includes the £400k priority return Next Level Developments Limited received as part of its limited liability partnership agreement with UKQ Clive Street holdings LLP.

8. Interest payable and similar charges

	Group		Association	
	2023 £ '000	**2022 £ '000**	**2023 £ '000**	**2022 £ '000**
On bank loans and other loans	18,706	18,484	17,265	17,546
Loan breakage costs	(73)	(70)	(73)	(70)
Loan non-utilisation fees	395	587	381	567
Interest on RCGF	32	2	32	2
Other interest	28	-	1	-
	19,088	19,003	17,606	18,045

9. Employees

Average monthly number of employees expressed in full time equivalents (calculated based on a standard working week of 37 hours):

	Group		Association	
	2023 No.	2022 No.	2023 No.	2022 No.
Housing management, repairs and asset management	732	722	700	698
Administration, finance and other	147	136	142	135
Development	21	19	20	19
Housing support and care	39	38	35	32
	939	915	897	884

The full-time equivalent number of key management personnel who received remuneration:

	2023 No.	2022 Restated No.
£60,001 to £70,000	-	-
£70,001 to £80,000	-	-
£80,001 to £90,000	1	7
£90,001 to £100,000	10	6
£100,001 to £110,000	5	3
£110,001 to £120,000	-	1
£120,001 to £130,000	1	2
£130,001 to £140,000	1	-
£140,001 to £150,000	1	-
£150,001 to £160,000	1	3
£160,001 to £170,000	1	-
£170,001 to £180,000	-	-
£180,001 to £190,000	2	-
£190,001 to £200,000	-	-
£200,001 to £210,000	-	1
£210,001 to £220,000	-	-
£220,001 to £230,000	-	-
£230,001 to £240,000	1	-

The full-time equivalent number of key management personnel includes the salaries of two 54North Homes Limited employees.

2022 has been restated to include employers pension contributions.

Notes to the financial statements

9. Employees (continued)

Employee costs:

	Group		Association	
	2023 £ '000	2022 £ '000	2023 £ '000	2022 £ '000
Wages and salaries	31,695	30,580	30,177	29,546
Social security costs	3,587	3,243	3,422	3,128
Other pension costs	6,949	5,066	6,614	4,847
	42,231	38,889	40,213	37,521
Redundancy costs	60	45	13	45
	42,291	38,934	40,226	37,566

At March 2023 £316.5k (2022: £234.4k) was outstanding in respect of unpaid pension contributions.

Pension obligations

The group participates in the following pension schemes:

- The Social Housing Pension Scheme (SHPS): a multi-employer defined benefit pension scheme
- The Social Housing Pension Fund (SHPS): a defined contribution scheme
- The Tyne and Wear Pension Fund (TWPF): a multi-employer defined benefit scheme
- The Durham County Council Pension Fund (DCCPF): a multi-employer defined benefit scheme

The nature of each defined benefit scheme is detailed below.

Guaranteed Minimum Pension equalisation and indexation ruling

The schemes are required to pay a Guaranteed Minimum Pension (GMP) to members who accrued benefits in the schemes between 6 April 1978 and 5 April 1997, when the scheme was 'contracted-out' of the state second pension on a salary-related basis.

The GMP was intended to approximately replace the state pension, which members were giving up, however the payment terms of GMP are different between men and women, which was a consequence of the state pension itself being unequal at that time.

A High Court ruling on 26 October 2018 clarified that an obligation exists to adjust benefits for the effect of inequalities caused by GMP earned between 17 May 1990 and 5 April 1997. A subsequent ruling on 20 November 2020 confirmed trustees also have an obligation to revisit and equalise statutory transfer value payments paid between 17 May 1990 and 26 October 2020 to address GMP inequalities.

Both the SHPS and Local Government Pension Schemes (LGPS) allowed for the initial impact of GMP equalisation on current members in previous years; however, whilst no allowance has been made in the LGPS schemes for compensating members who took a transfer payment from the fund since May 1990, SHPS included an additional allowance in the March 2021 liability values to account for the estimated impact of this.

McCloud/Sargeant judgement

On 27 June 2019, the Supreme Court ruled against the Government in the 'McCloud/Sargeant' judgement which found that the transitional protection arrangements put in place when the firefighters' and judges' pension schemes were reformed were age discriminatory. The ruling potentially had implications for all public sector schemes, which were reformed around the same time and could lead to members who were discriminated against being compensated.

In summary, it is assumed that the remedy applies to all members in service on 1 April 2012, on retirement or prior withdrawal, and with extension to benefits payable to the dependants of those members.

The resultant liability was updated as part of updating the 2022 valuation and no additional provisions have been made in the LGPS schemes.

Notes to the financial statements

9. Employees (continued)

Social Housing Pension Schemes
Karbon Homes Limited (KHL), the association and 54North Homes Limited (54NH), formerly York Housing Association Limited (YHA) and Leeds & Yorkshire Housing Association (LYHA), participate in the SHPS 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.

Of the four KHL pension schemes, only the SHPS 1/120th Care and the SHPS defined contribution schemes are open to new entrants.

The former York Housing Association has both a defined benefit and defined contribution scheme, however, only the defined contribution scheme is active. Employee contributions to the scheme are matched by the former York Housing Association from a minimum of 4% to a maximum of 10.0% (2022: 10.0%).

The former YHA defined benefit scheme is not open to new members and the benefits accruing to its members were frozen in 2016 and accordingly there are no ongoing salary-based contributions.

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 £1,560.0m. 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 accounting purposes, a valuation of the scheme is carried out with an effective date of 30 September each year. The liability figures from this valuation are rolled forward for accounting year-ends from the following 31 March to 28 February inclusive.

The latest accounting valuation was carried out with an effective date of 30 September 2022. The liability figures from this valuation were rolled forward for accounting year-ends from the following 31 March 2023 to 29 February 2024 inclusive.

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

Karbon Homes was notified in 2021 by the trustee of the Scheme that it performed a review of the changes made to the Scheme's benefits over the years and the result was that there was uncertainty surrounding some of these changes. The trustee is seeking clarification from the court on these items and this process is ongoing, and the matter is unlikely to be resolved before the end of 2024 at the earliest. It is estimated that this could potentially increase the value of entire scheme liabilities for all employers by £155m. It is noted that this estimate has been calculated as at 30 September 2022 on the Scheme's Technicial Provisions basis. Until the court direction is received, it is unknown whether the full (or any) increase in liabilities will apply and therefore, in line with the prior year, no adjustment has been made in these financial statements in respect of this.

Employers' contributions to SHPS for the period ended 31 March 2023 from Karbon Homes Limited and 54North Homes Limited were £4.5m (2022: £2.7m) and £375.0k (2022: £213.1k) respectively. The contributions include past service deficits and defined contribution scheme payments.

These amounts have been charged to operating costs.

Notes to the financial statements

9. Employees (continued)

Local Government Pension Schemes (LGPS)
The association participates in two Local Government Pension Schemes, the Tyne and Wear Pension Fund (TWPF) and the Durham County Council Pension Fund (DCCPF). Both schemes are multi-employer defined benefit schemes which are administered by South Tyneside Council and Durham County Council respectively under the regulations governing the Local Government Pension Scheme (the LGPS).

The most recent formal actuarial valuation of the Scheme was at 31 March 2022 which was rolled forward to 31 March 2023 by a qualified independent actuary.

The pension asset of £16.9m has been restricted to £nil (2022: liability £17.0m) as the recoverability of this asset would require a right to reduce employer contributions or to request a refund from the fund. This restriction does not impact the group's underlying operating performance or financial position as financial covenants continue to be met.

Employers' contributions to TWPF and DCCPF for the period ended 31 March 2023 were £390.0k (2022: £387.3k) and £1.7m (2022: £1.7m) respectively. The contributions include past service deficits and defined contribution scheme payments.

Estimated employers' contributions to the TWPF and DCCPF for the accounting period commencing 1 April 2023 are £120.0k and £1.85m respectively.

Scheme disclosures

Net liabilities recognised in the Statement of Financial Position are as follows:

	Group		Association	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Social Housing Pension Scheme	8,588	7,443	6,627	6,660
Tyne and Wear Pension Fund	-	360	-	360
Durham County Council Pension Fund	-	16,600	-	16,600
Deficit	8,588	24,403	6,627	23,620

9. Employees (continued)

Local Government Pension Schemes (LGPS) (continued)

Employers contribution rates

	2023 %	2022 %
LGPS - TWPF:		
Former Isos	33.80	36.10
Former Byker	17.20	21.10
LGPS - DCCPF:		
Former Cestria	27.00	27.90
Former Derwentside	27.00	25.00
SHPS - KHL:		
CARE 1/120th	8.40	5.65
CARE 1/60th	16.50	11.05
Final Salary	20.60	13.60
Defined contribution - minimum	4.00	4.00
Defined contribution - maximum	8.00	8.00
SHPS - 54North:		
Former York - minimum	4.00	4.00
Former York - maximum	10.00	10.00
Former Leeds & Yorkshire - minimum	4.00	4.00
Former Leeds & Yorkshire - maximum	8.00	8.00

Scheme disclosures for the year ended 2023

Assumptions

The assumed life expectations (in years) on retirement at age 65 are:

	TWPF 2023	DCCPF 2023	SHPS 2023
Retiring today:			
Males	21.6	22.2	21
Females	24.6	23.5	23.4
Retiring in 20 years:			
Males	22.9	24.4	22.2
Females	26.1	25.5	24.9

The financial assumptions used to calculate the defined benefit section liabilities under FRS 102 are:

	TWPF KHL 2023 %	DCCPF KHL 2023 %	SHPS KHL 2023 %	SHPS 54N 2023 %	SHPS LYHA 2023 %
Discount rate	4.70	4.70	4.84	4.89	4.87
Inflation (RPI)	NA	NA	3.17	3.20	3.19
Inflation (CPI)	2.70	2.70	2.79	2.72	2.75
Pension increases	2.70	2.70	NA	NA	NA
Pension accounts revaluation rate	2.70	2.70	NA	NA	NA
Salary growth	4.20	3.70	3.79	3.72	3.75

9. Employees (continued)

Pension obligations (continued)

Scheme disclosures for the year ended 2023 (continued)

Amounts recognised in the SOCI

	TWPF KHL 2023 £'000	DCCPF KHL 2023 £'000	SHPS KHL 2023 £'000	SHPS 54N 2023 £'000	SHPS LYHA 2023 £'000	Total 2023 £'000
Current service cost	(150)	(2,850)	(1,401)	-	-	(4,401)
Contributions by employer	380	1,730	3,999	190	46	6,345
Amounts charged to operating expenditure	230	(1,120)	2,598	190	46	1,944
Interest income on assets	510	2,370	1,437	139	56	4,512
Interest on pension scheme liabilities	(510)	(2,790)	(1,586)	(159)	(63)	(5,108)
Expenses	-	-	(38)	(7)	(1)	(46)
Amounts charged to interest payable and financing costs	-	(420)	(187)	(27)	(8)	(642)
Actuarial gains/(losses) on scheme assets	(980)	(4,570)	2,952	187	972	(1,439)
Actuarial (gains)/losses on liabilities	(160)	(6,580)	(23,844)	(1,808)	147	(32,245)
Changes in assumptions underlying the present value of scheme liabilities	6,220	41,250	18,514	1,503	(862)	66,625
Restriction of pension asset	(4,950)	(11,960)	-	-	-	(16,910)
Actuarial gains/(losses) recognised in other comprehensive income	130	18,140	(2,378)	(118)	257	16,031

Amounts recognised in the Statement of Financial Position

	TWPF KHL 2023 £'000	DCCPF KHL 2023 £'000	SHPS KHL 2023 £'000	SHPS 54N 2023 £'000	SHPS LYHA 2023 £'000	Total 2023 £'000
Fair value of scheme assets	18,380	83,560	31,084	3,352	5,387	141,763
Present value of scheme liabilities	(13,430)	(71,600)	(37,711)	(4,090)	(6,610)	(133,441)
Restriction of pension asset	(4,950)	(11,960)	-	-	-	(16,910)
Deficit	-	-	(6,627)	(738)	(1,223)	(8,588)

9. Employees (continued)

Pension obligations (continued)

Scheme disclosures for the year ended 2023 (continued)

Amounts recognised in the Statement of Financial Position (continued)

	TWPF KHL 2023 £'000	DCCPF KHL 2023 £'000	SHPS KHL 2023 £'000	SHPS 54N 2023 £'000	SHPS LYHA 2023 £'000	Total 2023 £'000
Opening scheme liabilities	18,490	104,050	56,648	5,752	-	184,940
Acquisition pension liabilities	-	-	-	-	6,704	6,704
Current service cost	150	2,850	1,401	-	-	4,401
Interest cost	510	2,790	1,586	159	63	5,108
Contributions by participants	30	440	584	-	-	1,054
Actuarial (gains)/losses on liabilities	980	4,570	(2,952)	(187)	(972)	1,439
Actuarial (gains)/losses due to changes in assumptions	(6,220)	(41,250)	(18,514)	(1,503)	862	(66,625)
Net benefits paid out	(510)	(1,850)	(1,080)	(138)	(48)	(3,626)
Expenses	-	-	38	7	1	46
Past service costs	-	-	-	-	-	-
Closing scheme liabilities	13,430	71,600	37,711	4,090	6,610	133,441

	TWPF KHL 2023 £'000	DCCPF KHL 2023 £'000	SHPS KHL 2023 £'000	SHPS 54N 2023 £'000	SHPS LYHA 2023 £'000	Total 2023 £'000
Opening fair value of assets	18,130	87,450	49,988	4,969	-	160,537
Acquisition pension assets	-	-	-	-	5,186	5,186
Expected return on assets	-	-	-	-	-	-
Interest income on assets	510	2,370	1,437	139	56	4,512
Remeasurement gains/(losses) on assets	(160)	(6,580)	(23,844)	(1,808)	147	(32,245)
Contributions by the employer	380	1,730	3,999	190	46	6,345
Contributions by participants	30	440	584	-	-	1,054
Net benefits paid out	(510)	(1,850)	(1,080)	(138)	(48)	(3,626)
Closing fair value of scheme assets	18,380	83,560	31,084	3,352	5,387	141,763
Actual return on scheme assets	350	(4,210)	(22,407)	(1,669)	203	(27,733)

9. Employees (continued)

Pension obligations (continued)

Scheme disclosures for the year ended 2023 (continued)

Amounts recognised in the Statement of Financial Position (continued)

Movement in pension liability

	TWPF KHL 2023 £'000	DCCPF KHL 2023 £'000	SHPS KHL 2023 £'000	SHPS 54N 2023 £'000	SHPS LYHA 2023 £'000	Total 2023 £'000
Group share of scheme liabilities at beginning of period	(360)	(16,600)	(6,660)	(783)	-	(24,403)
Acquisition - business combination	-	-	-	-	(1,518)	(1,518)
Contributions paid	380	1,730	3,999	190	46	6,345
Current service cost	(150)	(2,850)	(1,401)	-	-	(4,401)
Past service cost	-	-	-	-	-	-
Interest income on assets	510	2,370	1,437	139	56	4,512
Interest on pension scheme liabilities	(510)	(2,790)	(1,586)	(159)	(63)	(5,108)
Other expenses	-	-	(38)	(7)	(1)	(46)
Actuarial gain/(loss)	5,080	30,100	(2,378)	(118)	257	32,941
Restriction of pension asset	(4,950)	(11,960)	-	-	-	(16,910)
Net deficit at 31 March	-	-	(6,627)	(738)	(1,223)	(8,588)

Notes to the financial statements

9. Employees (continued)

Pension obligations (continued)

Scheme disclosures for the year ended 2023 (continued)

Amounts recognised in the Statement of Financial Position (continued)

The fair value of plan assets at the reporting date was as follows:

	TWPF KHL 2023 £'000	DCCPF KHL 2023 £'000	SHPS KHL 2023 £'000	SHPS 54N 2023 £'000	SHPS LYHA 2023 £'000	Total 2023 £'000
Global equity	-	-	580	63	101	744
Absolute return	-	-	336	36	58	430
Distressed opportunities	-	-	941	101	163	1,205
Credit relative value	-	-	1,173	127	203	1,503
Alternative risk premia	-	-	58	6	10	74
Emerging markets debt	-	-	167	18	29	214
Risk sharing	-	-	2,288	247	397	2,932
Insurance-linked securities	-	-	785	85	136	1,006
Property	1,930	6,520	1,338	144	232	10,164
Infrastructure	-	-	3,550	383	615	4,548
Private debt	-	-	1,383	149	240	1,772
Opportunistic illiquid credit	-	-	1,330	143	230	1,703
High yield	-	-	109	12	19	140
Opportunistic credit	-	-	2	-	-	2
Cash	330	1,500	224	24	39	2,117
Corporate bond fund	3,580	3,680	-	-	-	7,260
Long lease property	-	-	938	101	163	1,202
Secured income	-	-	1,427	154	247	1,828
Liability driven investment	-	-	14,316	1,544	2,481	18,341
Currency hedging	-	-	60	6	10	76
Net current assets	-	-	79	9	14	102
Equities	9,410	44,870	-	-	-	54,280
Government bonds	240	10,610	-	-	-	10,850
Multi asset credit	830	12,620	-	-	-	13,450
Other	2,060	3,760	-	-	-	5,820
Total assets	18,380	83,560	31,084	3,352	5,387	141,763

Notes to the financial statements

9. Employees (continued)

Pension obligations (continued)

Scheme disclosures for the year ended 2022

Assumptions

The assumed life expectations (in years) on retirement at age 65 were:

	TWPF 2022	DCCPF 2022	SHPS 2022
Retiring today:			
Males	21.8	22.1	21.1
Females	25.0	24.2	23.7
Retiring in 20 years:			
Males	23.5	23.2	22.4
Females	26.7	25.7	25.2

The financial assumptions used to calculate the defined benefit section liabilities under FRS 102 were:

	TWPF KHL 2022 %	DCCPF KHL 2022 %	SHPS KHL 2022 %	SHPS 54N 2022 %
Discount rate	2.80	2.70	2.78	2.79
Inflation (RPI)	NA	NA	3.47	3.62
Inflation (CPI)	3.10	3.00	3.14	3.21
Pension increases	3.10	3.00	NA	NA
Pension accounts revaluation rate	3.10	3.00	NA	NA
Salary growth	4.60	4.00	4.14	4.21

9. Employees (continued)

Pension obligations (continued)

Scheme disclosures for the year ended 2022 (continued)

Amounts recognised in the Statement of Comprehensive Income

	TWPF KHL 2022 £'000	DCCPF KHL 2022 £'000	SHPS KHL 2022 £'000	SHPS 54N 2022 £'000	Total 2022 £'000
Current service cost	(220)	(3,160)	(1,850)	-	(5,230)
Contributions by employer	380	1,770	2,207	156	4,513
Past service costs	-	(20)	-	-	(20)
Amounts charged to operating expenditure	160	(1,410)	357	156	156
Interest income on assets	360	1,770	1,018	105	3,253
Interest on pension scheme liabilities	(410)	(2,260)	(1,320)	(127)	(4,117)
Expenses	-	-	(34)	(7)	(41)
Amounts charged to interest payable and financing costs	(50)	(490)	(336)	(29)	(905)
Actuarial gains/(losses) on scheme assets	1,210	8,390	(1,994)	(290)	7,316
Actuarial (gains)/losses on liabilities	870	1,340	2,864	(15)	5,059
Changes in assumptions underlying the present value of scheme liabilities	-	-	6,294	495	6,789
Actuarial gains recognised in other comprehensive income	2,080	9,730	7,164	190	19,164

Amounts recognised in the Statement of Financial Position

	TWPF KHL 2022 £'000	DCCPF KHL 2022 £'000	SHPS KHL 2022 £'000	SHPS 54N 2022 £'000	Total 2022 £'000
Fair value of scheme assets	18,130	87,450	49,988	4,969	160,537
Present value of scheme liabilities	(18,490)	(104,050)	(56,648)	(5,752)	(184,940)
Deficit	(360)	(16,600)	(6,660)	(783)	(24,403)

9. Employees (continued)

Pension obligations (continued)

Scheme disclosures for the year ended 2022 (continued)

Amounts recognised in the Statement of Financial Position (continued)

	TWPF KHL 2022 £'000	DCCPF KHL 2022 £'000	SHPS KHL 2022 £'000	SHPS 54N 2022 £'000	Total 2022 £'000
Opening scheme liabilities	17,590	108,620	59,956	6,012	192,178
Acquisition pension liabilities	2,160	-	-	-	2,160
Current service cost	220	3,160	1,850	-	5,230
Interest cost	410	2,260	1,320	127	4,117
Contributions by participants	40	440	868	-	1,348
Actuarial (gains)/losses on liabilities	(1,210)	(8,390)	1,994	290	(7,316)
Actuarial (gains) due to changes in assumptions	-	-	(6,294)	(495)	(6,789)
Net benefits paid out	(720)	(2,060)	(3,080)	(189)	(6,049)
Expenses	-	-	34	7	41
Past service costs	-	20	-	-	20
Closing scheme liabilities	18,490	104,050	56,648	5,752	184,940

	TWPF KHL 2022 £'000	DCCPF KHL 2022 £'000	SHPS KHL 2022 £'000	SHPS 54N 2022 £'000	Total 2022 £'000
Opening fair value of assets	16,040	84,190	46,111	4,912	151,253
Acquisition pension assets	1,160	-	-	-	1,160
Expected return on assets	-	-	-	-	-
Interest income on assets	360	1,770	1,018	105	3,253
Remeasurement gains/(losses) on assets	870	1,340	2,864	(15)	5,059
Contributions by the employer	380	1,770	2,207	156	4,513
Contributions by participants	40	440	868	-	1,348
Net benefits paid out	(720)	(2,060)	(3,080)	(189)	(6,049)
Closing fair value of scheme assets	18,130	87,450	49,988	4,969	160,537
Actual return on scheme assets	1,230	3,110	3,882	90	8,312

Notes to the financial statements

9. Employees (continued)

Pension obligations (continued)

Scheme disclosures for the year ended 2022 (continued)

Amounts recognised in the Statement of Financial Position (continued)

Movement in pension liability

	TWPF KHL 2022 £'000	DCCPF KHL 2022 £'000	SHPS KHL 2022 £'000	SHPS 54N 2022 £'000	Total 2022 £'000
Group share of scheme liabilities at beginning of period	(1,550)	(24,430)	(13,845)	(1,100)	(40,925)
Acquistion - business combination	(1,000)	-	-	-	(1,000)
Contributions paid	380	1,770	2,207	156	4,513
Current service cost	(220)	(3,160)	(1,850)	-	(5,230)
Past service cost	-	(20)	-	-	(20)
Interest income on assets	360	1,770	1,018	105	3,253
Interest on pension scheme liabilities	(410)	(2,260)	(1,320)	(127)	(4,117)
Other expenses	-	-	(34)	(7)	(41)
Actuarial gain	2,080	9,730	7,164	190	19,164
Net deficit at 31 March	(360)	(16,600)	(6,660)	(783)	(24,403)

Notes to the financial statements

9. Employees (continued)

Pension obligations (continued)

Scheme disclosures for the year ended 2022 (continued)

Amounts recognised in the Statement of Financial Position (continued)

The fair value of plan assets at the reporting date was as follows:

	TWPF KHL 2022 £'000	DCCPF KHL 2022 £'000	SHPS KHL 2022 £'000	SHPS 54N 2022 £'000	Total 2022 £'000
Global equity	-	-	9,593	953	10,546
Absolute return	-	-	2,005	199	2,204
Distressed opportunities	-	-	1,789	178	1,967
Credit relative value	-	-	1,661	165	1,826
Alternative risk premia	-	-	1,648	164	1,812
Emerging markets debt	-	-	1,455	145	1,600
Risk sharing	-	-	1,646	164	1,810
Insurance-linked securities	-	-	1,165	116	1,281
Property	1,520	5,950	1,350	134	8,954
Infrastructure	-	-	3,561	354	3,915
Private debt	-	-	1,281	127	1,408
Opportunistic illiquid credit	-	-	1,680	167	1,847
High yield	-	-	431	43	474
Opportunistic credit	-	-	178	18	196
Cash	330	2,190	170	17	2,707
Corporate bond fund	3,410	5,160	3,335	331	12,236
Long lease property	-	-	1,286	128	1,414
Secured income	-	-	1,863	185	2,048
Liability driven investment	-	-	13,948	1,386	15,334
Currency hedging	-	-	(196)	(19)	(215)
Net current assets	-	-	139	14	153
Equities	10,330	48,350	-	-	58,680
Government bonds	360	13,120	-	-	13,480
Other	2,180	12,680	-	-	14,860
Total assets	18,130	87,450	49,988	4,969	160,537

10. Board members and executive directors

The emoluments of the non-executive and executive directors (including pension contributions), who served during the year were as follows:

Non-executive board members' emoluments		2023 Fee £'000	2022 Fee £'000
Sir David Bell KCB DL		20.0	20.0
Alexis Cleveland		12.0	9.5
Juanita Crawford	(from 16 December 2022)	0.4	-
Matt Edgar	(from 16 December 2022)	0.4	-
Jeremy Earnshaw	(from 16 December 2022)	0.4	-
Simon Edwards	(from 16 December 2022)	0.4	-
Paul Fiddaman		-	-
Mike Gaskell	(from 16 December 2022)	1.8	-
Ulfat Hussain	(from 16 December 2022)	0.4	-
Shahida Iqbal		3.5	3.5
Hanif Malik		10.0	8.9
Carole McTaggart		-	-
Gillian Moy		8.4	4.2
Michael Mullaney		8.4	8.4
Anne Mulroy		10.0	10.0
Mark Pearson	(from 16 December 2022)	-	-
Jon Prashar	(from 16 December 2022)	1.0	-
Neil Revely		8.4	4.2
Sarah Salter		10.0	10.0
Stephen Secker		13.4	13.4
Stephen Spill		11.3	11.3
David Butler	(to 30 September 2021)	-	6.0
Julia Histon	(to 15 December 2022)	-	-
Peter Rudge	(to 15 December 2022)	1.4	2.0
Pat Southgate	(to 15 December 2022)	1.4	2.0
Adrian Stanley	(to 1 June 2023)	11.3	11.3
Julie Taylor	(to 30 April 2021)	-	0.7
Steve Waddington	(to 15 December 2022)	1.4	2.0
Mike Wills	(to 15 December 2022)	1.4	2.0
		137.1	129.4

The Group Chief Executive, Paul Fiddaman, who is also a member of the board, is remunerated as an executive director of Karbon Homes Limited.

Mark Pearson, who is also a member of the board, is remunerated as the Managing Director of 54North Homes Limited.

Julia Histon, who was a member of the board, was remunerated as the Managing Director of York Housing Association until 15 December 2022.

10. Board members and executive directors (continued)

Executive directors

The aggregate remuneration of the executive directors for the year amounted to £933,288 (2022: £785,009) including pension contributions of £197,378 (2022: £67,869). The remuneration of the highest paid director, who is the Group Chief Executive, excluding pension contributions, was £206,231 (2022: £182,333).

During the year, compensation paid or payable to directors for loss of office was £nil (2022: £nil).

The Group Chief Executive is a member of the Social Housing Pension Scheme. He is an ordinary member of the pension scheme, and no enhanced or special terms apply. The association does not make any further contribution to an individual pension arrangement for the Group Chief Executive.

11. Tax on surplus on ordinary activities

	Group		Association	
	2023 £ '000	2022 £ '000	2023 £ '000	2022 £ '000
Analysis of tax charge/(credit) for the period				
Current tax:				
UK corporation tax on surplus for the year at 19% (2022: 19%)	-	46	-	46
Adjustments in respect of prior years	(131)	(149)	(131)	(35)
	(131)	(103)	(131)	11
Deferred tax:				
Origination and reversal of timing differences	68	(2)	-	-
Effect of rate change on opening balance	-	3	-	-
Tax on profits on ordinary activities	(63)	(102)	(131)	11
Provision for deferred tax				
Movement in provision:				
Provision at start of period	10	9	-	-
Deferred tax charged in the Statement of Comprehensive Income for the period	68	1	-	-
Provision at end of period	78	10	-	-
Deferred tax asset not recognised	(905)	(243)	(868)	(268)

The deferred tax asset not recognised includes £720.4k in respect of potential future capital gains and losses on the disposal of Prince Bishops Homes Limited investment properties.

Notes to the financial statements

11. Tax on surplus on ordinary activities (continued)

	Group 2023 £'000	Group 2022 £'000	Association 2023 £'000	Association 2022 £'000
Reconciliation of tax charge/(credit)				
Surplus on ordinary activities before tax	83,390	35,611	28,037	33,289
Theoretical tax at UK corporation tax rate 19% (2022: 19%)	15,844	6,766	5,327	6,325
Effects of:				
Surplus relating to charitable income	(15,972)	(9,506)	(5,691)	(9,468)
Income not taxable for tax purposes	(130)	(259)	-	-
Fixed asset differences	(10)	6	-	13
Expenses not deductible for tax purposes	28	3,181	-	3,178
Chargeable gains	8	-	-	-
Amounts (credited) directly to equity	-	(113)	-	-
Group relief surrendered	-	2	137	-
Adjustment to tax charge in respect of prior periods	(131)	(149)	(131)	(35)
Remeasurement of deferred tax for changes in tax rate	16	1	-	-
Deferred tax not recognised	284	(29)	227	-
Other tax adjustments, reliefs, and transfers	-	(2)	-	(2)
Current tax (credit)/charge	(63)	(102)	(131)	11

Notes to the financial statements

12. Tangible fixed assets – housing properties

GROUP	Social housing properties held for letting £'000	Social housing properties under construction £'000	Low-cost home ownership properties held for letting £'000	Low-cost home ownership properties under construction £'000	Total £'000
Cost					
At 1 April 2022	1,129,327	56,819	34,542	3,358	1,224,046
Additions	35	62,476	99	6,744	69,354
Additions - newly built properties acquired	20,435	-	5,183	-	25,618
Properties acquired at fair value (note 31)	74,490	1,413	4,700	-	80,603
Re-classification adjustment	(1,352)	-	1,352	-	-
Transferred to current assets	(308)	-	(1,028)	-	(1,336)
Transferred to investment properties	(424)	-	-	-	(424)
Capitalised planned maintenance	30,483	-	43	-	30,526
Schemes completed	36,407	(36,407)	530	(530)	-
Abortive costs	-	(73)	-	-	(73)
Disposals - properties	(2,371)	-	(787)	-	(3,158)
Demolitions	(121)	-	-	-	(121)
Disposals - write off on replacement	(3,559)	-	-	-	(3,559)
At 31 March 2023	1,283,042	84,228	44,634	9,572	1,421,476
Depreciation and impairment					
At 1 April 2022	226,810	-	2,618	-	229,428
Charged in year	24,064	-	333	-	24,397
Impairment released in year	(55)	-	-	-	(55)
Re-classification adjustment	(52)	-	52	-	-
Released on transfer to investment properties	(77)	-	-	-	(77)
Transferred to current assets	(66)	-	(43)	-	(109)
Released on disposal - properties	(650)	-	(86)	-	(736)
Released on demolition	(83)	-	-	-	(83)
Released on disposal - replacements	(2,306)	-	-	-	(2,306)
Write down of fair value	469	-	-	-	469
At 31 March 2023	248,054	-	2,874	-	250,928
Net book value					
At 31 March 2023	1,034,988	84,228	41,760	9,572	1,170,548
At 31 March 2022	902,517	56,819	31,924	3,358	994,618

The write down of fair value £469k relates to the property assets excess of fair value over historic cost which is written off over the remaining life of the property.

12. Tangible fixed assets – housing properties (continued)

ASSOCIATION	Social housing properties held for letting £'000	Social housing properties under construction £'000	Low-cost home ownership properties held for letting £'000	Low-cost home ownership properties under construction £'000	Total £'000
Cost					
At 1 April 2022	1,075,938	53,263	31,885	3,148	1,164,234
Additions	35	55,719	99	6,593	62,446
Additions - newly built properties acquired	20,435	-	5,183	-	25,618
Re-classification adjustment	(1,352)	-	1,352	-	-
Transferred to current assets	(257)	-	(1,028)	-	(1,285)
Transferred to investment properties	(424)	-	-	-	(424)
Capitalised planned maintenance	29,244	-	43	-	29,287
Schemes completed	30,812	(30,812)	162	(162)	-
Abortive costs	-	(73)	-	-	(73)
Disposals - properties	(2,371)	-	(584)	-	(2,955)
Demolitions	(121)	-	-	-	(121)
Disposals - write off on replacement	(3,398)	-	-	-	(3,398)
At 31 March 2023	1,148,541	78,097	37,112	9,579	1,273,329
Depreciation and impairment					
At 1 April 2022	234,465	-	2,546	-	237,011
Charged in year	22,807	-	299	-	23,106
Impairment released in year	(55)	-	-	-	(55)
Re-classification adjustment	(52)	-	52	-	-
Transferred to current assets	(45)	-	(43)	-	(88)
Released on transfer to investment properties	(77)	-	-	-	(77)
Released on disposal - properties	(650)	-	(82)	-	(732)
Released on demolition	(83)	-	-	-	(83)
Released on disposal - replacements	(2,178)	-	-	-	(2,178)
At 31 March 2023	254,132	-	2,772	-	256,904
Net book value					
At 31 March 2023	894,409	78,097	34,340	9,579	1,016,425
At 31 March 2022	841,473	53,263	29,339	3,148	927,223

Notes to the financial statements

12. Tangible fixed assets – housing properties (continued)

Impairment

Properties have been impaired where the properties are of non-traditional construction and therefore have a limited life, have a high void rate or it is probable that a plan to regenerate existing properties by demolishing them will go ahead.

	Group		Association	
	2023 £ '000	2022 £ '000	2023 £ '000	2022 £ '000
At 1 April	2,469	1,839	2,469	1,839
Provided during the year	145	1,050	145	1,050
Released during the year	(200)	(420)	(200)	(420)
At 31 March	2,414	2,469	2,414	2,469

The total number of housing units impaired is 131 (2022: 129). The carrying value of the properties pre-impairment was £5,634k.

Improvements to existing properties:

	Group		Association	
	2023 £ '000	2022 £ '000	2023 £ '000	2022 £ '000
Capitalised planned maintenance	30,526	20,272	29,287	19,348
Planned maintenance	9,825	9,162	9,212	8,859
	40,351	29,434	38,499	28,207

Housing properties book value, net of depreciation and offices net book value (note 13) comprises:

	Group		Association	
Housing properties	2023 £ '000	2022 £ '000	2023 £ '000	2022 £ '000
Freehold land and buildings	1,135,507	959,790	985,344	895,429
Long leasehold land and buildings	32,560	32,226	28,889	29,492
Short leasehold land and buildings	2,481	2,602	2,192	2,302
	1,170,548	994,618	1,016,425	927,223
Offices				
Freehold land and buildings	8,855	8,612	7,759	7,653

Notes to the financial statements

13. Tangible fixed assets – other

GROUP	Freehold offices £ '000	Furniture fixtures and fittings £ '000	Computers and office equipment £ '000	Motor vehicles £ '000	Leasehold improve-ments £ '000	Commercial premises £ '000	Plant and equipment £ '000	Total £'000
Cost								
At 1 April 2022	11,367	3,512	5,515	47	1,311	167	212	22,131
Additions	57	952	269	-	21	-	99	1,398
Acquisition - business combination	105	-	23	-	-	-	2	130
Work in progress	318	-	40	-	-	-	-	358
Disposals	-	(976)	(819)	-	(50)	-	(24)	(1,869)
At 31 March 2023	11,847	3,488	5,028	47	1,282	167	289	22,148
Depreciation								
At 1 April 2022	2,755	1,999	4,146	-	799	55	185	9,939
Charged in year	237	531	689	1	103	5	26	1,592
Released on disposal	-	(711)	(738)	-	(50)	-	(23)	(1,522)
At 31 March 2023	2,992	1,819	4,097	1	852	60	188	10,009
Net book value								
At 31 March 2023	8,855	1,669	931	46	430	107	101	12,139
At 31 March 2022	8,612	1,513	1,369	47	512	112	27	12,192

ASSOCIATION	Freehold offices £ '000	Furniture fixtures and fittings £ '000	Computers and office equipment £ '000	Motor vehicles £ '000	Leasehold improve-ments £ '000	Commercial premises £ '000	Plant and equipment £ '000	Total £'000
Cost								
At 1 April 2022	10,211	1,907	5,499	47	1,311	167	212	19,354
Additions	-	164	269	-	21	-	99	553
Work in progress	318	-	40	-	-	-	-	358
Disposals	-	(613)	(819)	-	(50)	-	(24)	(1,506)
At 31 March 2023	10,529	1,458	4,989	47	1,282	167	287	18,759
Depreciation								
At 1 April 2022	2,558	1,548	4,139	-	799	55	185	9,284
Charged in year	212	91	684	1	103	5	26	1,122
Released on disposal	-	(597)	(738)	-	(50)	-	(23)	(1,408)
At 31 March 2023	2,770	1,042	4,085	1	852	60	188	8,998
Net book value								
At 31 March 2023	7,759	416	904	46	430	107	99	9,761
At 31 March 2022	7,653	359	1,360	47	512	112	27	10,070

Notes to the financial statements

14. Investment properties non-social housing properties held for letting

Group	2023 £ '000	2022 £ '000
Valuation		
At 1 April	47,325	45,570
Acquisition - business combination	1,650	-
Additions	79	3
Reclassification to housing properties	347	-
Disposals	(637)	(988)
Increase in value	1,140	2,740
At 31 March	49,904	47,325

Association	2023 £ '000	2022 £ '000
Valuation		
At 1 April	16,841	15,670
Additions	10	3
Reclassification to housing properties	347	-
Disposals	-	(210)
Increase in value	455	1,378
At 31 March	17,653	16,841

The valuations of investment properties in Karbon Homes and Prince Bishops Homes were carried out in March 2023 whereas the valuation of 54North Homes properties was carried out at 16 December 2022. All the valuations were based on the properties' market values at these dates. In the case of 54North Homes, no valuation was commissioned at March as it was deemed that any change in valuation would be immaterial.

The valuations across the group were carried out by Savills (UK) Limited, RMS Estate Agents Limited and Jones Lang LaSalle Limited, firms of RICS registered valuers in accordance with Royal Institute of Chartered Surveyors ('RICS') Valuation – Global Standards 2022 (incorporating the IVSC International Valuation Standards) using qualified chartered surveyors who had sufficient current local and national knowledge of the particular market, and skills and understanding to undertake the valuation competently. The companies have adopted the provisions under sections 16.1 and 16.2 of FRS 102 in relation to the revaluation of their investment properties (fair value movements being taken to the Statement of Comprehensive Income). On consolidation of the group's housing property values, any unrealised surpluses derived from inter-group property sales are removed.

RMS Estate Agents and Jones Lang Lasalle Limited have valued the properties on an individual basis subject to any existing tenancy agreements, whereas Savills (UK) Limited has valued the properties as a single lot subject to any existing tenancy agreements.

Notes to the financial statements

15. Investments

HomeBuy loans receivable	Group and Association	
	2023 £ '000	2022 £ '000
At 1 April	184	200
Loans redeemed during year	-	(16)
At 31 March	184	184

The loans are repayable when the properties against which the loans are charged, are sold. No interest is charged; however, the association takes the proportion of the sale proceeds as agreed at the commencement of the loan and any associated grants are recycled.

16. Fixed asset investment

	Group		Association	
	2023 £ '000	2022 £ '000	2023 £ '000	2022 £ '000
10,000 £1 ordinary shares in Leeds and Yorkshire Property Services Limited	10	-	-	-

Leeds and Yorkshire Property Services Limited is a wholly owned subsidiary of 54North Homes Limited. The company has been dormant throughout the financial year.

54North Homes Limited has the right to appoint members to the board and thereby exercises control. 54North Homes Limited is the ultimate parent undertaking.

Notes to the financial statements

17. Investment in associate

At 31 March 2023 the group and association had the following interest in IC Realisations Limited, formerly Invisible Creations Limited. The company was placed into liquidation on 6 January 2023.

	IC Realisations Limited £ '000
Cost	
At 1 April	67
Written off during the year	(67)
At 31 March	-
Share of retained profits	
	£ '000
At 1 April	(67)
Written off during the year	67
At 31 March	-
Net book value	
At 31 March 2023	-
At 31 March 2022	-

Notes to the financial statements

18. Investment in subsidiaries and associate

At 31 March 2023 the Karbon Group comprised the parent, Karbon Homes Limited, together with the following organisations each of which are either subsidiaries or an associate of the association within the meaning of the Co-operative and Community Benefit Societies Act 2014:

Subsidiary name	Registered number	Class and percentage of issued shares held	Nature of business
54North Homes Limited formerly York Housing Association Limited	Co-operative and Community Benefit Societies Act - 16826R	Ordinary - 100%	Registered social landlord
Prince Bishops Homes Limited	Registrar of Companies – 06712466	Ordinary - 100%	Market rent and for sale development
Enterprise Durham Partnership Limited	Registrar of Companies – 09077819	Limited by guarantee	Social enterprise
Next Level Developments Limited	Registrar of Companies – 1645896	Ordinary - 100%	Residential development
Karbon Developments Limited	Registrar of Companies – 04895180	Ordinary - 100%	Property development
Karbon Solutions Limited	Registrar of Companies – 09475120	Ordinary - 95%	Non-profit making cost sharing vehicle
Karbon Land Ventures Limited	Registrar of Companies – 13846737	Ordinary - 100%	Property development

Associate name	Registered number	Class and percentage of shares held	Nature of business
IC Realisations Limited *	Registrar of Companies – 11945108	Ordinary - 28.5%	Manufacturing and distribution of adaptation aids

* IC Realisations Limited formerly Invisible Creations Limited was placed into liquidation on 6 January 2023.

54North Homes Limited is the managing trustee of three almshouse charities, Emily Bentley Homes, Marsden Memorial Homes and Agnes Marsden Trust these entities are not consolidated into the Karbon Group on the basis of materiality.

All the companies are registered in England and Wales.

The registered address for all entities is Number Five, Gosforth Park Avenue, Gosforth Business Park, Newcastle upon Tyne NE12 8EG apart from IC Realisations Limited which is registered at Ground Floor, Portland House, New Bridge Street West, Newcastle upon Tyne NE1 8AL and 54North Homes Limited which is registered at 2 Alpha Court, Monks Cross Drive, Huntington, York, YO32 9WN.

The group has taken advantage of the exemptions within FRS 102 'related party transactions' not to disclose transactions with other wholly owned group companies.

Notes to the financial statements

18. Investment in subsidiaries and associate (continued)

During the year, the association had the following intra-group transactions with Karbon Solutions Limited:

	2023 £ '000	2022 £ '000	Allocation basis
Provision of heating, maintenance and business services	6,932	6,410	Actual costs
Management services	733	649	Percentage of central overheads
	7,665	7,059	

Karbon Solutions Limited owes Karbon Homes Limited £178,290 (2022: £140,638) at the year end.

19. Properties for sale

	Group		Association	
	2023 £ '000	2022 £ '000	2023 £ '000	2022 £ '000
Completed low-cost home ownership properties	737	318	707	318
Low-cost home ownership properties under construction	3,131	1,600	3,131	1,600
Completed properties for outright sale	39	-	-	-
Properties for outright sale under construction	-	134	-	-
	3,907	2,052	3,838	1,918

20. Deferred asset

Group and association

In 2021, with the issue of £100.0m of retained bonds, Karbon's loan liability increased to £250.0m; Karbon had secured assets worth £245.0m against the £250.0m debt with £5.0m being retained by BNY Mellon, the bond administrator, until full securitisation was attained.

As part of this bond issue, Karbon received a loan premium of £30.0m, £2.5m of which was retained to be released upon full asset securitisation.

By August 2021, full securitisation against the £250.0m issue had been achieved and the £5.0m bond and £2.5m loan premium were released.

20. Deferred asset (continued)

	Group and Association	
	2023 £ '000	2022 £ '000
At 1 April	-	7,500
Repaid during the year	-	(7,500)
At 31 March	-	-

21. Debtors: amounts falling due within one year

	Group		Association	
	2023 £ '000	2022 £ '000	2023 £ '000	2022 £ '000
Due within one year				
Rent and service charges receivable	8,329	7,408	7,753	7,076
Less: provision for bad and doubtful debts	(5,724)	(5,224)	(5,425)	(5,094)
	2,605	2,184	2,328	1,982
Social housing grant receivable	329	-	329	-
Other debtors	5,242	5,974	4,589	5,750
Amounts owed from subsidiary undertakings	-	-	4,029	3,056
Prepayments and accrued income	15,687	7,254	15,168	6,286
Corporation tax	155	31	108	1
	24,018	15,443	26,551	17,075

22. Debtors: amounts falling due after more than one year

	Group		Association	
	2023 £ '000	2022 £ '000	2023 £ '000	2022 £ '000
Due over one year				
Amounts owed from group undertakings	-	-	19,007	19,733
Bond discount	2,765	2,882	2,765	2,882
Other debtors	-	1,703	-	-
	2,765	4,585	21,772	22,615

22. Debtors: amounts falling due after more than one year (continued)

The amount owed by the subsidiary companies of £19.0m (2022: £19.7m), relates to intercompany loans between Karbon Homes Limited and Prince Bishops Homes Limited (PBH), Enterprise Durham Partnership Limited (EDP) and Karbon Land Ventures Limited.

The loan to PBH is secured on the assets of PBH, and interest is charged on the full loan balance at 5.25%. The loan is repayable over a 30-year period or on the sale of property. PBH can at any time make voluntary repayment. The loan to EDP is repayable by July 2024, interest is charged on the first £350.0k at 5.25%; borrowings over £350.0k are charged at 8%.

On 26 May 2022 Karbon Homes Limited provided a secured loan facility of £10.0m to Karbon Land Ventures. Interest is charged at the average Sterling Overnight Interbank Average Rate (SONIA) plus a 5% margin. The loan facility is available until 26 May 2032.

The bond discount is amortised over the life of the 29 year £150.0m tranche of Karbon Homes' UK publicly listed bond, originally released in November 2018. A bond discount debtor balance is created when there is a difference, at the time of pricing the deal on the capital markets, that results in the underlying interest rate (coupon rate) being lower than the market standard coupon price. In this case, Karbon then received actual funds to the value of £146.2m based on a coupon of 3.375% and was able to pay a reduced level of interest over the life of the bond in comparison to paying a yearly coupon of 3.5% which would have generated physical cash receipts of exactly £150.0m.

In 2022 other debtors due after more than one year represented the loan made by Next Level Developments Limited to UKQ Clive Street Holdings LLP for on-lending to UKQ Clive Street LLP for the acquisition and development of land at Clive Street, North Shields. The loan was repaid during the year.

23. Investments

	Group		Association	
	2023 £ '000	2022 £ '000	2023 £ '000	2022 £ '000
Liquidity Investment Reserve	2,239	1,017	1,029	1,017
Nationwide Building Society	52	15,037	50	15,035
Santander UK	14,466	24,093	14,466	24,093
Bank of Scotland	-	14,709	-	14,501
NatWest Bank	-	2,000	-	2,000
Mitsubishi UFG Bank	17,992	20,502	17,992	20,502
Lloyds Bank	4,817	15,994	4,014	15,994
	39,566	93,352	37,551	93,142

Investment products used and the levels with individual counterparties, were in line with the group's approved treasury policies.

24. Creditors: amounts falling due within one year

	Group		Association	
	2023 £ '000	2022 £ '000	2023 £ '000	2022 £ '000
Debt (note 28)	4,299	14,982	3,398	14,000
Trade creditors	2,679	2,810	1,705	2,592
Rent and service charges received in advance	3,194	3,290	2,605	3,058
Social housing grant received in advance	18,419	1,783	18,419	1,783
Amounts due to contractors for certified work	1,205	1,320	1,205	1,320
Amounts owed to local authorities for Right to Buy sales	284	388	284	388
Amounts owing to subsidiary undertakings	-	-	7,140	4,433
Other taxation and social security	858	761	767	725
Other creditors	3,604	3,067	3,152	3,044
Accruals and deferred income	33,962	25,869	21,595	19,803
Service charge creditor	556	1,274	556	1,274
Deferred capital grant (note 27)	5,250	5,164	5,008	4,930
	74,310	60,708	65,834	57,350

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

	Group		Association	
	2023 £ '000	2022 £ '000	2023 £ '000	2022 £ '000
Debt (note 28)	474,339	451,808	424,439	427,960
Loan breakage costs (note 28)	611	684	611	684
Loan premium	35,236	32,384	30,709	32,055
Total debt	510,186	484,876	455,759	460,699
Recycled capital grant fund (note 26)	1,387	1,343	1,304	1,336
HomeBuy grant	184	200	184	200
	511,757	486,419	457,247	462,235

A loan premium creditor balance is created when there is a difference, at the time of pricing a deal on the capital markets, that results in the underlying interest rate (coupon rate) being higher than the market standard coupon price. The premium balance is amortised to the income and expenditure account over the remaining life of the loan product. The majority of the premium balance was created when Karbon Homes (association) released £100.0m in retained UK listed 2047 bonds in June 2020 but received physical cash receipts of £130.3m from the trade.

Notes to the financial statements

26. Recycled capital grant fund

Funds pertaining to activities within areas covered by Homes England:

	Group		Association	
	2023 £ '000	2022 £ '000	2023 £ '000	2022 £ '000
At 1 April	1,343	1,683	1,336	1,041
Acquisition - business combination	67	-	-	-
Grants recycled	755	969	746	962
Interest accrued	32	2	32	2
Major repairs and works to existing stock	-	-	-	-
Withdrawal for development of properties	(810)	(1,311)	(810)	(669)
Balance at 31 March	1,387	1,343	1,304	1,336
Further analysed as:				
Grant remaining:				
- in the fund for three years at 31 March	-	-	-	-
- in the fund for two years but fewer than three	-	-	-	-
- in the fund for one year but fewer than two	533	372	526	372
- in the fund less than one year	854	971	778	964
Balance at 31 March	1,387	1,343	1,304	1,336

27. Deferred capital grant

	Group		Association	
	2023 £ '000	2022 £ '000	2023 £ '000	2022 £ '000
At 1 April	358,963	342,422	332,803	318,104
Grant received in the year	17,399	16,345	16,971	15,137
Acquisition - business combination	-	68	-	68
Transferred from/(to) RCGF	81	524	90	(111)
Grant write off on disposal	(146)	(273)	(146)	(272)
Grant write off on replacement	(23)	(123)	(23)	(123)
At 31 March	376,274	358,963	349,695	332,803
Grant amortisation				
At 1 April	69,104	64,519	62,742	58,390
Amortisation in year	5,121	5,099	4,879	4,865
Released on disposal - properties	(217)	(443)	(214)	(442)
Released on disposal - replacements	(12)	(71)	(12)	(71)
At 31 March	73,996	69,104	67,395	62,742
Deferred capital grant				
At 31 March	302,278	289,859	282,300	270,061
At 1 April	289,859	277,903	270,061	259,714
Further analysed as:				
Amount due to be released:				
- within one year	5,250	5,164	5,008	4,930
- after one year	297,028	284,695	277,292	265,131
	302,278	289,859	282,300	270,061

Social housing grant and other grant	Group		Association	
	2023 £ '000	2022 £ '000	2023 £ '000	2022 £ '000
Total accumulated grant receivable at 31 March was:				
Capital grants	376,274	358,963	349,695	332,803
Revenue grants	5,823	5,730	5,354	5,325
	382,097	364,693	355,049	338,128

28. Debt analysis

	Group		Association	
	2023 £ '000	2022 Restated £ '000	2023 £ '000	2022 £ '000
Due within one year				
Bank loans	4,049	14,982	3,398	14,000
The Housing Finance Corporation debt	250	-	-	-
	4,299	14,982	3,398	14,000
Due after more than one year				
Bank loans	177,640	163,641	140,162	143,560
The Housing Finance Corporation debt	13,000	4,000	-	-
Affordable Housing Finance debt	34,400	34,400	34,400	34,400
Bond	250,000	250,000	250,000	250,000
Less: Loan issue costs	(701)	(233)	(123)	-
	474,339	451,808	424,439	427,960
	478,638	466,790	427,837	441,960

	Group		Association	
	2023 £ '000	2022 Restated £ '000	2023 £ '000	2022 £ '000
Due within one year	4,299	14,982	3,398	14,000
Between one and two years	7,222	5,040	3,299	3,398
Between two and five years	59,612	29,745	38,122	24,450
After five years	408,206	417,256	383,141	400,112
Less: Loan issue costs	(701)	(233)	(123)	-
	478,638	466,790	427,837	441,960

2022 bank loans have been restated to reflect the separate disclosure of loan issue costs.

Breakage costs	Group		Association	
	2023 £ '000	2022 £ '000	2023 £ '000	2022 £ '000
Opening breakage cost	684	754	684	754
Amortised to interest payable	(73)	(70)	(73)	(70)
	611	684	611	684

At 31 March 2023 the group had undrawn loan facilities of £115.6m (2022: £124.7m).

Notes to the financial statements

28. Debt analysis (continued)

Bank debt is secured by specific charges on the group's housing, land and buildings, and is repayable at rates of interest varying between 2.66% and 6.87% in instalments due as detailed above.

The Housing Finance Corporation loans are at fixed rates of between 1.14% and 6.12%.

The Affordable Housing Finance loan is at a fixed rate of 2.89% but the net effect of amortising the premium received with these loans reduces the effective rate to 1.99%. The loans are repayable by bullet instalments in the year 2043.

The Bond financing is at a fixed rate of 3.375% repayable by bullet instalments in 2047.

The group has a £0.3m unsecured overdraft facility, which is repayable on demand. Interest is charged at 2% over the bank's base rate.

Financial instruments

The group and association had the following financial instruments:

Breakage costs	Group		Association	
	2023 £ '000	2022 Restated £ '000	2023 £ '000	2022 Restated £ '000
Financial assets that are debt instruments measured at amortised cost:				
Cash at bank and in hand	31,752	30,135	25,318	27,364
Investments	39,566	93,352	37,551	93,142
HomeBuy loans	184	184	184	184
Rental and service charge debtors	8,329	7,408	7,753	7,076
Other debtors	5,397	7,708	4,697	5,751
Social housing grant receivable	329	-	329	-
Accrued income	13,632	6,518	13,294	5,550
Amounts owed from subsidiaries and associate	-	-	23,036	22,789
Financial liabilities measured at amortised cost:				
Loan debt	(478,638)	(466,790)	(427,837)	(441,960)
Trade creditors	(2,679)	(2,810)	(1,705)	(2,592)
Recycled capital grant fund	(1,387)	(1,343)	(1,304)	(1,336)
Deferred capital grant fund	(376,274)	(358,963)	(349,695)	(332,803)
HomeBuy grants	(184)	(200)	(184)	(200)
Social housing grant received in advance	(18,419)	(1,783)	(18,419)	(1,783)
Amounts owed to subsidiary undertakings	-	-	(7,140)	(4,433)
Other creditors and accruals	(39,653)	(31,664)	(26,786)	(25,629)

Notes to the financial statements

28. Debt analysis (continued)

Financial instruments (continued)

2022 accrued income has been restated to reflect an error identified in the prior year.

The group uses various financial instruments, including loans and cash, and other items such as rental arrears and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the group's operations.

The existence of these financial instruments exposes the group to a number of financial risks. The main risks arising from the group's financial instruments are considered by the board to be the interest rate risk, liquidity risk and credit rate risk.

The board reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The group finances its operations through a mixture of retained surpluses and bank borrowings. The group's exposure to interest fluctuations on its borrowings is managed by the use of both fixed and variable rate facilities.

Liquidity risk

The group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and invest cash assets safely and profitably. In addition to drawn borrowings, cash balances of £31.8m and investments of £39.6m, the group has £115.6m of undrawn committed facilities.

Credit risk

The group's principal credit risk relates to tenant arrears. This risk is managed by early intervention when tenants go into arrears, provision of Money Matters support and by close monitoring of the arrears of self-funding tenants. We are continuously engaging with our tenants to ensure that this risk is minimised and rental flows are maintained.

29. Provisions for liabilities and charges

GROUP	Dilapidations £ '000	Site demolition £ '000	Land rectification £'000	Deferred tax £'000	Total 2023 £'000	Total 2022 £'000
At 1 April	375	339	1,131	10	1,855	1,186
Utilised in the year	(50)	(29)	-	-	(79)	-
Released in the year	-	(16)	-	-	(16)	(222)
Provided in the year	-	-	150	68	218	891
At 31 March	325	294	1,281	78	1,978	1,855

29. Provisions for liabilities and charges (continued)

ASSOCIATION	Dilapidations £ '000	Site demolition £ '000	Land rectification £'000	Deferred tax £'000	Total 2023 £'000	Total 2022 £'000
At 1 April	375	339	1,131	-	1,845	1,177
Utilised in the year	(50)	(29)	-	-	(79)	-
Released in the year	-	(16)	-	-	(16)	(213)
Provided in the year	-	-	150	-	150	881
At 31 March	325	294	1,281	-	1,900	1,845

Dilapidations

The provision for dilapidations relates to properties rented by the association which could result in payments for dilapidations to landlords when leases end.

Site demolition

The provision for site demolition relates to costs and grant write back of clearing a site.

Land rectification

The provision for land rectification relates to the cost of reinstating an embankment following a landslip.

Deferred tax

	Group		Association	
	2023 £ '000	2022 £ '000	2023 £ '000	2022 £ '000
At 1 April	10	9	-	-
Deferred tax charged/(released) to statement of comprehensive income	68	1	-	-
At 31 March	78	10	-	-
Summarised:				
Accelerated capital allowances	243	203	-	-
Losses and other deductions	(165)	(193)	-	-
	78	10	-	-

The group has not recognised £243.9k of deferred tax. Unused tax losses totalled £1,044.7k (2022: £840.5k).

30. Share capital

	2023 £	2022 £
Allotted and issued		
At 1 April	11	11
Issued during the year	-	2
Surrendered during the year	-	(2)
At 31 March	11	11

The nominal 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 has full voting rights.

31. Acquisitions

In the year ended 31 March 2023

On 16 December 2022 York Housing Association (YHA) acquired Leeds and Yorkshire Housing Limited (LYHA) via a transfer of engagement. No consideration was paid by YHA for the fair value of assets and liabilities as detailed below.

The LYHA transfer of engagement is considered to be an acquisition; hence acquisition accounting has been followed and Section 19 (Business Combinations and Goodwill) of FRS 102 has been applied such that housing properties are included in the Statement of Financial Position at the fair value at the date of acquisition; however other assets and liabilities including loans remain at unadjusted book value. The loans were not adjusted to fair value as the potential adjustment was considered immaterial.

The difference between the fair value of the net identifiable assets and the purchase consideration is considered negative goodwill. This is deemed to be a non-exchange transaction as it is in substance a gift of one business to another and therefore under FRS 102 the negative goodwill arising on the fair value of the assets has been recognised as a gain in the Statement of Comprehensive Income.

An external EUV-SH valuation provided by Jones Lang LaSalle Limited has been used to establish the fair value of the Leeds & Yorkshire Housing Association stock that transferred on 16 December 2022.

The valuation has been made in accordance with the RICS Valuation – Global Standards 2022.

	Book value £ '000	Fair value adjustments £ '000	Fair value to the group £ '000
Fixed assets			
Housing properties	63,924	15,266	79,190
Fixed asset work in progress	1,413	-	1,413
Investment properties	1,683	(33)	1,650
Other fixed assets	130	-	130
Debtors > 1 year	10	-	10
Current assets			
Debtors	-	-	-
Investments	1,790	-	1,790
Cash at bank and in hand	2,739	-	2,739
Properties for sale	4	-	4
Liabilities			
Creditors < 1 year	(2,443)	-	(2,443)
Creditors > 1 year	(29,333)	-	(29,333)
Social housing grant	(8,911)	8,911	-
Pension provision	(1,518)	-	(1,518)
Net assets acquired	29,488	24,144	53,632
Costs associated with the transfer of engagement			(149)
Negative goodwill as per the Statement of Comprehensive Income			**53,483**

Notes to the financial statements

31. Acquisitions (continued)

Summary Statement of Comprehensive Income

	16 December 2022 to 31 March 2023 £ '000
Turnover	2,417
Cost of sales	(51)
Operating costs	(1,938)
Surplus on sale of housing property	85
Operating Surplus	513
Net interest payable	(239)
Other finance costs	(18)
Surplus for the financial year before taxation	256

Notes to the financial statements

31. Acquisitions (continued)

In the year ended 31 March 2022

On 1 April 2021 Karbon Homes Limited acquired Byker Community Trust via a transfer of engagement. No consideration was paid by the association for the fair value of assets and liabilities as detailed below.

The Byker transfer of engagement was considered to be an acquisition, hence acquisition accounting has been followed and Section 19 (Business Combinations and Goodwill) of FRS 102 has been applied such that the identifiable assets and liabilities are included in the Statement of Financial Position at the fair value at the date of acquisition.

An external EUV-SH valuation provided by Savills UK Limited was used to establish the fair value of the Byker housing stock that transferred on 1 April 2021. The valuation was made in accordance with the RICS Valuation – Global Standards 2022.

The assets and liabilities of Byker Community Trust at 1 April 2021 were:

	Book value £ '000	Fair value adjustments £ '000	Fair value to the group £ '000
Fixed assets			
Housing properties	24,841	(7,680)	17,161
Fixed asset work in progress	342	(118)	224
Other fixed assets	45	-	45
Debtors > 1 year	179	-	179
Current assets			
Debtors	645	-	645
Investments	1,539	-	1,539
Cash at bank and in hand	3,303	-	3,303
Liabilities			
Creditors < 1 year	(12,943)	-	(12,943)
Creditors > 1 year	(806)	738	(68)
Pension provision	(981)	(19)	(1,000)
Net assets acquired	16,164	(7,079)	9,085
Costs associated with the transfer of engagement			(524)
Negative goodwill as per the Statement of Comprehensive Income			**8,561**

Notes to the financial statements

32. Reserves

At 31 March 2023 the revenue reserve included £8.6m defined benefit pension liability (2022: £24.4m).

Group	**Revenue reserves £ '000**	**Restricted reserves £ '000**	**Total reserves £ '000**
At 1 April 2022	342,171	450	342,621
Surplus for the year	83,453	-	83,453
Actuarial gain relating to pension scheme	16,031	-	16,031
At 31 March 2023	441,655	450	442,105

Association	**Revenue reserves £ '000**	**Restricted reserves £ '000**	**Total reserves £ '000**
At 1 April 2022	306,616	450	307,066
Surplus for the year	28,168	-	28,168
Actuarial gain relating to pension scheme	15,892	-	15,892
At 31 March 2023	350,676	450	351,126

Restricted reserves

Mr. JS Charlton died in 2005 leaving a legacy of £449,684 for the building of six affordable housing units for older people in the Newbrough and Warden parishes on the condition that the gift be disclosed as a restricted reserve for 25 years, up to and including 2045. At the end of the 25 years the restricted reserve will transfer into general reserves.

Notes to the financial statements

33. Financial commitments

Capital expenditure commitments were as follows:

	Group		**Association**	
	2023 £ '000	**2022 £ '000**	**2023 £ '000**	**2022 £ '000**
Expenditure contracted for but not provided in the accounts	226,314	133,283	222,167	128,425
Expenditure authorised by the board, but not contracted	305,171	200,344	275,363	199,692
	531,485	333,627	497,530	328,117
The group expects these commitments to be contracted within the next year and financed with:				
Social housing grant	132,419	31,625	129,059	30,873
Proceeds from the sales of properties	13,510	9,243	11,615	8,638
Committed loan facilities	115,650	124,600	100,000	120,500
Loans under negotiation	269,906	168,159	256,856	168,106
	531,485	333,627	497,530	328,117

Expenditure either contracted or authorised by the board of £531.5m relates to commitments for projects over multiple years in the future. Karbon expects that these will be funded from a combination of forthcoming grant receipts, proceeds from property sales, future operating surpluses and future additional borrowings. Any future borrowings will be negotiated in line with our policies around having sufficient liquidity in advance of it being needed, and to that extent, Karbon had already secured an additional £50m of loan facilities on the 3rd April 2023, following a funding exercise overseen by the board.

Operating leases payable

The future minimum lease payments which the group is committed to make under operating leases are as follows:

	Group		**Association**	
	2023 £ '000	**2022 £ '000**	**2023 £ '000**	**2022 £ '000**
Land and buildings:				
Within one year	345	235	221	107
Two to five years	389	287	345	119
Five years or more	-	-	-	-
	734	522	566	226
Vehicles and office equipment:				
Within one year	1,450	1,386	1,450	1,386
Two to five years	2,363	3,915	2,363	3,915
Five years or more	-	-	-	-
	3,813	5,301	3,813	5,301

33. Financial commitments (continued)

Operating leases receivable

The future minimum lease receivables which the group is expecting to receive under operating leases are as follows:

	Group		Association	
	2023 £ '000	**2022 £ '000**	**2023 £ '000**	**2022 £ '000**
Land and buildings:				
Within one year	218	201	218	201
Two to five years	512	225	512	225
Five years or more	402	200	402	200
	1,132	626	1,132	626

34. Contingent liabilities

The group had contingent liabilities at 31 March 2023 of £40.4m (2022: £29.1m) which is the original government funding relating to the acquisition of properties from Guinness Partnership in 2019, Byker Community Trust in 2021 and Leeds & Yorkshire Housing Association in 2022. Karbon Homes Limited is responsible for the recycling of the grant in the event of the disposal of the properties.

Notes to the financial statements

35. Net cash flow from operating activities

Cash flow from operating activities	**2023 £ '000**	**2022 £ '000**
Surplus for the year	83,453	35,713
Adjustments for non-cash items:		
Revaluation gain in year	(1,140)	(2,740)
Negative goodwill arising on acquisition - business combination	(53,632)	(9,085)
Depreciation of tangible fixed assets	27,712	25,573
Release of deferred grant income	(5,132)	(5,151)
Impairment	(17)	851
Increase in provisions	55	668
Pension operating charge	5,043	6,155
Pension contributions paid	(6,345)	(4,513)
Taxation	(63)	(102)
Working capital movements:		
Increase in stock	(158)	(31)
(Increase)/decrease in properties for sale	(624)	1,104
Increase in trade and other debtors	(6,237)	(4,714)
Increase in trade and other creditors	6,340	6,674
	(34,198)	14,689
Adjustments for investing or financing activities:		
Gain from sale of tangible fixed assets	(2,927)	(3,738)
Grants utilised in the year	(810)	(1,311)
Interest payable	19,088	19,003
Interest receivable	(1,931)	(300)
	13,420	13,654
Taxation		
Corporation tax paid	7	(191)
Net cash generated from operating activities	**62,682**	**63,865**

Notes to the financial statements

36. Reconciliation of net cash flow to movement in net debt

Group	2023 £ '000	2022 £ '000
Increase/(decrease) in cash	1,617	(32,435)
Cash inflow from (decrease)/increase in liquid resources	(53,786)	9,033
Cash outflow from (increase)/decrease in debt and lease finance	(11,848)	8,743
Decrease in net debt from cash flows	**(64,017)**	**(14,659)**
Net debt at 1 April	(343,303)	(328,644)
Net debt at 31 March	**(407,320)**	**(343,303)**

37. Analysis of net debt

	1 April 2022 restated £ '000	Non-cash movements £ '000	Cash flow £ '000	31 March 2023 £ '000
Cash at bank and in hand	30,135	2,739	(1,122)	31,752
Changes in cash	**30,135**	**2,739**	**(1,122)**	**31,752**
Current asset investment	**93,352**	**1,790**	**(55,576)**	**39,566**
Housing loans due in one year	(14,982)	-	10,683	(4,299)
Housing loans after one year	(451,808)	(24,732)	2,201	(474,339)
Changes in debt	**(466,790)**	**(24,732)**	**12,884**	**(478,638)**
Changes in net debt	**(343,303)**	**(20,203)**	**(43,814)**	**(407,320)**

38. Related parties

Notes 17 and 18 - Investment in subsidiaries and associate - provides details of the relationship and transactions between parent, registered subsidiaries, unregistered subsidiaries and associate.

39. Post balance sheet events

In May 2023, the boards of South Tyneside Housing Ventures Trust Limited (STHVT) and Karbon Homes Limited (KHL) approved an outline business case to bring about a merger by a transfer of engagements of STHVT into KHL. On 17 July 2023, after a process of due diligence and further approvals from the board and shareholders, all STHVT's asset, liabilities, operations and contractual positions transferred to KHL.

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