karbon homes

Providing a strong foundation for life.

Financial Statements 2023/24

for the year ended 31 March 2024

Contents

At Karbon Homes Group, 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.

About us

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 over 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, supported housing 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 2023/24

Providing a strong foundation for life' is a mission that as an organisation we live by and stand committed to delivering. Through these challenging economic times that we and our customers find ourselves in, achieving our mission and staying true to our core purpose has never been more important.

Despite the last 12 months being testing in many ways, with a multitude of competing demands and priorities facing us as an organisation, we present with pride this review for the 2023/2024 financial year.

We have pushed forward with our ambitious plans to deliver more affordable homes across the region and have invested heavily in the maintenance of our existing homes.

We have invested in our customer facing services, launching a new customer approach that supports our ambition to have a greater local presence in the areas we work.

We have continued delivering on our Fair Foundations approach to placeshaping, a way of working differently in our left behind communities to make long-lasting changes and support growth.

And we have continued to explore growth opportunities, creating efficiencies and developing stronger revenue streams to bring additional financial capacity into the organisation.

All the while, the safety, security and wellbeing of our residents has remained our top priority, and they have remained at the heart of everything we do.

Providing as many good quality homes as we can

With hundreds of thousands of people across the North East and Yorkshire on social housing waiting lists, our push to deliver more affordable homes across the region has seen us deliver 644 new homes across a range of tenure types.

Boosted with funding from our Strategic Partnership with Homes England, which is supporting our delivery of 2,200 mixed tenure homes from 2021 to 2028, we have made significant progress towards delivering hundreds more homes for people who have additional support needs. We have further progressed our partnership with South Tyneside Council to deliver two Extra Care schemes in the local authority, and we received planning permission for an 84-home Extra Care scheme in Morpeth.

As well as building new homes we have invested over £78.6m in our existing homes. This includes our programme of works to improve the energy efficiency of our existing homes, spending close to £6m on improvements to help bring our lowest performing homes up to EPC C by 2030.

We have worked hard to ensure the data we have on our homes is as accurate as possible, which we have been updating through an ongoing programme of stock condition surveys.

We have gained access to around 83% of our homes and we are now working hard to engage with customers whose home we haven't been able to access, to complete the remaining 17%. This improved data has helped guide our planned investment work.

The safety and security of customers in their homes is of the utmost importance to us and we have invested circa £13.6m in a range of building and customer safety programmes of work. This includes the completion of a £500,000 fire safety enhancement project at The Manors, our Extra Care scheme in Prudhoe. The scheme has been fitted with a full building sprinkler system, to help provide an enhanced level of safety and security for the residents.

Delivering an excellent customer service

It is very important to us that we provide our customers with an excellent experience and our customers told us that an important element of that is staying local, having a strong connection with the communities in which we work and a clear understanding of both the challenges and opportunities that they face.

In November we launched a new customer approach. We have created smaller patches for our housing management and repairs and maintenance colleagues, enabling them to be more visible and available to customers, helping build stronger relationships and ensuring they have access to any support they may need.

We have also continued to invest in providing digital choice for our customers. Karbon Homes is now receiving 38% of customer enquiries via digital channels and we are implementing more digital tools across the business to help improve our services and boost the efficiency of our teams.

We have further developed and expanded the ways in which our customers can engage with us, providing more opportunities for them to influence, challenge and help shape our work. We launched our customer procurement panel where customers offer feedback on how we can improve our procurement processes and ensure we are delivering value for money through procurement activity.

As the cost of living continues to impact the finances of many households, the Karbon Homes Money Matters Team have supported over 4,800 new customers, generating over £5.3m of income gains. And for those customers who are struggling with feelings of loneliness and isolation, Karbon's telephone befriending service Silver Talk offers a vital lifeline.

Thanks to a funding boost from the Department for Digital, Culture, Media and Sport's 'Know Your Neighbourhood' fund, last year the service expanded with the launch of an in-person befriending pilot, Silver Friends. This service helps people connect with their local community face-to-face, through a calendar of social events in community venues across North Durham.

Shaping strong, sustainable places

We believe everyone deserves a fair chance to realise their potential wherever they live, and over the last 12 months we have continued delivering on our Fair Foundations approach to placeshaping, concentrating on our two Karbon impact areas – Byker in the east end of Newcastle and Stanley in North Durham.

In Stanley, we have consulted with local residents and key stakeholders on the regeneration of the Stanley Board School site, a derelict building on the high street which we bought in 2023. And in Byker, we have also consulted with the local community on the first steps of our extensive £11m neighbourhood improvement plan for the Byker estate, with hopes that work on the first of the 11 neighbourhoods, Dunn Terrace, will begin this year.

Across our geography we have seen the continued success of New Start, our paid work placement programme, with 11 of the 14 New Start intake from 2023 going on to secure permanent roles with their placement employers. With two regional bids for funding from the UK Government through the UK Shared Prosperity Fund, we will be collaborating with other social housing providers across the North East and Tees Valley to deliver 80 placements in the coming year.

Alongside New Start, our Foundations for Life employability and digital support team have continued to provide various pathways of support into employment for residents across our geography.

This includes supporting seven of our residents into apprenticeship roles with Karbon, including those who are just starting out in work, those who have been trying to get back into work after a break or those wanting to re-train and pursue a new career.

We have continued investing in community organisations and projects across the region, enabling them to deliver a range of essential support services. Karbon's Community Connectors have supported 156 initiatives with grants totalling over £231,700 from our Community Investment Fund.

Create enablers of our success

Through what has been a very testing year in many ways, our colleagues have remained committed to the delivery of our three strategic aims. We have continued to invest in providing our colleagues with the right environment and a supportive culture to help them thrive and,

Operating and financial review (continued)...

in turn, deliver the best possible service they can.

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 +39. Scores between +20 and +40 are considered very good or excellent.

Twenty-four colleagues joined our first Aspire to Lead programme, designed to support colleagues looking to develop their leadership skills, and we have also introduced the GEM programme, a housing sector specific development programme for new recruits. A small number of colleagues have undertaken the programme so far.

We work hard to ensure employee wellbeing is integrated throughout the organisation. We achieved the next level of the Better Health at Work Award 'Continued Excellence', which recognises our achievements in promoting healthy lifestyles and considering the health of our employees.

Over the last 12 months we have continued to explore growth opportunities and welcomed South Tyneside Housing Ventures Trust customers to Karbon Homes, completing the transfer of 439 homes across South Tyneside. We also began conversations with Leazes Homes, a small subsidiary of Your Homes Newcastle with 759 homes across Newcastle Upon Tyne, regarding joining the group as a subsidiary. After consultations were carried out with both customers and colleagues, to understand their views on this proposal, we received confirmation from the board regarding the acquisition and Leazes Homes joined the group in June 2024.

Through all this change and investment, we retained our G1/V1 status from The Regulator of Social Housing, the highest rating a housing provider can achieve, showing that we meet the RSH's governance and viability requirements and have the financial capacity to deal with a range of adverse scenarios.

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 17 July 2023 Karbon Homes Limited acquired South Tyneside Housing Ventures Trust Limited via a transfer of engagement. The aim of the partnership is to deliver excellent services to our customers and to contribute to shaping the place and the communities where they live.

On 21 December 2023, Next Level Developments Limited entered into a limited liability partnership (LLP) with Homes by Carlton Limited to build 10 affordable and 38 open market sales properties in Staindrop Village, County Durham.

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 40 and the notes to the financial statements on pages 48 to 106. The following table provides a summary of the group's results:

For the year ended 31 March	**2024**	2023	2022	2021	2020
		Restated			
	£'000s	£'000s	£'000s	£'000s	£'000s
Turnover	**191,404**	165,604	155,186	142,400	135,933
Operating surplus excluding goodwill	**46,125**	46,912	44,064	38,757	38,622
Deficit on sale of other fixed assets	**(289)**	(346)	(146)	-	-
Net interest payable, other finance costs	**(18,432)**	(17,799)	(19,608)	(19,190)	(17,684)
Unrealised gain on revaluation of housing properties	**565**	1,140	2,740	2,794	1,223
Share of operating deficit in associate	**-**	-	-	(67)	-
Surplus for the year excluding goodwill	**27,969**	29,907	27,050	22,294	22,161
Negative goodwill	**4,529**	53,483	8,561	-	-
Surplus for the year before tax	**32,498**	**83,390**	**35,611**	**22,294**	**22,161**

Turnover has increased year on year by 15%. This is a combination of the annual rent increase of 7%, rent from the development of new properties and from the transfer of engagement of South Tyneside Housing Ventures Trust into Karbon on 17 July 2023. This transfer of engagement resulted in a negative goodwill adjustment in 2024. There was also a negative goodwill adjustment in 2023 from the merger of York Housing Association and Leeds & Yorkshire Housing Association (re-branded as 54North Homes). Operating surplus (excluding negative goodwill) has declined due to an increase in routine and planned maintenance of £11.8m (31%) on the prior year. Net interest payable has increased year on year due to an increase in debt of £28.4m. 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 continued 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 42 and supporting details can be found in the notes to the financial statements on pages 48 to 106.

For the year ended 31 March	**2024**	2023	2022	2021	2020
		Restated	Restated		
	£'000s	£'000s	£'000s	£'000s	£'000s
Fixed assets	**1,378,672**	1,232,785	1,054,319	974,766	921,732
Net current assets	**37,400**	47,090	85,674	129,500	34,928
Total assets less current liabilities	**1,416,072**	1,279,875	1,139,993	1,104,266	956,660
Creditors falling due after more than one year	**(621,182)**	(530,176)	(486,419)	(501,669)	(381,796)
Deferred grants	**(314,881)**	(297,028)	(284,695)	(272,742)	(267,670)
Provision for liabilities and charges	**(1,040)**	(1,978)	(1,855)	(1,186)	(394)
Pension liability	**(9,632)**	(8,588)	(24,403)	(40,925)	(27,975)
Reserves	**469,337**	**442,105**	**342,621**	**287,744**	**278,825**

Operating and financial review (continued)...

Statement of financial position (continued)

The increase in fixed assets reflects the transfer of South Tyneside Housing Ventures Trust into Karbon in year, 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 four years. The increase in creditors due after more than one year is primarily due to an increase in debt and an increase in social housing grant received in advance. The pension liability has increased by £1.0m year on year, following a significant reduction in pension liabilities from the Tyne and Wear and Durham pension schemes in 2023.

Capital structure, treasury policy and activity

As at 31 March 2024 the group had £693.2m of committed debt funding of which £516.5m (excluding £8.6m STHVT fair value adjustment) is drawn. £176.7m 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 2024 was 91% (2023: 95%).

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 30% 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 11.

The group has cash balances of £45.9m at 31 March 2024 (2023: £53.8m) and cash investments of £7.1m (2023: £17.6m). The current assets to current liabilities ratio stands at 1.62 (2023: 1.84).

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, 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

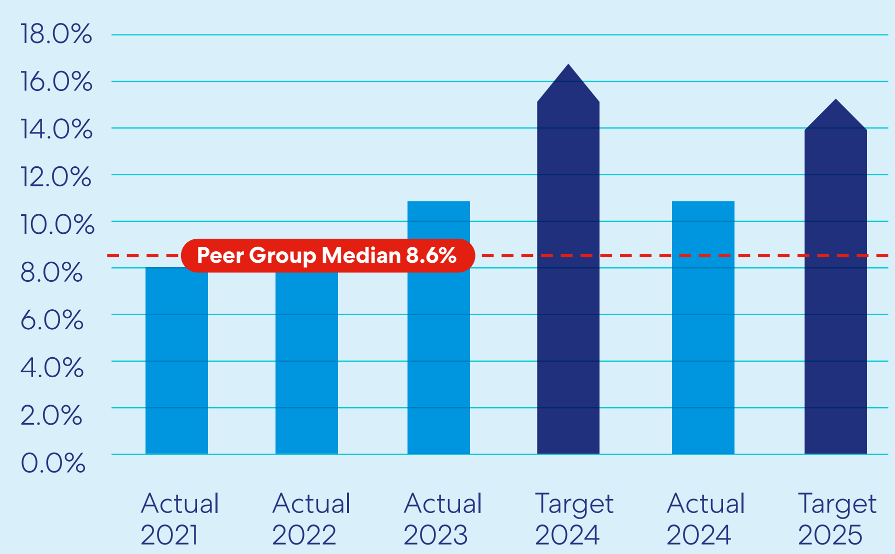
Benchmarking is important to any business. It provides key comparisons with similar organisations, enabling understanding of strengths and weaknesses and underpinning an evidence-based approach to resource allocation, cost reduction and target setting. The group's operating costs and key financial indicators 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 %



2024 performance

Performance has increased from 10.7% in 2023 to 11.0% in 2024. Investment in the development of new properties and purchase of newly built properties is £115.7m (£94.9m in 2023) and works to existing properties is £29.4m (£30.5m in 2023). Our target for 2024 was 17.0%. This was not achieved due to the development of 81 fewer properties than target, which was impacted mainly by construction delays due to poor weather and third-party issues.

2025 target

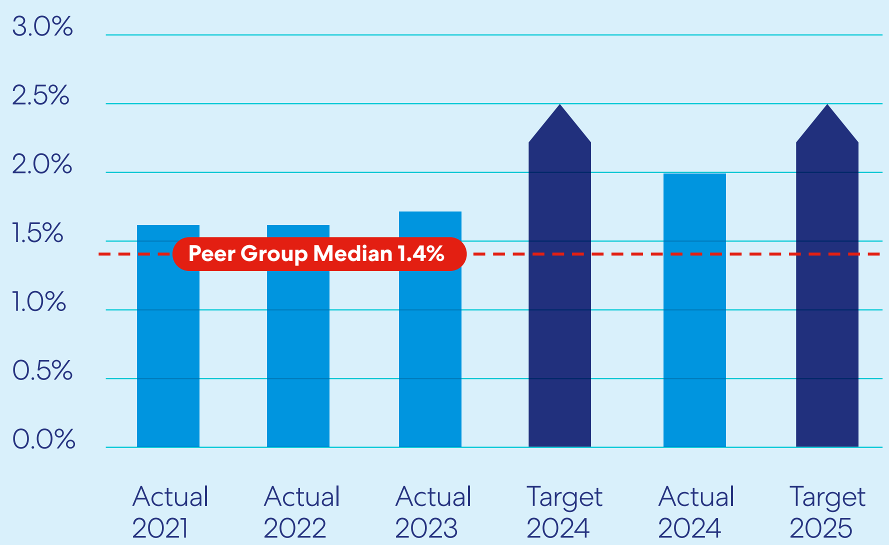
Our target for 2025 is 15.1% which assumes £173.4m investment in the development of new properties and £40.7m works to existing properties.

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 %



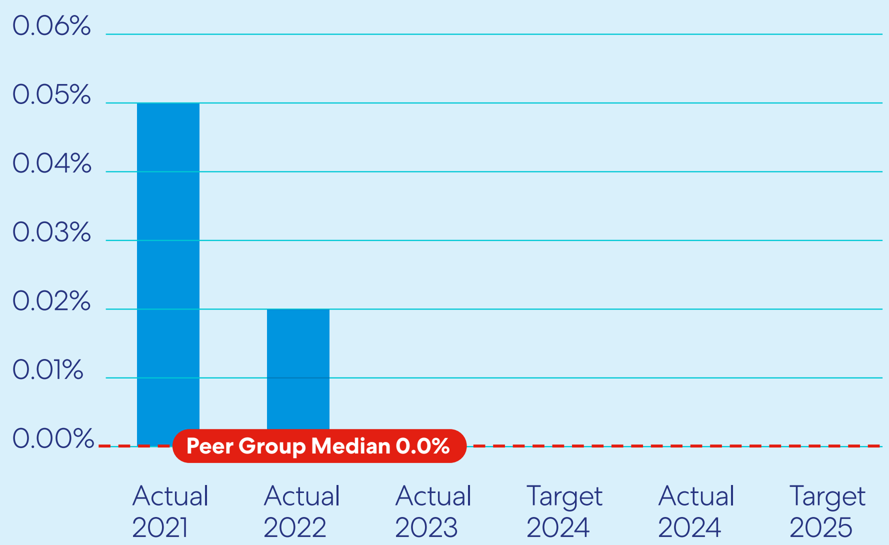
2024 performance

In 2024 the total number of social housing units developed was 644 which equates to 2.0% of social housing units owned. In 2023 a total of 529 social housing units were developed which equates to 1.7% of social housing units owned. Our target for 2024 was 2.5% which was not achieved due to 81 fewer properties being developed, mainly due to construction delays due to poor weather and third-party issues.

2025 target

Our target for 2025 is 2.5% which equates to the development of 827 social housing units.

New non-social housing supply %



2024 performance

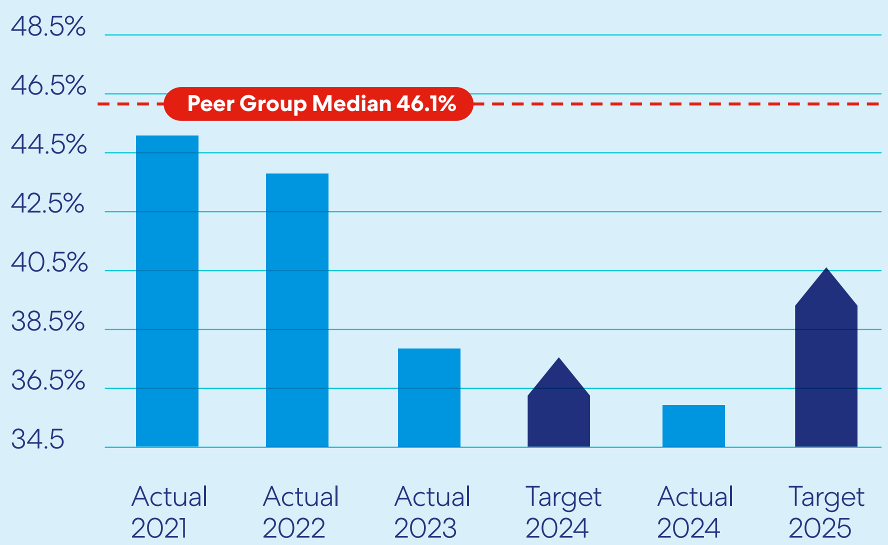
In 2024 we developed zero non-social housing properties compared to zero in 2023. This equates to 0.00% of total social and non-social housing units owned compared to 0.00% in 2023.

2025 target

Our target for 2025 is 0.00% which equates to the development of zero non-social housing units.

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

Gearing



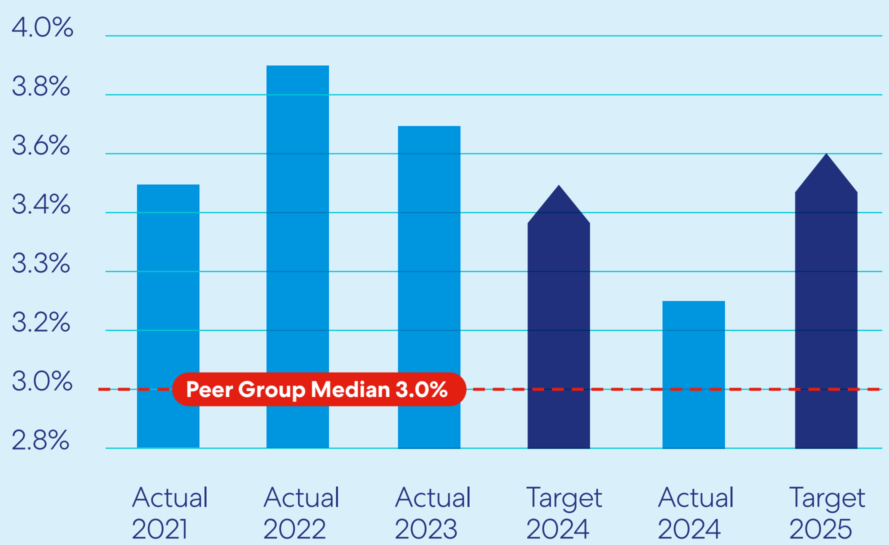
2024 performance

Our 2024 actual performance was 35.7% compared to 38.2% in 2023. Loans less cash has increased by £22.9m (5%) from 2023, however fixed assets at cost have increased by a higher proportion (12%) due to the transfer of engagement of South Tyneside Housing Ventures Trust Limited in July 2023. Gearing was lower than target for this reason.

2025 target

Our target for 2025 is 40.6%.

Return on capital employed (ROCE)



2024 performance

In 2024 return on capital employed (ROCE) was 3.3% compared to 3.7% in 2023, and a target of 3.5%. The reduction is mainly due to a similar level of operating surplus of £46.1m in 2024 compared to £46.9m in 2023, however assets less liabilities have increased by £136m. Negative goodwill has been excluded from the operating surplus.

2025 target

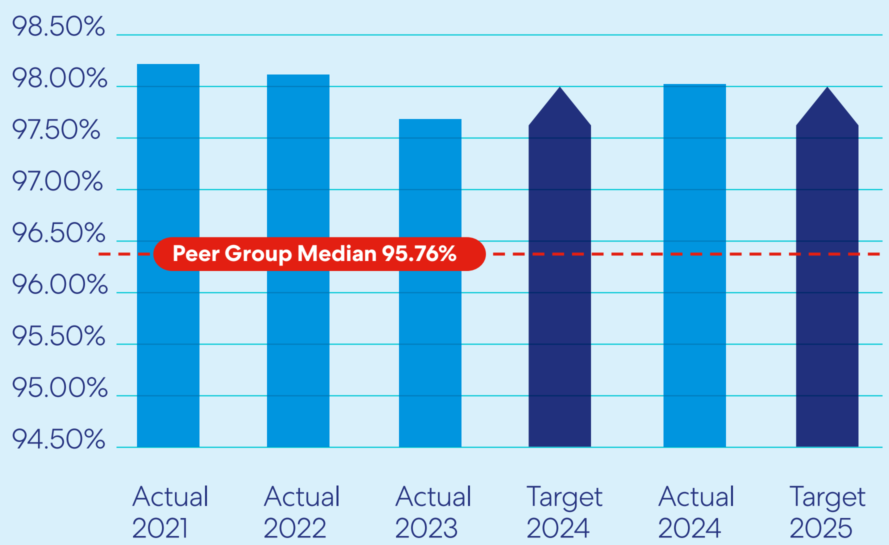
Our target for 2025 is 3.6%.

Operating and financial review (continued)...

Value for money (VFM) (continued)

Aim 2 – deliver excellent customer service

Repairs appointments made and kept (Karbon Association only)



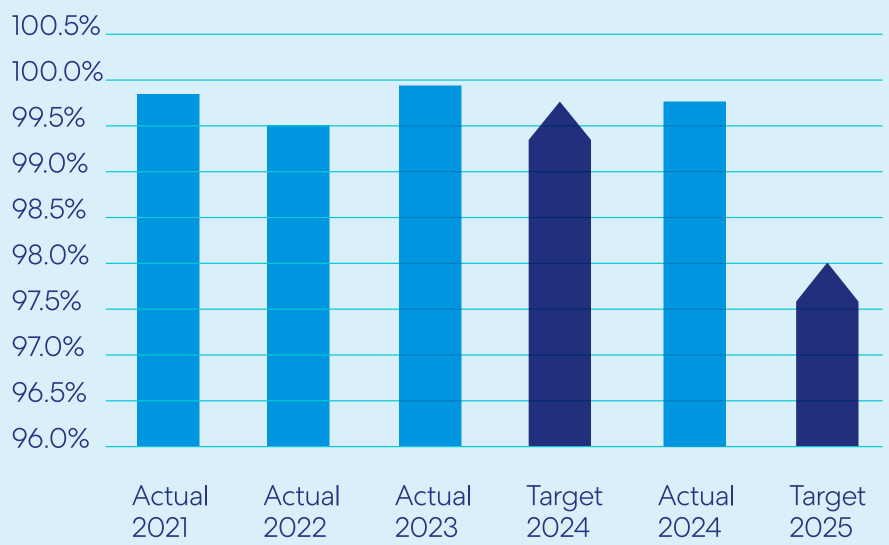
2024 performance

In 2024 our repairs appointments made and kept has improved to 98.03% from 97.66% in 2023. A review of operational areas on our scheduling system was undertaken in September 2023 to minimise travel time and reduce the number of missed appointments. This compares favourably to the median performance of our peer group which is 95.76% and correlates with low numbers of complaints due to missed appointments.

2025 target

Our target for 2025 is 98.00%.

Percentage of emergency works completed on time



2024 performance

Emergency works completed on time has declined slightly from 99.93% in 2023 and is at 99.75% in 2024. A working group has been established to focus specifically on emergency repairs and the out of hours service has been expanded to increase the number of operatives available to carry out emergency repairs. This performance is equal to the target of 99.75% as we continue to respond to urgent repairs in a timely manner.

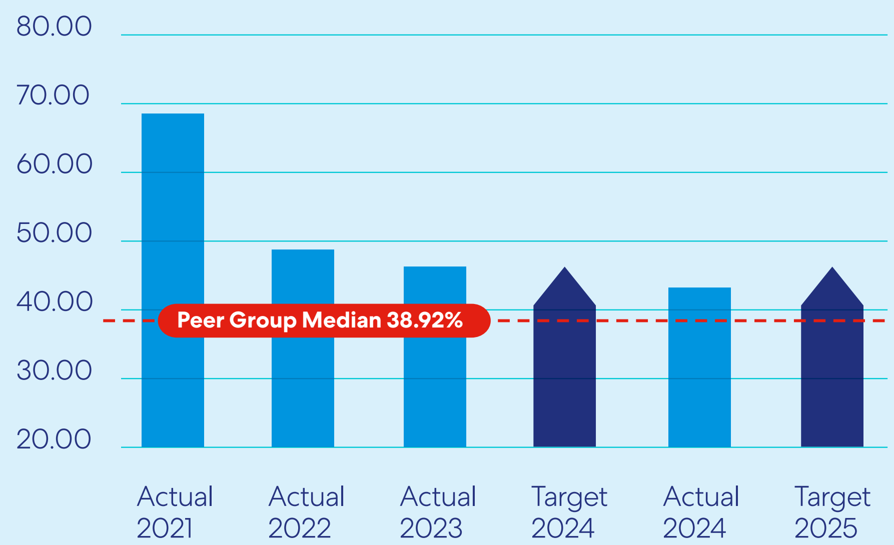
2025 target

Our target for 2025 is 98.00%.

Value for money (VFM) (continued)

Aim 3 – shape strong, sustainable places

Average re-let time



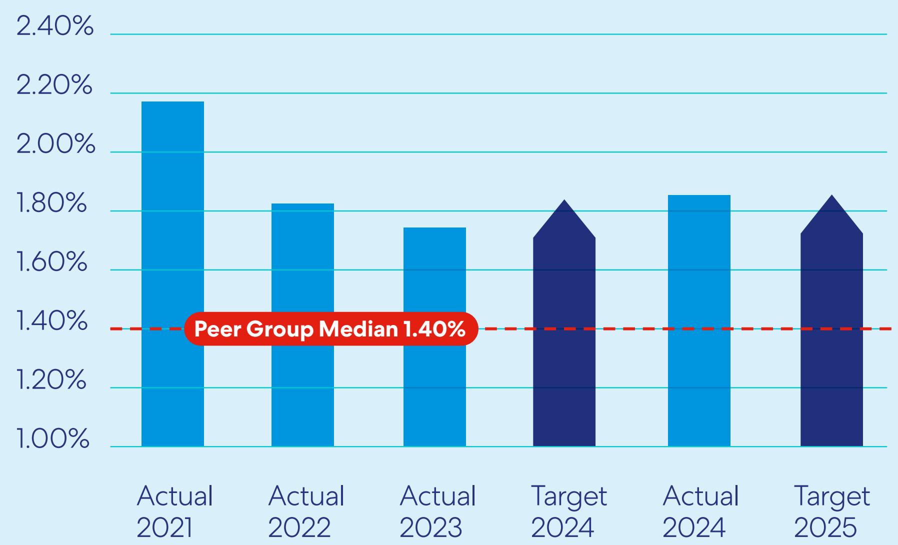
2024 performance

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 2024 our performance has improved to an average of 42.58 days from 46.72 days in 2023 and there is a year on year positive trajectory since 2021. This KPI is a major focus for the operational teams and we are confident that a new local, delivery model, which is area based, will bring benefits to the timescales to re-let empty homes.

2025 target

Our target for 2025 is 47 days.

Void rent loss as percentage of annual rent debit



2024 performance

Void rent loss performance has declined to 1.89%, from 1.73% in 2023. 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. This includes joint working between housing, property services and asset to focus on difficult to let properties and longer term voids, with a view to speedier lettings or finding an alternative solution where appropriate.

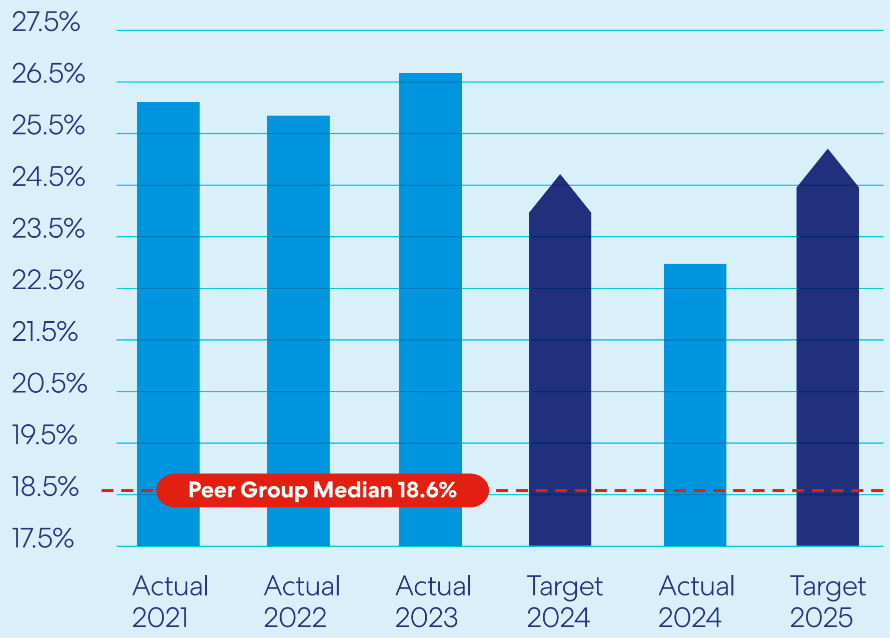
2025 target

Our target for 2025 is 1.87%.

Operating and financial review (continued)...

Value for money (VFM) (continued)

Operating margin overall



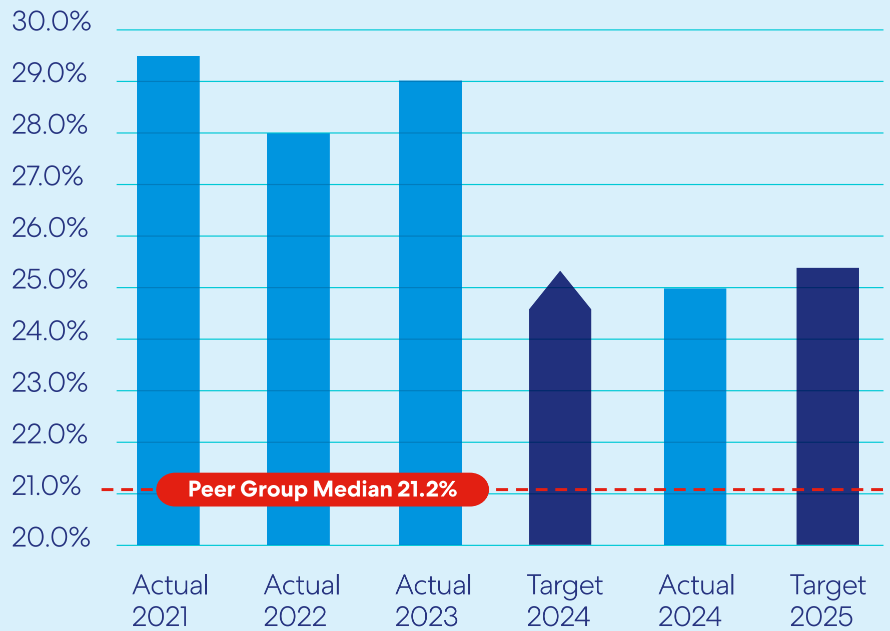
2024 performance

Operating margin is 23.0% in 2024 compared to 26.6% in 2023. It is lower than the target set and the prior year, mainly due to additional repairs costs of £7.2m compared to the prior year and an additional 5,500 repairs being carried out compared to budget. We have also seen higher sub-contractor expenditure, use of agency staff (due to high demand for trade operatives) and higher costs from dealing with repairs linked to damp and mould. We also had additional property depreciation of £3.5m due to increased capitalised repairs and earlier than forecast replacement of components. Negative goodwill has been excluded from the operating surplus.

2025 target

Our target for 2025 is 25.1%.

Operating margin social housing lettings



2024 performance

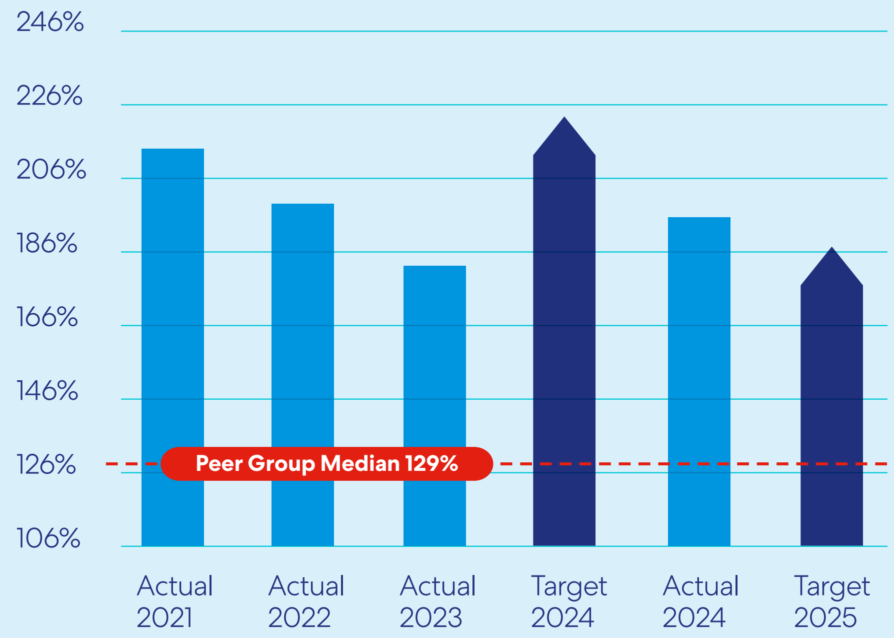
Around 86% of our operating surplus relates to social housing lettings. Our performance is 25.0% in 2024 which compares favourably to our peer group median which is 21.2%. It is lower than the target set and the prior year, due to a higher number of repairs being carried out plus a higher average repair cost. We also had additional property depreciation of £3.5m due to increased capitalised repairs and earlier than forecast replacement of components.

2025 target

Our target for 2025 is 25.3%.

Value for money (VFM) (continued)

EBITDA MRI Interest Cover



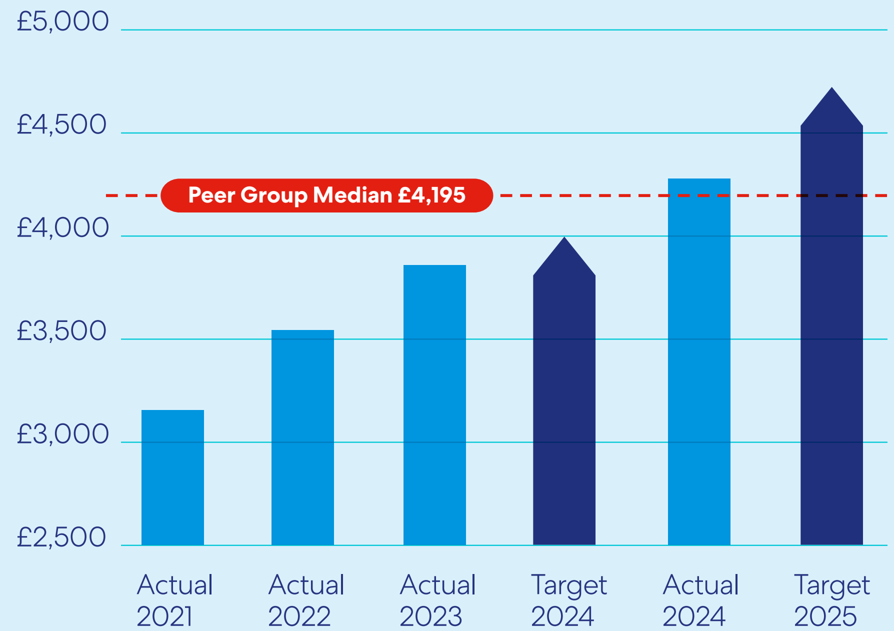
2024 performance

Our performance is 196% in 2024 compared to 182% in 2023 due to a pension adjustment of £3.7m (mainly from our Social Housing Pension Scheme) improving operating surplus. Interest payable is also proportionately lower in 2024. Negative goodwill has been excluded from the operating surplus. We did not achieve the target set due to a higher number of repairs being carried out plus a higher average repair cost.

2025 target

Our target for 2025 is 187%.

Headline social housing cost per unit



2024 performance

Our social housing cost per unit has increased from £3,809 in 2023 to £4,242 in 2024, mainly due to an increase in routine and planned repairs of £11.8m (31%) on the prior year, due to a higher volume of repairs demand and cost. These costs also resulted in the target not being achieved.

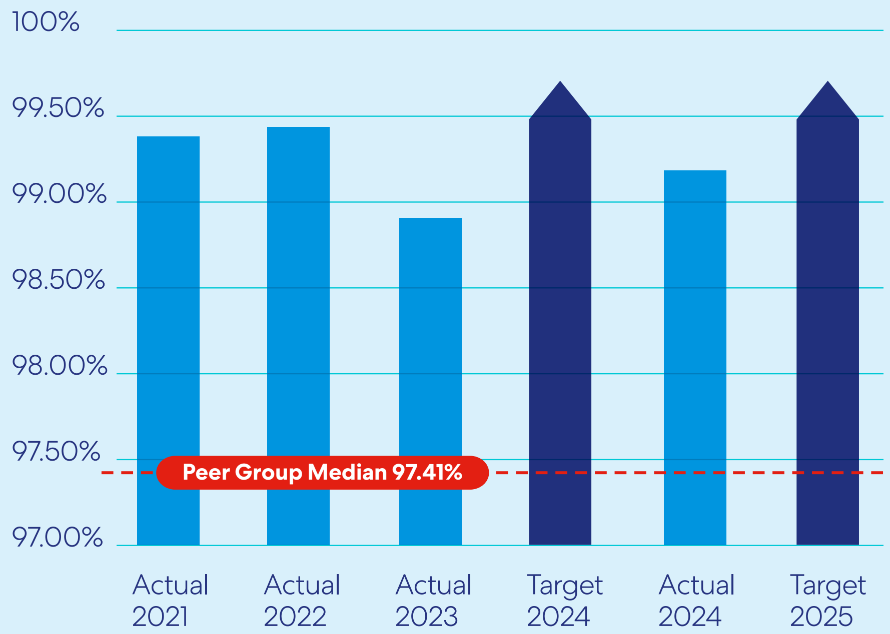
2025 target

Our target for 2025 is £4,794.

Operating and financial review (continued)...

Value for money (VFM) (continued)

Rent collected as a percentage of annual rent debit



2024 performance

Rent collected as a percentage of the annual rent debit was behind target in 2024, largely due to the way in which the rent year fell with the Easter Bank Holiday weekend falling over the end of the financial year. We remain above our peer group median and rent collection improved on 2023's performance of 98.88% to 99.17%.

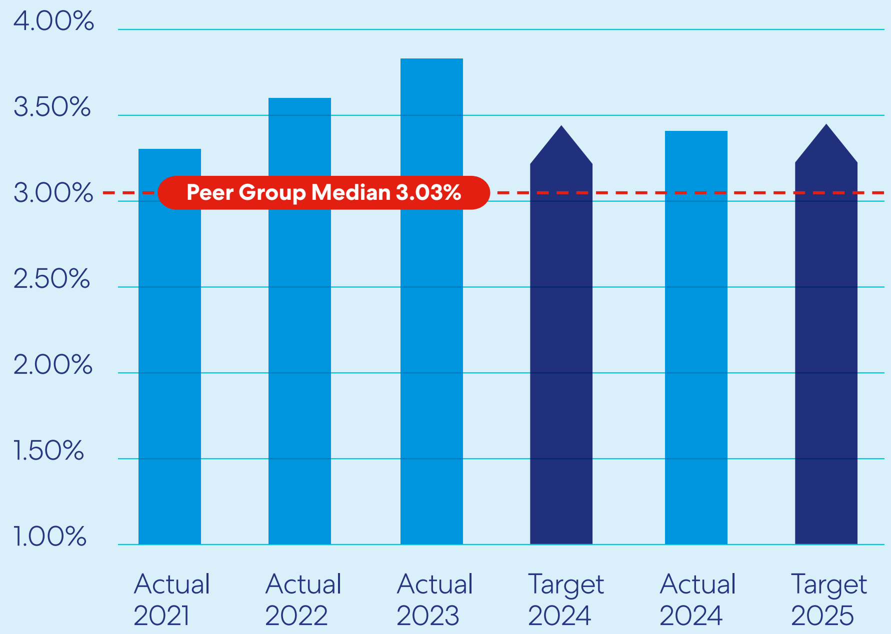
During 2023/24 new technology was implemented to automate elements of customer contact, removing manual processes to dial out to customers and connecting successful calls directly with our Customer Accounts Team. This increased income received by over £190k over the first nine months. During 2024/25 this technology will be enhanced further through integration with our payments system to ease the customer journey in making their rent payments.

2025 target

Our target for 2025 is 99.70%.

Value for money (VFM) (continued)

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



2024 performance

Current rent arrears net of housing benefit as a percentage of rent debit decreased from 3.81% to 3.42% in 2024. This fall brings arrears below the level achieved in 2021/22 and was within target. Reinvestment of colleague time, realised from efficiencies in processes and new technology, into caseload management has allowed colleagues to spend more time engaging with customers and negotiating repayment arrangements. Following a reorganisation of our Customer Accounts Team, greater focus will be taken on our high level arrears accounts and we expect to deliver further arrears reductions in 2025.

2025 target

Our target for 2025 is 3.45%.

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 running our business in an ever-changing environment, enabling us to deliver our services, improve and grow.

Over the past year, we have continued to develop our risk management, assurance and business continuity frameworks.

Stress testing and resilience planning forms a cornerstone of our approach to risk management, particularly in the light of continued economic volatility. 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 the sector risk profile and reviews our risk appetite statement, to make sure that this remains current and fit-for-purpose. This year, the board has agreed some more substantial changes to the risk appetite statement.

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.

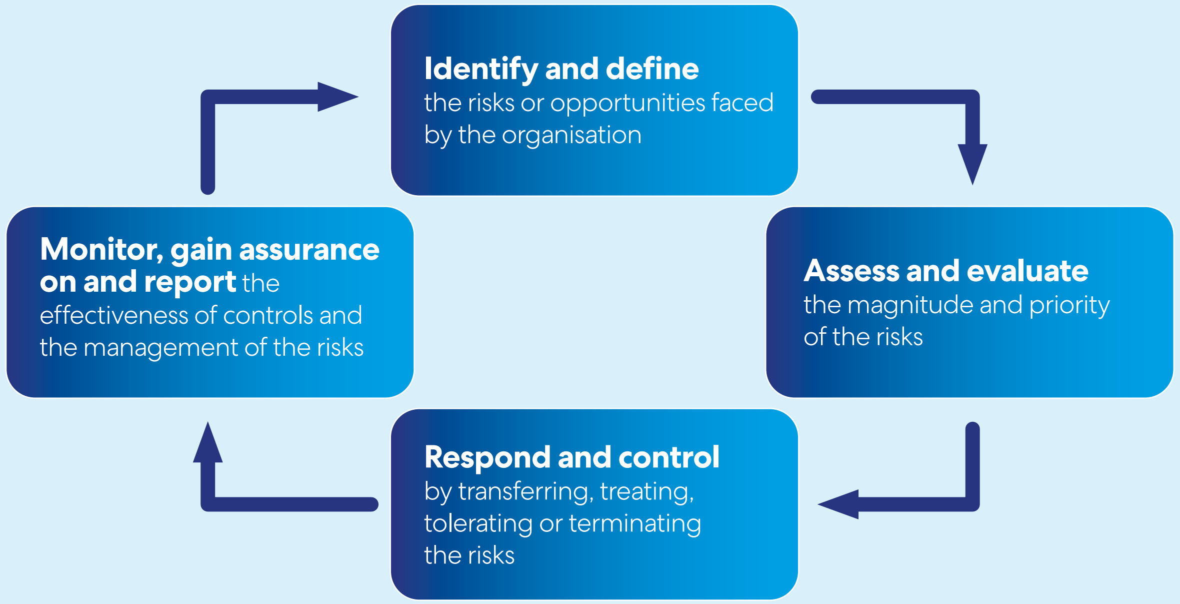
Operating and financial review (continued)...

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. Our assurance framework includes our externally provided internal audit programme, but also links with our customer scrutiny programme and other pieces of specially commissioned assurance work that may be carried out from time to time. Group Audit and Risk Committee is responsible for informing quarterly risk management updates to Group Board. This year, the committee has had a particular focus on cyber and counterparty risk, and business continuity planning arrangements.

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. This then forms part of our reporting to Group Audit and Risk Committee.

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.

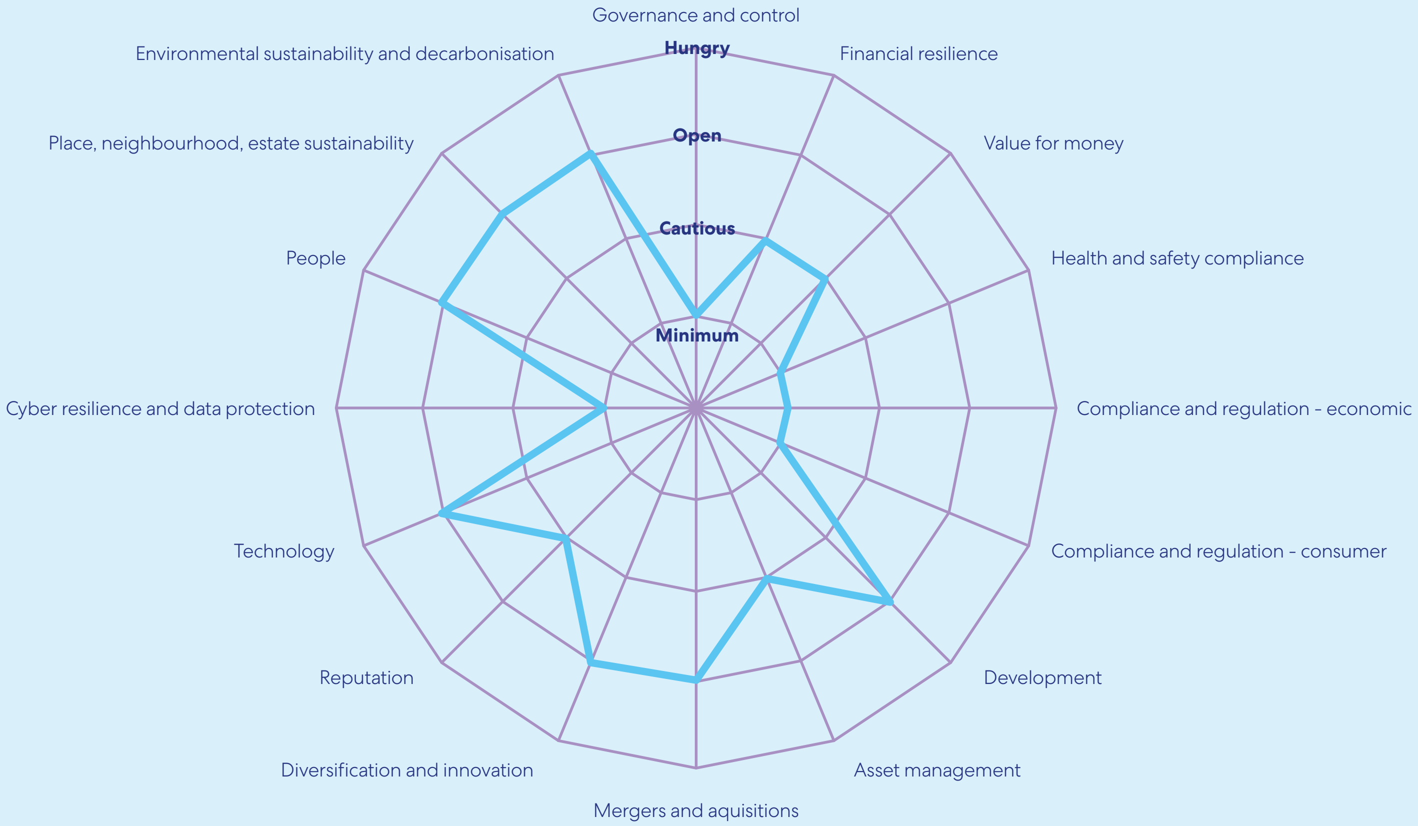
Internal audit provides independent, objective assurance to management and the board over the effectiveness of first and second lines and is independent of our executive management function. An agreed programme of reviews highlights areas where risks are not being managed within our appetite or where 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. We now consider Customer Scrutiny reviews as part of our assurance process – customers carry out detailed reviews of our work, which have included building safety and complaints.

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. The board has made some changes to our risk appetite statement this year, with the inclusion of new risk themes of Cyber and Data Protection, and Place, Neighbourhood and Estate Sustainability. Asset Management has been made a risk theme in its own right, and this theme reflects the focus on decarbonisation within this area. The Compliance and Regulation theme has been separated into 'Economic' and 'Consumer' themes, reflecting the changes in regulatory focus. Overall, our approach is balanced, ensuring that we carefully evaluate risks and opportunities, and guide our decisions accordingly. Our risk appetite is clearly stated in each of our board and committee reports.

Risk appetite



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. The Group Audit and Risk Committee receives reports on risks that are on the 'watch' list and updates on sector risks from the internal auditor.

During 2023/2024 escalating risks have included our need to carefully consider the 'trade-offs' within our decision-making process in a constrained and volatile economic environment. We have also continued to monitor counterparty risk.

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, (we last reviewed our Pension Strategy in May 2023). 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. We have been improving our contract management process and have been preparing for the introduction of new procurement legislation.
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 regularly. We employ health and safety specialists to provide advice and guidance and we have an ongoing, robust training plan. There is specialist building and customer safety capacity within our structure. Health and safety performance measures are monitored at executive and committee level. Updates are received at each group board meeting. We have undertaken a full stock condition survey during 2023/2024, focusing on the elements of the Housing Health and Safety Rating System (HHSRS). These surveys have included identifying damp and mould risks, and there is a corporate project approach to tackling this.

Operating and financial review (continued)...

Our principal risks (continued)

Risk	Response
Regulation and compliance risks	
Failure to comply with all statutory compliance and the Regulator of Social Housing's **Regulatory Framework**.	Changes in the Regulator of Social Housing's consumer regulation processes have been high on our radar, and this has been reflected in the separation of risks associated with economic standards and those associated with consumer standards. Areas of risk focus associated with consumer standards include how we handle complaints, knowing our customers, and responding to diverse customer needs. For both sets of standards, we have a process of governance and compliance, supported by external advice where necessary. We have commissioned an external governance review which has included a review of how customer insight is reflected in our governance structures. 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. Our internal audit programme has confirmed our progress in relation to rent standard compliance, following earlier assurance work.
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 have a Cyber Resilience Plan aligned with business continuity plans, have tested our disaster recovery capability for key systems, have achieved Cyber Essentials accreditation, and have improved the 24/7 monitoring of our systems for cyber threats. 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 and cyber security training and we have data protection and cyber resilience expertise. Our Information Governance and Data Quality Framework is being implemented, and we have a key focus on data quality and records/information management.
Asset management risks	
Failure to ensure our homes are **safe, comfortable** places to live for a broad range of customers, across a range of tenures, and to **manage assets effectively** to ensure they are **sustainable**, meet **decarbonisation** requirements and offer **value for money**.	We have a defined strategic approach to asset management. Controls are in place to ensure compliance with all legal and regulatory requirements, including the Decent Homes Standard, the Housing Health and Safety Rating System, decarbonisation targets and building safety requirements. Our effective asset management strategy is based on robust stock condition data. Our strategic approach to environmental sustainability and decarbonisation has continued to develop through the course of the year and we have a response to climate change project group.
Development risks	
Failure to meet the **housing needs** of a broad range of customers, across a range of tenures.	We have controls in place to mitigate programme, funding and market risks. Controls include a governance framework, access to sufficient funding and commercial skills at executive and board level.
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 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 continue to carefully monitor potential contractor failure and have improved our market intelligence and escalation systems, particularly in higher risk areas.

Operating and financial review (continued)...

Our principal risks (continued)

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.
Place, neighbourhood and estate sustainability risks	
Failure to provide **safe, strong and sustainable** places for our communities.	We continue to actively work with local partners to support our communities to be safe, strong and sustainable places, including through robust management of anti-social behaviour and hate crime. Our Fair Foundations Place Programme is operating in Byker and Stanley, areas where we have a large presence in communities that could be described as 'left behind', to help to deliver wider socio-economic benefits and build strong, inclusive communities where people can thrive.

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 2024.

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 Stephen Spill Michael Mullaney Sarah Salter Hanif Malik Stephen Secker Gillian Moy Neil Revely Amanda Swann (appointed 1 August 2023) Fiona Creighton (appointed 23 September 2023) Adrian Stanley (resigned 1 June 2023) Anne Mulroy (resigned 21 September 2023)
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
Executive Director of Governance and Integration	Richard Fryer
Managing Director 54North Homes	Mark Pearson
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

Report of the Board (continued)...

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 25. They served throughout the year unless where indicated.

During the year payments made to board members were £190.1k (2023: £137.1k), which were 0.10% (2023: 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 from November 2023 to February 2024, 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 2024 demonstrating full compliance.

The group regularly reviews its governance arrangements including its committee and subsidiary structures. It also undertakes an annual review of governance, including roles, responsibilities and accountabilities of the group board, Chair 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 to the financial statements.

Assurance was provided to the group and 54North Homes boards in July 2024, following scrutiny by the Group Customer and Audit and Risk Committees, that the group continues to meet the regulatory standards and has taken action to ensure compliance with the new consumer standards in place from April 2024. 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 November 2023 following the annual stability check. We maintain the highest rating of financial viability and governance.

Karbon has adopted and complied with the NHF Code on Mergers, Group Structures and Partnerships (2015). Following a full legal and financial due diligence exercise, a transfer of engagements integrated South Tyneside Housing Ventures Trust Limited (STHVT) into the Karbon Homes Group Structure in July 2023. Keelman Homes became a member of Karbon Solutions Limited, with the new partnership seeing Karbon deliver all tenancy management services and responsive repairs to over 300 Keelman homes across Gateshead, in July 2023.

Corporate role of the board

For the financial year 2023/24 the board comprised up to 12 board 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 is 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 and stress testing, reviews of operating environment, strategic priorities and sector risk, Karbon's approach to net zero carbon, and emerging consumer regulation and the customer voice. The executive directors also attended group board meetings.

Reporting to the board were the Group Remuneration, Nominations and People Committee, the Group Audit and Risk Committee, the Group Development Committee, the Group Customer Committee, the Informal Board Members Meeting 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 54NH board membership along with independent committee members, is shown in the table overleaf.

Report of the Board (continued)...

Corporate role of the board (continued)

Group Remuneration, Nominations and People Committee	Group Audit and Risk Committee	Group Development Committee	Group Customer Committee	Informal Board Members Meeting	Byker Community Trust Committee
Sarah Salter (C)	Stephen Spill (C)	Michael Mullaney (C)	Hanif Malik (C)	Sir David Bell (C)	Anne Mulroy (C) (to September 2023)
Sir David Bell KCB DL	Alexis Cleveland	Neil Revely	Anne Mulroy (to September 2023)	Sarah Salter	Lisa French (ICM)**
Alexis Cleveland	Gillian Moy	Amanda Swann (from August 2023)	Sarah Salter	Stephen Spill	Caroline Prince (ICM)
Stephen Spill	Stephen Secker	Fiona Creighton (from September 2023)	Alexis Cleveland	Adrian Stanley (to June 2023)	Anthony Itiat (ICM)** (to December 2023)
Jeremy Earnshaw (54NH)	Michael Mullaney	Carol McTaggart (54NH/ICM)	Gillian Moy	Hanif Malik	Nicola Snowdon**
	Matt Edgar (54NH)	Brian Ham (from November 2023)	Michael Lisle (ICM)**	Anne Mulroy (to September 2023)	Stephen Sheraton (ICM)**
		Damon Kent (from November 2023)	Ann Potts (ICM)**	Stephen Secker (54NH)	Neil Cawson (ICM)
		Adrian Stanley (C) to June 2023	Jon Prashar (54NH) (to February 2024)	Alexis Cleveland	Simon Aldred (ICM)
		Anne Mulroy (to September 2023)	Juanita Crawford (54NH)** (from March 2024)	Michael Mullaney (from July 2023)	Veronica Dunn (ICM) (to May 2024)
		Michael Pattison (ICM) (to October 2023)			Amanda Senior (ICM) (to September 2023)
		Robert Armstrong (ICM) (to October 2023)			Ian Johnson*
					Neil Revely (C) (from September 2023)

C – chair; 54NH – 54North Homes Limited; ICM – Independent Committee Member
*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, Our Board section.

Group Remuneration, Nominations and People 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. It also scrutinises the implementation of the group's people strategic plan, including the embedding of the group's culture, values and behaviours, employee health and safety and employee inclusion and belonging. 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 five 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 overseeing customer experience and customer engagement. The committee has a responsibility to ensure that customers have their voices heard, that the needs and safety of customers are at the heart of the board's decision making and that the group's performance is monitored. The committee has two members who are Karbon customers. From March 2024 it also has a 54North Homes board representative who is also a 54North Homes customer. The committee met four times during the year.

Informal Board Members Meeting

The Informal Board Members Meeting comprises the Group Chair, the Chair of 54North Homes Board and the chairs of the committees outlined above. The informal board assists with the effective communication and co-ordination of the group's various committees. All non-executive directors of the Karbon Group Board may choose to attend the meetings of this committee. The committee met four times during the year.

Byker Community Trust Committee

The Byker Community Trust (BCT) 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.

Report of the Board (continued)...

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 2023 up to the date of approval of the report and financial statements.

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 quarterly 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 was one occasion of theft from vehicles reported to the Group Audit and Risk Committee for Karbon. There were no instances of fraud or theft recorded for 54North Homes.

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 regular 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, and 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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.

During their annual assessment of Karbon Homes' credit rating, Standard & Poors affirmed our 'A (positive outlook) rating. Their feedback noted 'We take a positive view of Karbon's ability to maintain relatively stable metrics despite challenges in the sector, thanks to management's solid strategic planning and adherence to conservative financial policies.

In April 2024, the boards of Leazes Homes Limited (LHL) and Karbon Homes (KHL) approved an outline business case to bring about a merger by a transfer of engagements of LHL into KHL. On 17 June 2024, after a process of due diligence and further approvals from the board and shareholders, all LHL's assets, liabilities, operations, and contractual positions transferred to KHL.

Going concern

After making enquiries, the Karbon Homes Group 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 £173.4m during the next financial year developing and acquiring additional homes and £95.9m will be spent on planned and responsive maintenance. £63.4m of this investment will be funded through new borrowings, £57.6m 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 2024 the group had total loan facilities of £693.2m, of which £176.7m remained undrawn, and a cash balance including liquid investments of £53.0m.

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 22 July 2024.

Approval

The Report of the Board was approved by the board on 22 July 2024 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 2024 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 2024 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 Cooperative 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 ten financial years ending 31 March 2024. 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.

Our evaluation of the Board's assessment of the Group's and parent Association's ability to continue to adopt the going concern basis of accounting included:

- Reviewing the assumptions used in the budget for the financial year 2024-25.
- Reviewing the long term business plan and assessed the reasonableness of the assumptions used within it, along with reviewing the results of the various stress testing

scenarios on loan covenants, and the reasonableness of mitigating actions identified by the Group.

- Considered the facilities and loans in place against capital commitments and expected loan repayment dates.
- Reviewed the disclosures around going concern within the financial statements.

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 twelve months from when the financial statements are authorised for issue. Our responsibilities and the responsibilities of the board with respect to going concern are described in the relevant sections of this report.

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, parent association and 54 North Homes Limited

The risk – significant risk high value

The group's additions to properties under construction total £82.6m in the year ending 31 March 2024 (2023: £69.2m) in addition to capitalised planned maintenance of £29.4m (2023: £30.5m). Refer to pages 48-49, 52, 53-55 (accounting policies) and page 84 (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.
- **Test of detail:** We considered the group's own assessment of whether there was any evidence of impairment, in particular; for schemes under development. For a sample of current developments, we compared budgeted costs versus total approved costs for any evidence of potential impairment, along with further work to consider specific impairment triggers as included in the Statement of Recommended Practice 2018.
- **Test of detail:** We evaluated that accruals have been made for material development expenditure incurred up to 31 March 2024 but not yet invoiced. This included sample testing of accruals for accuracy, review of material after date invoices, and review of supplier statements versus trade creditor balances to identify any material missing liabilities.
- **Test of detail:** We reviewed the policy, and detailed workings, for overhead capitalisation and that the costs capitalised are directly attributable to bringing property additions into use.
- **Test of detail:** linked to housing property additions this year is £33.9m reflecting the fair value of properties following the transfer of engagements of South Tyneside Housing Ventures Trust Limited, which we corroborated to an independent valuation at the time of transfer.
- **Review against accounting standards:** We reviewed amounts capitalised in our sample testing, as well as impairment considerations, versus requirements in FRS 102 and guidance in the Statement of Recommended Practice 2018.

Our results

We noted no material exceptions through performing these procedures, except for additional capital accruals identified, and adjusted, for 54 North Homes Limited.

Defined Benefit Pension Schemes – group, parent association and 54 North Homes Limited

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 ending 31 March 2024 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 2024, the group's results showed a pension liability of £9.6m (2023: £8.6m). Refer to pages 49 and 51 (accounting policies) and pages 68-80 (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 independent 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 and considered the sensitivity of the valuations to changes in assumptions.
- **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. This also included review of the latest available pension fund statutory accounts.
- **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 the 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

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

financial statements are in line with the recommendations of the schemes' actuaries and are within reasonable parameters.

Investment properties – group, parent association, Prince Bishops Homes Limited and 54 North Homes Limited

The risk – significant risk medium value

At 31 March 2024, the group held £50.5m of investment properties (2023: £49.9m). Refer to pages 49 and 53 (accounting policies) and page 88 (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.

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 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.

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 2024 is based on 1.5% of turnover, being £2.87m (2023: 1.5% of turnover, being £2.5m).

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 £2.15m (2023: £1.9m) for the group.

We agreed to report to the Group Audit and Risk Committee any corrected or uncorrected identified misstatements exceeding £144k (2023: £124k) 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 current assets, dependent on our assessment of the risk of material misstatement of that component.

Materiality for the parent association financial statements was set at £2.5m (2023: £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. Parent association performance materiality was set at 75%, being £1.9m (2023: £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 immateriality). The work on all components, including the audit of the parent association, was performed by the group audit 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.

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 31, 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 have 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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- 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

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

included the Co-operative and Community Benefit Societies Act 2014, the Statement of Recommended Practice for registered housing providers: Housing SORP 2018, the Housing and Regeneration Act 2008, the Accounting Direction for Private Registered Providers of Social Housing 2022, tax legislation, health and safety legislation, and employment legislation.

- We enquired of the board and reviewed correspondence and board meeting minutes for evidence of non-compliance with relevant laws and regulations. We also reviewed controls the board have in place, where necessary, to ensure compliance.
- We gained an understanding of the controls that the board have in place to prevent and detect fraud. We enquired of the board about any incidences of fraud that had taken place during the accounting period.
- The risk of fraud and non-compliance with laws and regulations was discussed within the audit team and tests were planned and performed to address these risks. We identified the potential for fraud in the following areas: laws related to the construction and provision of social housing recognising the regulated nature of the 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 ÅHousing 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 2024

Financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2024

	Note	2024 £ '000	2023 £ '000
Turnover	3	191,404	165,604
Cost of sales	3	(11,235)	(9,197)
Operating expenditure	3	(136,488)	(112,768)
Negative goodwill	3/30	4,529	53,483
Surplus on sale of housing properties	6	2,444	3,273
Operating surplus	5	50,654	100,395
Deficit on sale of property, plant and equipment – other fixed assets		(289)	(346)
Interest receivable and other income	7	2,309	1,931
Interest payable and similar charges	8	(20,629)	(19,088)
Other finance costs	9	(112)	(642)
Unrealised gain on revaluation of investment properties	14	565	1,140
Surplus before taxation		32,498	83,390
Tax on surplus on ordinary activities	11	(90)	63
Surplus for the financial year	31	32,408	83,453
Actuarial (loss)/gain in respect of pension schemes	9	(5,176)	16,031
Total comprehensive income for the year		27,232	99,484

The consolidated results relate to continuing and acquired activities.
The notes on pages 48 to 106 form part of these financial statements.
The financial statements were authorised for issue and approved by the Karbon Homes Board on 22 July 2024 and signed on its behalf by:

Sir David Bell KCB DL
Chairman

Alexis Cleveland
Vice Chair

Richard Fryer
Company Secretary

ASSOCIATION STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2024

	Note	2024 £ '000	2023 £ '000
Turnover	3	177,821	158,099
Cost of sales	3	(14,495)	(11,477)
Operating expenditure	3	(124,612)	(106,430)
Negative goodwill	3/30	4,529	-
Surplus on sale of housing properties	6	1,758	3,098
Operating surplus	5	45,001	43,290
Deficit on sale of property, plant and equipment – other fixed assets		(17)	(97)
Interest receivable and other income	7	3,361	2,602
Interest payable and similar charges	8	(18,055)	(17,606)
Other finance costs	9	(14)	(607)
Unrealised gain on revaluation of investment properties	14	12	455
Surplus before taxation		30,288	28,037
Tax on surplus on ordinary activities	11	-	131
Surplus for the financial year	31	30,288	28,168
Actuarial (loss)/gain in respect of pension schemes	9	(4,754)	15,892
Total comprehensive income for the year		25,534	44,060

The association's results relate to continuing activities.
The notes on pages 48 to 106 form part of these financial statements.
The financial statements were authorised for issue and approved by the Karbon Homes Board on 22 July 2024 and signed on its behalf by:

Sir David Bell KCB DL
Chairman

Alexis Cleveland
Vice Chair

Richard Fryer
Company Secretary

Financial statements (continued)...

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2024

	Note	2024 £ '000	2023 Restated £ '000
Fixed assets			
Tangible fixed assets			
Housing properties at cost less depreciation	12	1,316,214	1,170,548
Other tangible fixed assets	13	11,830	12,139
Investment properties	14	50,462	49,904
HomeBuy loans receivable	15	156	184
Fixed asset investment	16	10	10
Investment in joint venture	17	-	-
		1,378,672	1,232,785
Current assets			
Properties for sale	19	8,283	3,907
Consumable stock		1,252	973
Debtors due within one year	20	30,929	24,018
Debtors due after one year	21	4,450	2,765
Investments	22	7,098	17,558
Cash and cash equivalents		45,872	53,760
		97,884	102,981
Creditors: Amounts falling due within one year	23	(60,484)	(55,891)
Net current assets		37,400	47,090
Total assets less current liabilities		1,416,072	1,279,875
Creditors: Amounts falling due after more than one year	24	(621,182)	(530,176)
Deferred grants	26	(314,881)	(297,028)
Provision for liabilities and charges	28	(1,040)	(1,978)
Pension liability	9	(9,632)	(8,588)
		(946,735)	(837,770)
Total net assets		469,337	442,105
Capital and reserves			
Non-equity share capital	29	-	-
Restricted reserve	31	450	450
Revenue reserve	31	468,887	441,655
Consolidated funds	31	469,337	442,105

The notes on pages 48 to 106 form part of these financial statements.
The financial statements were authorised for issue and approved by the Karbon Homes Board on 22 July 2024 and signed on its behalf by:

Sir David Bell KCB DL
Chairman

Alexis Cleveland
Vice Chair

Richard Fryer
Company Secretary

ASSOCIATION STATEMENT OF FINANCIAL POSITION

At 31 March 2024

	Note	2024 £ '000	2023 Restated £ '000
Fixed assets			
Tangible fixed assets			
Housing properties at cost less depreciation	12	1,144,347	1,011,842
Other tangible fixed assets	13	9,493	9,761
Investment properties	14	17,892	17,653
HomeBuy loans receivable	15	156	184
Investment in joint venture	17	-	-
		1,171,888	1,039,440
Current assets			
Properties for sale	19	7,778	3,838
Consumable stock		1,252	973
Debtors due within one year	20	32,817	26,551
Debtors due after one year	21	30,895	26,355
Investments	22	6,478	15,545
Cash and cash equivalents		40,858	47,324
		120,078	120,586
Creditors: Amounts falling due within one year	23	(49,891)	(47,415)
Net current assets		70,187	73,171
Total assets less current liabilities		1,242,075	1,112,611
Creditors: Amounts falling due after more than one year	24	(566,714)	(475,666)
Deferred grants	26	(290,217)	(277,292)
Provision for liabilities and charges	28	(872)	(1,900)
Pension liability	9	(7,612)	(6,627)
		(865,415)	(761,485)
Total net assets		376,660	351,126
Capital and reserves			
Non-equity share capital	29	-	-
Restricted reserve	31	450	450
Revenue reserve	31	376,210	350,676
Consolidated funds	31	376,660	351,126

The notes on pages 48 to 106 form part of these financial statements.
The financial statements were authorised for issue and approved by the Karbon Homes Board on 22 July 2024 and signed on its behalf by:

Sir David Bell KCB DL
Chairman

Alexis Cleveland
Vice Chair

Richard Fryer
Company Secretary

Financial statements (continued)...

CONSOLIDATED STATEMENT OF CHANGES IN RESERVES

	Income and expenditure reserve £ '000	Restricted reserve £ '000	Total £ '000
Balance at 1 April 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**
Surplus for the year	32,408	-	32,408
Actuarial loss on pension scheme	(5,176)	-	(5,176)
Balance at 31 March 2024	**468,887**	**450**	**469,337**

The notes on pages 48 to 106 form part of these financial statements.

ASSOCIATION STATEMENT OF CHANGES IN RESERVES

	Income and expenditure reserve £ '000	Restricted reserve £ '000	Total £ '000
Balance at 1 April 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**
Surplus for the year	30,288	-	30,288
Actuarial loss on pension scheme	(4,754)	-	(4,754)
Balance at 31 March 2024	**376,210**	**450**	**376,660**

The notes on pages 48 to 106 form part of these financial statements.

Financial statements (continued)...

CONSOLIDATED STATEMENT OF CASH FLOWS

	2024 £ '000	2023 Restated £ '000
Net cash generated from operating activities (See Note 34)	58,029	62,682
Cash flow from investing activities		
Purchase and construction of housing properties	(111,983)	(95,250)
Works to existing properties capitalised	(29,437)	(30,526)
Purchase of other fixed assets	(1,580)	(1,756)
Sale of housing properties	4,480	6,616
Payments to local authorities re sale of properties	(284)	(388)
Sale of other fixed assets	12	-
Social housing grant received	84,339	33,706
Investment in joint venture	(1,803)	-
Interest received	2,297	1,749
	(53,959)	(85,849)
Cash flow from financing activities		
Interest paid	(21,823)	(20,634)
New secured loans	4,000	2,450
Repayment of HomeBuy loan	28	-
Repayment of borrowings	(5,064)	(15,347)
Acquisition — cash and investments	882	4,529
Money market and investment movements	10,019	45,351
	(11,958)	16,349
Net change in cash and cash equivalents	**(7,888)**	**(6,818)**
Cash and cash equivalents at beginning of the year	**53,760**	**60,578**
Cash and cash equivalents at end of the year	**45,872**	**53,760**

Investments with a maturity date less than three months previously classified as money market and investments have been transferred to cash and cash equivalents in accordance with FRS102 (s7.2).

The notes on pages 48 to 106 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. Details of the group structure can be found in note 18.

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 2024.

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 is 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 52. 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 discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long-term nature of these plans, such estimates are subject to significant uncertainty. Further details are given in note 9.

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.

A sensitivity analysis is provided for the group:-

	Change in valuation	Change in value (£'000s)
Investment properties	Increase/ decrease of 5%	2,523

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 housing properties.

Notes to the financial statements (continued)...

2. Accounting policies (continued)

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 on timing differences arising from:

a) revaluation gains on land and buildings, unless there is a binding agreement to sell them at the balance sheet date

b) 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

The group charges value added tax (VAT) on some of its income and is able to recover part of the VAT it incurs on expenditure. The 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.

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.

Consultancy and professional fees directly attributable to the business combination are offset against the gain or loss in the Statement of Comprehensive Income.

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.

Notes to the financial statements (continued)...

2. Accounting policies (continued)

Joint ventures and associates (continued)

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 joint venture. 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 net assets or liabilities (including any amortised premium paid on acquisition) 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.

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

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 in 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 its 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 and 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.

Grants received from government sources are classified as grant relating to revenue or grant relating to assets and accounted for under the accruals model with income recognised on a systematic basis over the same period as the related costs or the expected useful life of the asset.

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

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

Notes to the financial statements (continued)...

2. Accounting policies (continued)

Depreciation of housing properties (continued)

basis, over its estimated useful economic life.

Where a housing property comprises two or more major components with substantially different useful economic lives (UELs), each component is accounted for separately and depreciated over its 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 - 30
External works	2 - 50
Kitchens	15 - 25
Bathrooms	25 - 33
Windows	26 - 30
Doors internal/external	26 - 30
Garages/outbuildings	22 - 50
Rewires	25 - 40
Cloakrooms	33
Loft insulation	30
Under floor insulation	30
Internal wall insulation	30
Environmentals	30
Solar panels	25
Heating systems	15 - 30
Heating control panels	15
Disabled adaptations	15
Boiler systems	15
Communal lifts	25
Communal boilers	20
Communal doors	30
Communal windows	30
Communal lighting	40
Communal roof	60
Communal stairwell flooring	5
Communal door entry	15
Positive ventilation systems	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 the technological, economic or legal environment, obsolescence or damage to the asset, operational changes or internal reporting that 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.

Current asset investments

Current asset investments include cash and cash equivalents invested for more than three months. They are recognised at cost without any further adjustment.

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	4
Plant and equipment	4 - 10
Commercial premises	30 - 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.

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.

Notes to the financial statements (continued)...

2. Accounting policies (continued)

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 are 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.

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

GROUP

	2024 Group			
	Turnover £ '000	Cost of sales £ '000	Operating expenditure £ '000	Operating surplus £ '000
Social housing lettings Note 3(a)	168,415	-	(126,368)	42,047
Other social housing activities				
Development services	2,675	(2,340)	(1,268)	(933)
Support services	2,040	-	(2,175)	(135)
Community investment	306	-	(3,328)	(3,022)
First tranche low-cost home ownership sales	7,163	(5,224)	(381)	1,558
Provision of furniture	2,039	-	(886)	1,153
Other	1,109	-	(1,051)	58
	15,332	(7,564)	(9,089)	(1,321)
Non-social housing activities				
Other rental income	554	-	(223)	331
Properties developed for outright sale	-	-	-	-
Investment property sale	511	(404)	-	107
Market rentals	3,356	(372)	(495)	2,489
External services	3,155	(2,895)	(289)	(29)
Other	81	-	(24)	57
	7,657	(3,671)	(1,031)	2,955
Total before sale of housing properties	**191,404**	**(11,235)**	**(136,488)**	**43,681**
Negative goodwill arising on transfer of engagement (Note 30)	4,713	-	(184)	4,529
Sale of housing properties	4,196	(1,689)	(63)	2,444
	200,313	(12,924)	(136,735)	**50,654**

Costs of £184k associated with the South Tyneside Housing Ventures Trust Limited transfer of engagement have been written off against negative goodwill (see note 30).

Notes to the financial statements (continued)...

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

GROUP

	2023 Group			
	Turnover £ '000	Cost of sales £ '000	Operating expenditure £ '000	Operating surplus £ '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 30)	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 30).

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

ASSOCIATION

	2024 Association			
	Turnover £ '000	Cost of sales £ '000	Operating expenditure £ '000	Operating surplus £ '000
Social housing lettings Note 3(a)	153,086	-	(114,301)	38,785
Other social housing activities				
Development services	318	-	(1,194)	(876)
Support services	2,001	-	(2,175)	(174)
Community investment	306	-	(3,328)	(3,022)
First tranche low-cost home ownership sales	6,756	(5,005)	(381)	1,370
Provision of furniture	2,039	-	(1,752)	287
Other	1,776	-	(1,011)	765
	13,196	(5,005)	(9,841)	(1,650)
Non-social housing activities				
Other rental income	316	-	(106)	210
Properties developed for outright sale	-	-	-	-
Investment property sale	214	(160)	-	54
Market rentals	1,392	-	(166)	1,226
External services	9,536	(9,330)	(190)	16
Other	81	-	(8)	73
	11,539	(9,490)	(470)	1,579
Total before sale of housing properties	177,821	(14,495)	(124,612)	38,714
Negative goodwill arising on transfer of engagement (Note 30)	4,713	-	(184)	4,529
Sale of housing properties	3,251	(1,430)	(63)	1,758
	185,785	(15,925)	(124,859)	**45,001**

Costs of £184k associated with the South Tyneside Housing Ventures Trust Limited transfer of engagement have been written off against negative goodwill (see note 30).

Notes to the financial statements (continued)...

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 30)	-	-	-	-
Sale of housing properties	5,906	(2,737)	(71)	3,098
	164,005	(14,214)	(106,501)	**43,290**

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

GROUP - Particulars of income and expenditure from social housing lettings

	2024 Group				2023
	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	133,522	10,075	2,348	145,945	125,556
Service charges income	10,564	3,933	757	15,254	12,686
Net rental income	144,086	14,008	3,105	161,199	138,242
Revenue grants	26	69	-	95	98
Amortised government grants	5,142	117	8	5,267	5,132
Other income	1,791	45	18	1,854	1,425
Turnover from social housing lettings	151,045	14,239	3,131	168,415	144,897
Management	(18,590)	(4,038)	(469)	(23,097)	(19,526)
Service charge costs	(17,211)	(3,409)	(418)	(21,038)	(18,532)
Routine maintenance	(33,281)	(1,606)	(73)	(34,960)	(27,774)
Planned maintenance	(11,009)	(3,036)	(393)	(14,438)	(9,825)
Major repairs	-	-	-	-	-
Bad debts	(1,597)	(117)	(6)	(1,720)	(1,207)
Depreciation of housing properties	(29,243)	(339)	(62)	(29,644)	(26,101)
Impairment of housing properties	(1,471)	-	-	(1,471)	55
Write off - housing properties demolished	-	-	-	-	(38)
Operating expenditure on social housing lettings	(112,402)	(12,545)	(1,421)	(126,368)	(102,948)
Operating surplus on social housing lettings	38,643	1,694	1,710	42,047	41,949
Void losses	2,468	623	66	3,157	2,328

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

ASSOCIATION - Particulars of income and expenditure from social housing lettings

	2024 Association				2023
	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	122,797	7,984	1,952	132,733	118,882
Service charges income	9,809	2,987	689	13,485	11,499
Net rental income	132,606	10,971	2,641	146,218	130,381
Revenue grants	-	-	-	-	29
Amortised government grants	5,017	-	-	5,017	4,890
Other income	1,790	43	18	1,851	1,393
Turnover from social housing lettings	139,413	11,014	2,659	153,086	136,693
Management	(16,508)	(2,891)	(354)	(19,753)	(17,971)
Service charge costs	(16,463)	(2,902)	(385)	(19,750)	(17,531)
Routine maintenance	(31,002)	(1,034)	(47)	(32,083)	(26,645)
Planned maintenance	(10,090)	(2,601)	(360)	(13,051)	(9,212)
Major repairs	-	-	-	-	-
Bad debts	(1,542)	(109)	(6)	(1,657)	(1,116)
Depreciation of housing properties	(26,536)	-	-	(26,536)	(24,326)
Impairment of housing properties	(1,471)	-	-	(1,471)	55
Write off - housing properties demolished	-	-	-	-	(38)
Operating expenditure on social housing lettings	(103,612)	(9,537)	(1,152)	(114,301)	(96,784)
Operating surplus on social housing lettings	35,801	1,477	1,507	38,785	39,909
Void losses	2,285	432	52	2,769	2,242

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	2023 No.	New units developed or acquired No.	Units sold or demolished No.	Transfers from/(to) other RPs No.	Other No.	2024 No.
Social housing						
General housing - social rent	23,505	82	(44)	20	(6)	23,557
General housing - affordable rent	3,969	469	(1)	419	-	4,856
Supported and housing for older people - social rent	1,482	-	(3)	-	(1)	1,478
Supported and housing for older people - affordable rent	324	-	-	-	-	324
Low-cost home ownership	962	93	(10)	-	(8)	1,037
	30,242	644	(58)	439	(15)	31,252
Non-social						
Market rented	463	-	(3)	-	(2)	458
Student housing	27	-	-	-	-	27
Temporary accommodation	24	-	-	-	-	24
	514	-	(3)	-	(2)	509
Owned and managed by others						
General housing - social rent	6	-	-	-	-	6
General housing - affordable rent	-	-	-	-	-	-
Supported and housing for older people - social rent	140	-	-	-	-	140
Supported and housing for older people - affordable rent	1	-	-	-	-	1
Low-cost home ownership	-	-	-	-	-	-
Care home	14	-	-	-	-	14
	161	-	-	-	-	161
Total owned	**30,917**	**644**	**(61)**	**439**	**(17)**	**31,922**
Managed on behalf of others						
Social housing						
General housing - social rent	60	-	-	-	(59)	1
General housing - affordable rent	24	-	-	-	(20)	4
Supported and housing for older people - social rent	68	-	-	-	-	68
Low-cost home ownership	33	-	-	-	(33)	-
	185	-	-	-	(112)	73
Other						
Accommodation managed for others - non-social	2	-	-	-	(1)	1
Accommodation managed for others - leasehold	6	-	-	-	-	6
Total managed for others	193	-	-	-	(113)	80
Total owned and managed	**31,110**	**644**	**(61)**	**439**	**(130)**	**32,002**
Leasehold units	661	-	-	-	1	662
Total	31,771	644	(61)	439	(129)	**32,664**

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	2023	New units developed or acquired	Units sold or demolished	Transfers from/(to) other RPs	Other	2024
Owned and managed	No.	No.	No.	No.	No.	No.
Social housing						
General housing - social rent	21,898	-	(37)	20	(5)	21,876
General housing - affordable rent	2,983	244	(1)	419	(7)	3,638
Supported and housing for older people - social rent	1,111	-	(3)	-	-	1,108
Supported and housing for older people - affordable rent	321	-	-	-	-	321
Low-cost home ownership	699	3	(9)	-	(8)	685
	27,012	247	(50)	439	(20)	27,628
Non-social						
Market rented	191	-	(1)	-	(2)	188
Student housing	-	-	-	-	-	-
Temporary accommodation	-	-	-	-	-	-
	191	-	(1)	-	(2)	188
Owned and managed by others						
General housing - social rent	119	73	-	-	-	192
General housing - affordable rent	439	219	-	-	6	664
Supported and housing for older people - social rent	140	-	-	-	-	140
Supported and housing for older people - affordable rent	1	-	-	-	-	1
Low-cost home ownership	137	77	-	-	1	215
Care home	14	-	-	-	-	14
	850	369	-	-	7	1,226
Total owned	**28,053**	**616**	**(51)**	**439**	**(15)**	**29,042**
Managed on behalf of others						
Social housing						
General housing - social rent	1	-	-	-	-	1
General housing - affordable rent	5	-	-	-	(1)	4
Supported and housing for older people - social rent	-	-	-	-	-	-
Low-cost home ownership	-	-	-	-	-	-
	6	-	-	-	(1)	5
Other						
Accommodation managed for others - non-social	1	-	-	-	-	1
Accommodation managed for others - leasehold	-	-	-	-	-	-
Total managed for others	7	-	-	-	(1)	6
Total owned and managed	**28,060**	**616**	**(51)**	**439**	**(16)**	**29,048**
Leasehold units	651	-	-	-	1	652
Total	28,711	616	(51)	439	(15)	**29,700**

5. Operating surplus

This is arrived at after charging/(crediting):

	Group 2024 £ '000	Group 2023 £ '000	Association 2024 £ '000	Association 2023 £ '000
Depreciation of housing properties	27,744	24,397	25,186	23,106
Depreciation of housing properties - write off fair value	469	469	-	-
Depreciation of housing properties - write off on replacement	1,403	1,253	1,350	1,220
Amortisation of deferred capital grant	(5,118)	(5,121)	(4,868)	(4,879)
Amortisation of deferred grant - write off on replacement	(272)	(11)	(272)	(11)
Impairment of housing properties	1,471	(55)	1,471	(55)
Depreciation of other tangible fixed assets	1,588	1,592	935	1,122
Operating lease rentals:				
- land and buildings	394	394	260	266
- office equipment, computers and motor vehicles	1,361	1,635	1,361	1,635
Auditors' remuneration (excluding VAT):				
- audit of the group financial statements	70	57	70	57
- audit of subsidiaries	41	41	-	-
Fees payable to the company's auditor and its associates for other services				
- service charge certification	14	12	14	12
- other	8	-	8	-

6. Surplus on sale of fixed assets – housing properties

	Group 2024 £ '000	Group 2023 £ '000	Association 2024 £ '000	Association 2023 £ '000
Proceeds from sale of properties	4,196	6,872	3,251	5,906
Less:				
Net book value of properties	(1,420)	(2,998)	(1,197)	(2,223)
Proceeds to be returned to local authorities	(98)	(284)	(98)	(284)
Contingent liability on disposal	(19)	-	(19)	-
Grant written off on disposal	127	133	127	136
Recyclable grants on disposal	(168)	(197)	(161)	(197)
Administration charges	(174)	(253)	(145)	(240)
Net surplus from sale of properties	2,444	3,273	1,758	3,098

Notes to the financial statements (continued)...

7. Interest receivable and other income

	Group		Association	
	2024 £ '000	2023 £ '000	2024 £ '000	2023 £ '000
Interest receivable and other income	2,309	1,931	3,361	2,602

In 2023 the £1,931k included 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	
	2024 £ '000	2023 £ '000	2024 £ '000	2023 £ '000
On bank loans and other loans	19,759	18,706	17,349	17,265
Loan breakage costs	(51)	(73)	(51)	(73)
Loan non-utilisation fees	618	395	530	381
Interest on RCGF	88	32	88	32
Other interest	207	28	131	1
Release of STHVT fair value	8	-	8	-
	20,629	19,088	18,055	17,606

9. Employees

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

	Group		Association	
	2024 No.	2023 No.	2024 No.	2023 No.
Housing management, repairs and asset management	800	732	749	700
Administration, finance and other	165	147	153	142
Development	24	21	20	20
Housing support and care	38	39	34	35
	1,027	939	956	897

9. Employees (continued)

The full-time equivalent number of key management personnel whose remuneration is £60,000 or more (including pension contributions) is:

	2024 No.	2023 No.
£60,001 to £70,000	-	-
£70,001 to £80,000	-	-
£80,001 to £90,000	1	1
£90,001 to £100,000	3	10
£100,001 to £110,000	10	5
£110,001 to £120,000	4	-
£120,001 to £130,000	1	1
£130,001 to £140,000	1	1
£140,001 to £150,000	3	1
£150,001 to £160,000	1	1
£160,001 to £170,000	-	1
£170,001 to £180,000	-	-
£180,001 to £190,000	1	2
£190,001 to £200,000	1	-
£200,001 to £210,000	1	-
£210,001 to £220,000	-	-
£220,001 to £230,000	-	-
£230,001 to £240,000	-	1
£240,001 to £250,000	-	-
£250,001 to £260,000	1	-

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

Employee costs:

	Group		Association	
	2024 £ '000	2023 £ '000	2024 £ '000	2023 £ '000
Wages and salaries	37,453	31,695	34,651	30,177
Social security costs	4,119	3,587	3,818	3,422
Other pension costs	7,305	6,949	6,669	6,614
	48,877	42,231	45,138	40,213
Redundancy costs	87	60	72	13
	48,964	42,291	45,210	40,226

9. Employees (continued)

At March 2024 £587.4k (2023: £316.5k) 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.

Legislation requires HM Treasury (HMT) and the Scheme Advisory Board (SAB) to undertake periodic valuations to monitor the cost of the LGPS to ensure it remains sustainable and affordable. The outcomes of both reviews relating to the 2016 valuations recommended no changes to the provisions of the Scheme. The legality of Government's decision to include McCloud costs as a member cost within the 2016 HMT process was challenged by a judicial review in 2023 brought by the trades unions. The judicial review was unsuccessful; however the unions have permission to appeal that decision. If that appeal is successful this may cause the 2016 HMT process to be re-run and could result in changes in benefits or member contributions backdated to 1 April 2019.

The result of the official review is expected early in 2024. If the review has not concluded by the time of preparing the results, no allowance for the potential cost of improving members' benefits will be made.

No allowance has been made for the potential outcomes in the LGPS schemes.

Social Housing Pension Schemes

Karbon Homes Limited (KHL), the association and 54North Homes Limited (54NH), formerly York Housing Association (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 YHA 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 YHA from a minimum of 4% to a maximum of 10% (2023: 4% to 10%).

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 former Leeds & Yorkshire Housing Association has a defined benefit scheme which is not open to new members and the benefits accruing to its members were frozen in 2019.

At 31 March 2024, a decision was made to report the SHPS pension schemes of 54N formerly YHA and the former LYHA as one entity.

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 2023. The liability figures from this valuation were rolled forward for accounting year-ends from the following 31 March 2024 to 28 February 2025 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 had 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; preparation for the court case is progressing to schedule and the court has provided an expected window for the hearing in February 2025, with the judgment currently expected in quarter two 2025. It is estimated that this could potentially increase the value of the entire scheme liabilities for all employers by £155m. It is noted that this estimate has been calculated as at 30 September 2022 on the Scheme's Technical Provisions basis. Until the court direction is received, it is unknown whether the full (or any) increase in liabilities will apply and therefore, in line with the prior year, no adjustment has been made in these financial statements in respect of this.

Employers' contributions to SHPS for the period ended 31 March 2024 from Karbon Homes Limited and 54North Homes Limited were £4.7m (2023: £4.5m) and £699.3k (2023: £375.0k) respectively. The contributions include past service deficits and defined contribution scheme payments.

These amounts have been charged to operating costs.

Local Government Pension Schemes (LGPS)

The association participates in two Local Government Pension

Notes to the financial statements (continued)...

9. Employees (continued)

Pension obligations (continued)

Local Government Pension Schemes (LGPS) (continued)

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 2024 by a qualified independent actuary.

The pension asset of £24.7m has been restricted to £nil (2023: £16.9m) 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 2024 were £154.3k (2023: £390.0k) and £1.7m (2023: £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 2024 are £160.0k and £1.82m respectively.

Scheme disclosures

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

	Group		Association	
	2024 £'000	2023 £'000	2024 £'000	2023 £'000
Social Housing Pension Scheme	9,632	8,588	7,612	6,627
Tyne and Wear Pension Fund	-	-	-	-
Durham County Council Pension Fund	-	-	-	-
Deficit	9,632	8,588	7,612	6,627

9. Employees (continued)

Pension obligations (continued)

Employers' contribution rates

	2024 %	2023 %
LGPS - TWPF:		
Former Isos	33.80	33.80
Former Byker	17.20	17.20
LGPS - DCCPF:		
Former Cestria	27.00	27.00
Former Derwentside	27.00	27.00
SHPS - KHL:		
CARE 1/120th	8.40	8.40
CARE 1/60th	16.50	16.50
Final Salary	20.60	20.60
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 2024

Assumptions

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

	TWPF 2024	DCCPF 2024	SHPS 2024
Retiring today:			
Males	21.0	21.7	20.5
Females	24.2	23.0	23.0
Retiring in 20 years:			
Males	22.3	24.0	21.8
Females	25.6	25.1	24.4

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

	TWPF KHL 2024 %	DCCPF KHL 2024 %	SHPS KHL 2024 %	SHPS 54N 2024 %
Discount rate	4.80	4.80	4.92	4.89
Inflation (RPI)	NA	NA	3.11	3.17
Inflation (CPI)	2.60	2.60	2.79	2.77
Pension increases	2.60	2.60	NA	NA
Pension accounts revaluation rate	2.60	2.60	NA	NA
Salary growth	4.10	3.60	3.79	3.77

9. Employees (continued)

Pension obligations (continued)

Scheme disclosures for the year ended 2024 (continued)

Amounts recognised in the SOCI

	TWPF KHL 2024 £'000	DCCPF KHL 2024 £'000	SHPS KHL 2024 £'000	SHPS 54N 2024 £'000	Total 2024 £'000
Current service cost	(100)	(1,160)	(785)	-	(2,045)
Contributions by employer	150	1,710	3,968	461	6,289
Amounts credited to operating expenditure	50	550	3,183	461	4,244
Interest income on assets	850	3,920	1,580	430	6,780
Interest on pension scheme liabilities	(620)	(3,320)	(1,825)	(515)	(6,280)
Interest on unrecognised asset	-	(560)	-	-	(560)
Expenses	-	-	(39)	(13)	(52)
Amounts (charged)/credited to interest payable and financing costs	230	40	(284)	(98)	(112)
Actuarial (losses) on scheme assets	(140)	(890)	(423)	(110)	(1,563)
Actuarial (gains)/losses on liabilities	260	2,830	(4,387)	(436)	(1,733)
Changes in assumptions underlying the present value of scheme liabilities	580	3,720	926	124	5,350
Movement in restriction of pension asset	(980)	(6,250)	-	-	(7,230)
Actuarial (losses) recognised in other comprehensive income	(280)	(590)	(3,884)	(422)	(5,176)

Amounts recognised in the SoFP

	TWPF KHL 2024 £'000	DCCPF KHL 2024 £'000	SHPS KHL 2024 £'000	SHPS 54N 2024 £'000	Total 2024 £'000
Fair value of scheme assets	19,080	89,860	31,290	8,835	149,065
Present value of scheme liabilities	(13,150)	(71,090)	(38,902)	(10,855)	(133,997)
Restriction of pension asset	(5,930)	(18,770)	-	-	(24,700)
Deficit	-	-	(7,612)	(2,020)	(9,632)

9. Employees (continued)

Pension obligations (continued)

Scheme disclosures for the year ended 2024 (continued)

Amounts recognised in the SoFP (continued)

	TWPF KHL 2024 £'000	DCCPF KHL 2024 £'000	SHPS KHL 2023 £'000	SHPS 54N 2024 £'000	Total 2024 £'000
Opening scheme liabilities	13,430	71,600	37,711	10,700	133,441
Current service cost	100	1,160	785	-	2,045
Interest cost	620	3,320	1,825	515	6,280
Contributions by participants	40	420	500	-	960
Actuarial losses on liabilities	140	890	423	110	1,563
Actuarial gains due to changes in assumptions	(580)	(3,720)	(926)	(124)	(5,350)
Net benefits paid out	(600)	(2,580)	(1,455)	(359)	(4,994)
Expenses	-	-	39	13	52
Closing scheme liabilities	13,150	71,090	38,902	10,855	133,997

	TWPF KHL 2024 £'000	DCCPF KHL 2024 £'000	SHPS KHL 2024 £'000	SHPS 54N 2024 £'000	Total 2024 £'000
Opening fair value of assets	18,380	83,560	31,084	8,739	141,763
Interest income on assets	850	3,920	1,580	430	6,780
Remeasurement gains/(losses) on assets	260	2,830	(4,387)	(436)	(1,733)
Contributions by the employer	150	1,710	3,968	461	6,289
Contributions by participants	40	420	500	-	960
Net benefits paid out	(600)	(2,580)	(1,455)	(359)	(4,994)
Closing fair value of scheme assets	19,080	89,860	31,290	8,835	149,065
Actual return on scheme assets	1,110	6,750	(2,807)	(6)	5,047

9. Employees (continued)

Pension obligations (continued)

Scheme disclosures for the year ended 2024 (continued)

Amounts recognised in the SoFP (continued)

Movement in pension liability

	TWPF KHL 2024 £'000	DCCPF KHL 2024 £'000	SHPS KHL 2024 £'000	SHPS 54N 2024 £'000	Total 2024 £'000
Group share of scheme liabilities at beginning of period	-	-	(6,627)	(1,961)	(8,588)
Contributions paid	150	1,710	3,968	461	6,289
Current service cost	(100)	(1,160)	(785)	-	(2,045)
Interest income on assets	850	3,920	1,580	430	6,780
Interest on pension scheme liabilities	(620)	(3,320)	(1,825)	(515)	(6,280)
Interest on unrecognised asset	-	(560)	-	-	(560)
Other expenses	-	-	(39)	(13)	(52)
Actuarial gain/(loss)	700	5,660	(3,884)	(422)	2,054
Movement in restriction of pension asset	(980)	(6,250)	-	-	(7,230)
Net deficit at 31 March	-	-	(7,612)	(2,020)	(9,632)

9. Employees (continued)

Pension obligations (continued)

Scheme disclosures for the year ended 2024 (continued)

Amounts recognised in the SoFP (continued)

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

	TWPF KHL 2024 £'000	DCCPF KHL 2024 £'000	SHPS KHL 2024 £'000	SHPS 54N 2024 £'000	Total 2024 £'000
Global equity	-	-	3,118	881	3,999
Absolute return	-	-	1,222	345	1,567
Distressed opportunities	-	-	1,103	311	1,414
Credit relative value	-	-	1,025	290	1,315
Alternative risk premia	-	-	993	280	1,273
Emerging markets debt	-	-	405	114	519
Risk sharing	-	-	1,831	517	2,348
Insurance-linked securities	-	-	162	46	208
Property	1,980	5,930	1,256	355	9,521
Infrastructure	-	-	3,161	893	4,054
Private equity	-	-	26	7	33
Private debt	-	-	1,231	348	1,579
Opportunistic illiquid credit	-	-	1,223	345	1,568
High yield	-	-	5	1	6
Cash	130	1,620	617	174	2,541
Corporate bond fund	3,720	8,630	-	-	12,350
Long lease property	-	-	202	57	259
Secured income	-	-	934	264	1,198
Liability driven investment	-	-	12,734	3,596	16,330
Currency hedging	-	-	(12)	(4)	(16)
Net current assets	-	-	54	15	69
Equities	9,660	48,780	-	-	58,440
Government bonds	250	9,260	-	-	9,510
Multi asset credit	880	13,660	-	-	14,540
Other	2,460	1,980	-	-	4,440
Total assets	19,080	89,860	31,290	8,835	149,065

9. Employees (continued)

Pension obligations (continued)

Scheme disclosures for the year ended 2023

Assumptions

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

	TWPF 2023	DCCPF 2023	SHPS 2023
Retiring today:			
Males	21.6	22.2	21.0
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 were:

	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)/credited 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

Notes to the financial statements (continued)...

9. Employees (continued)

Pension obligations (continued)

Scheme disclosures for the year ended 2023 (continued)

Amounts recognised in the SoFP

	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)

	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)/lossses 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
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
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 SoFP (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)
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	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)

9. Employees (continued)

Pension obligations (continued)

Scheme disclosures for the year ended 2023 (continued)

Amounts recognised in the SoFP (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

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		2024 Fee £'000	2023 Fee £'000
Sir David Bell KCB DL		26.5	20.0
Alexis Cleveland		17.0	12.0
Natasha Babar-Evans	(from 1 December 2023)	1.0	-
Juanita Crawford	(from 16 December 2022)	4.5	0.4
Fiona Creighton	(from 23 September 2023)	6.0	-
Matt Edgar	(from 16 December 2022)	3.0	0.4
Jeremy Earnshaw	(from 16 December 2022)	3.0	0.4
Paul Fiddaman		-	-
Ulfat Hussain	(from 16 December 2022)	3.0	0.4
Shahida Iqbal		3.0	3.5
Hanif Malik		12.5	10.0
Gillian Moy		11.4	8.4
Michael Mullaney		14.0	8.4
Mark Pearson	(from 16 December 2022)	-	-
Neil Revely		12.5	8.4
Dave Richmond	(from 1 December 2023)	1.0	-
Sarah Salter		12.5	10.0
Stephen Secker		19.8	13.4
Stephen Spill		14.0	11.3
Amanda Swann	(from 1 August 2023)	7.6	-
Simon Edwards	(to 30 November 2023)	2.0	0.4
Mike Gaskell	(to 30 November 2023)	3.0	1.8
Julia Histon	(to 15 December 2022)	-	-
Carole McTaggart	(to 2 May 2024)	-	-
Anne Mulroy	(to 21 September 2023)	6.3	10.0
Jon Prashar	(to 29 Februrary 2023)	4.1	1.0
Peter Rudge	(to 15 December 2022)	-	1.4
Pat Southgate	(to 15 December 2022)	-	1.4
Adrian Stanley	(to 1 June 2023)	2.4	11.3
Steve Waddington	(to 15 December 2022)	-	1.4
Mike Wills	(to 15 December 2022)	-	1.4
		190.1	137.1

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 £985,489 (2023: £933,288) including pension contributions of £213,077 (2023: £197,378). The remuneration of the highest paid director, who is the Group Chief Executive, excluding pension contributions, was £220,674 (2023: £206,231).

During the year, compensation paid or payable to directors for loss of office was £nil (2023: £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.

Key management personnel

The aggregate remuneration of key management personnel for the year amounted to £1.2m (2023: £1.07m).

11. Tax on surplus on ordinary activities

	Group		Association	
	2024 £ '000	2023 £ '000	2024 £ '000	2023 £ '000
Analysis of tax charge/(credit) for the period				
Current tax:				
UK corporation tax on surplus for the year at 25% (2023: 19%)	-	-	-	-
Adjustments in respect of prior years	-	(131)	-	(131)
	-	(131)	-	(131)
Deferred tax:				
Origination and reversal of timing differences	113	68	-	-
Effect of rate change on opening balance	(23)	-	-	-
Tax on profits on ordinary activities	90	(63)	-	(131)
Provision for deferred tax				
Movement in provision:				
Provision at start of period	78	10	-	-
Deferred tax charged in the Statement of Comprehensive Income for the period	90	68	-	-
Provision at end of period	168	78	-	-
Deferred tax liability/(asset) not recognised	701	(244)	-	(868)

The deferred tax asset not recognised includes £865.1k in respect of potential future capital gains and losses on the disposal of Prince Bishops Homes Limited investment properties.

11. Tax on surplus on ordinary activities (continued)

	Group		Association	
	2024 £ '000	2023 £ '000	2024 £ '000	2023 £ '000
Reconciliation of tax charge/(credit)				
Surplus on ordinary activities before tax	32,498	83,390	30,288	28,037
Theoretical tax at UK corporation tax rate 25% (2023: 19%)	8,125	15,844	7,572	5,327
Effects of:				
Surplus relating to charitable income	(7,939)	(15,972)	(7,564)	(5,691)
Income not taxable for tax purposes	(148)	(130)	-	-
Fixed asset differences	(14)	(10)	-	-
Expenses not deductible for tax purposes	12	28	-	-
Chargeable gains	154	8	-	-
Group relief surrendered	-	-	(8)	137
Adjustment to tax charge in respect of prior periods	(22)	(131)	-	(131)
Remeasurement of deferred tax for changes in tax rate	-	16	-	-
Deferred tax not recognised	(78)	284	-	227
Current tax charge/(credit)	90	(63)	-	(131)

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 2023	1,283,042	84,228	44,634	9,572	1,421,476
Additions	473	67,772	421	14,783	83,449
Additions - newly built properties acquired	25,607	-	6,674	-	32,281
Properties acquired at fair value (note 30)	33,945	-	-	-	33,945
Re-classification adjustment	(219)	219	219	(219)	-
Transferred to current assets	-	80	-	(300)	(220)
Transferred to investment properties	(99)	-	-	-	(99)
Capitalised planned maintenance	29,402	-	35	-	29,437
Schemes completed	61,269	(61,269)	4,297	(4,297)	-
Abortive costs	-	(520)	-	-	(520)
Disposals - properties	(1,370)	-	(757)	-	(2,127)
Disposals - write off on replacement	(4,489)	-	-	-	(4,489)
At 31 March 2024	1,427,561	90,510	55,523	19,539	1,593,133
Depreciation and impairment					
At 1 April 2023	248,054	-	2,874	-	250,928
Charged in year	27,324	-	420	-	27,744
Impairment released in year	1,471	-	-	-	1,471
Re-classification adjustment	2	-	(2)	-	-
Released on transfer to investment properties	(17)	-	-	-	(17)
Released on disposal - properties	(511)	-	(79)	-	(590)
Released on disposal - replacements	(3,086)	-	-	-	(3,086)
Write down of fair value	469	-	-	-	469
At 31 March 2024	273,706	-	3,213	-	276,919
Net book value					
At 31 March 2024	1,153,855	90,510	52,310	19,539	1,316,214
At 31 March 2023	1,034,988	84,228	41,760	9,572	1,170,548

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 2023 - restated	1,148,541	73,514	37,112	9,579	1,268,746
Additions	473	55,088	421	12,902	68,884
Additions - newly built properties acquired	25,607	-	6,674	-	32,281
Properties acquired at fair value (note 30)	33,945	-	-	-	33,945
Re-classification adjustment	(219)	219	219	(219)	-
Transferred to investment properties	(99)	-	-	-	(99)
Capitalised planned maintenance	27,313	-	35	-	27,348
Schemes completed	60,082	(60,082)	3,636	(3,636)	-
Abortive costs	-	(520)	-	-	(520)
Disposals - properties	(1,234)	-	(698)	-	(1,932)
Disposals - write off on replacement	(4,353)	-	-	-	(4,353)
At 31 March 2024	1,290,056	68,219	47,399	18,626	1,424,300
Depreciation and impairment					
At 1 April 2023	254,132	-	2,772	-	256,904
Charged in year	24,828	-	358	-	25,186
Impairment released in year	1,471	-	-	-	1,471
Re-classification adjustment	2	-	(2)	-	-
Released on transfer to investment properties	(17)	-	-	-	(17)
Released on disposal - properties	(510)	-	(78)	-	(588)
Released on disposal - replacements	(3,003)	-	-	-	(3,003)
At 31 March 2024	276,903	-	3,050	-	279,953
Net book value					
At 31 March 2024	1,013,153	68,219	44,349	18,626	1,144,347
At 31 March 2023 - restated	894,409	73,514	34,340	9,579	1,011,842

In 2023, KHL made payments on account of £4.6m to KLV in respect of the Seaham Garden development, previously treated as a property asset and included above, it has been reclassified as an amount due from group undertakings.

12. Tangible fixed assets – housing properties (continued)

Impairment

Housing 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.

The impairment provision includes £142k for the potential vacation and hand back of an office in 2025.

	Group		Association	
	2024	2023	2024	2023
	£ '000	£ '000	£ '000	£ '000
At 1 April	2,414	2,469	2,414	2,469
Provided during the year	1,484	145	1,484	145
Released during the year	(13)	(200)	(13)	(200)
At 31 March	3,885	2,414	3,885	2,414

The total number of housing units impaired is 243 (2023: 131). The carrying value of the housing properties and the office pre-impairment was £7,293k and £142k respectively.

Improvements to existing properties:

	Group		Association	
	2024	2023	2024	2023
	£ '000	£ '000	£ '000	£ '000
Capitalised planned maintenance	29,437	30,526	27,348	29,287
Planned maintenance	14,438	9,825	13,051	9,212
	43,875	40,351	40,399	38,499

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

	Group		Association	
Housing properties	2024	2023	2024	2023 Restated
	£ '000	£ '000	£ '000	£ '000
Freehold land and buildings	1,820,712	1,135,507	1,112,737	980,761
Long leasehold land and buildings	33,117	32,560	29,502	28,889
Short leasehold land and buildings	2,385	2,481	2,108	2,192
	1,316,214	1,170,548	1,144,347	1,011,842
Offices				
Freehold land and buildings	8,593	8,855	7,546	7,759

13. Tangible fixed assets – other

GROUP	Freehold offices	Furniture fixtures and fittings	Computers and office equipment	Motor vehicles	Leasehold improve-ments	Commercial premises	Plant and equipment	Total
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£'000
Cost								
At 1 April 2023	11,847	3,488	5,028	47	1,282	167	289	22,148
Additions	-	902	284	-	-	-	40	1,226
Work in progress	-	152	202	-	-	-	-	354
Disposals	-	(1,286)	(48)	-	-	8	-	(1,326)
At 31 March 2024	11,847	3,256	5,466	47	1,282	175	329	22,402
Depreciation								
At 1 April 2023	2,992	1,819	4,097	1	852	60	188	10,009
Charged in year	262	707	460	12	107	5	35	1,588
Released on disposal	-	(1,001)	(26)	-	-	2	-	(1,025)
At 31 March 2024	3,254	1,525	4,531	13	959	67	223	10,572
Net book value								
At 31 March 2024	8,593	1,731	935	34	323	108	106	11,830
At 31 March 2023	8,855	1,669	931	46	430	107	101	12,139

ASSOCIATION	Freehold offices	Furniture fixtures and fittings	Computers and office equipment	Motor vehicles	Leasehold improve-ments	Commercial premises	Plant and equipment	Total
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£'000
Cost								
At 1 April 2023	10,529	1,458	4,989	47	1,282	167	287	18,759
Additions	-	6	284	-	-	-	40	330
Work in progress	-	152	202	-	-	-	-	354
Disposals	-	(803)	(48)	-	-	8	-	(843)
At 31 March 2024	10,529	813	5,427	47	1,282	175	327	18,600
Depreciation								
At 1 April 2023	2,770	1,042	4,085	1	852	60	188	8,998
Charged in year	213	116	448	12	107	5	34	935
Released on disposal	-	(802)	(26)	-	-	2	-	(826)
At 31 March 2024	2,983	356	4,507	13	959	67	222	9,107
Net book value								
At 31 March 2024	7,546	457	920	34	323	108	105	9,493
At 31 March 2023	7,759	416	904	46	430	107	99	9,761

Notes to the financial statements (continued)...

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

GROUP

	2024 £ '000	2023 £ '000
Valuation		
At 1 April	49,904	47,325
Acquisition - business combination	-	1,650
Additions	313	79
Reclassification to housing properties	82	347
Disposals	(402)	(637)
Increase in value	565	1,140
At 31 March	50,462	49,904

ASSOCIATION

	2024 £ '000	2023 £ '000
Valuation		
At 1 April	17,653	16,841
Additions	305	10
Reclassification to housing properties	82	347
Disposals	(160)	-
Increase in value	12	455
At 31 March	17,892	17,653

The valuations of investment properties in Karbon Homes and Prince Bishops Homes were carried out in March 2024 whereas the valuation of the 54North Homes properties was carried out on 30 April 2024. All the valuations were based on the properties' market values at these dates.

The valuations across the group were carried out by Savills (UK) Limited, RMS Estate Agents Limited and Tapp Chartered Surveyors, 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 have valued the properties on an individual basis subject to any existing tenancy agreements, Tapp Chartered Surveyors have provided a desktop valuation on the individual properties, and Savills (UK) Limited has valued the properties as a single lot subject to any existing tenancy agreements.

15. Investments

HomeBuy loans receivable	Group 2024 £ '000	Association 2023 £ '000
At 1 April	184	184
Loans redeemed during year	(28)	-
At 31 March	156	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	
	2024 £ '000	2023 £ '000	2024 £ '000	2023 £ '000
10,000 £1 ordinary shares in Leeds & Yorkshire Property Services Limited	10	10	-	-

Leeds & Yorkshire Property Services Limited is a wholly owned subsidiary of 54North Homes Limited. The company has been dormant throughout the financial year and is due to be struck off in June 2024.

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

17. Investment in joint venture

On 21 December 2023, Next Level Developments Limited entered into a joint venture arrangement with Homes by Carlton Limited, with the aim of building 48 properties.

Next Level Developments Limited has loaned the joint venture, Karbon Carlton Staindrop LLP, £1.8m which is disclosed in debtors due within one year.

	Group		Association	
	2024 £'s	2023 £'s	2024 £'s	2023 £'s
Share of retained profits				
At 1 April	-	-	-	-
Share of deficit	(82)	-	-	-
Written down during the year	82	-	-	-
At 31 March	-	-	-	-

18. Interests in subsidiaries and associate

At 31 March 2024 the Karbon Group comprised the parent, Karbon Homes Limited, together with the following organisations each of which are either subsidiaries or a joint venture 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	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 - 93%	Non-profit making cost sharing vehicle
Karbon Land Ventures Limited	Registrar of Companies – 13846737	Ordinary - 100%	Property development

Joint Venture name	Registered number	Percentage held	Nature of business
Karbon Carlton Staindrop LLP	Registrar of Companies – OC45040	50%	Property construction

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 except for 54North Homes Limited which is registered at 2 Alpha Court, Monks Cross Drive, Huntington, York, YO32 9WN and Karbon Carlton Staindrop LLP which is registered at Carlton House, 15 Parsons Court, Aycliffe Business Park, Newton Aycliffe DL5 6ZE.

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

18. Interests in subsidiaries and joint venture (continued)

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

	2024 £ '000	2023 £ '000	Allocation basis
Provision of heating, maintenance and business services	8,396	6,932	Actual costs
Management services	844	733	Percentage of central overheads
	9,240	7,665	

Karbon Solutions Limited owes Karbon Homes Limited £443,803 (2023: £178,290) at the year end.

19. Properties for sale

	Group		Association	
	2024 £ '000	2023 £ '000	2024 £ '000	2023 £ '000
Completed low-cost home ownership properties	1,123	737	629	707
Low-cost home ownership properties under construction	7,152	3,131	7,149	3,131
Completed properties for outright sale	8	39	-	-
	8,283	3,907	7,778	3,838

20. Debtors: amounts falling due within one year

	Group		Association	
	2024 £ '000	2023 Restated £ '000	2024 £ '000	2023 Restated £ '000
Due within one year				
Rent and service charges receivable	8,683	8,329	7,919	7,753
Less: provision for bad and doubtful debts	(6,589)	(5,724)	(6,302)	(5,425)
	2,094	2,605	1,617	2,328
Social housing grant receivable	18,694	12,730	18,694	12,730
Other debtors	6,780	5,242	5,798	4,589
Amounts due from group undertakings	-	-	4,398	4,029
Amounts due from joint venture	208	-	-	-
Prepayments and accrued income	3,153	3,286	2,310	2,767
Corporation tax	-	155	-	108
	30,929	24,018	32,817	26,551

Strategic Partnership grant previously included in the association's prepayments and accrued income in 2023 has been re-categorised as social housing grant receivable.

The amount due from group undertakings includes a £1.8m loan Karbon Homes Limited made to Next Level Developments Limited for the purpose of funding a joint venture. Interest is charged at 6.75% per annum.

Notes to the financial statements (continued)...

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

	Group		Association	
	2024	2023	2024	2023 Restated
	£ '000	£ '000	£ '000	£ '000
Due over one year				
Amounts owed from group undertakings	-	-	28,248	23,590
Amounts due from joint venture	1,803	-	-	-
Bond discount	2,647	2,765	2,647	2,765
	4,450	2,765	30,895	26,355

The amount owed by the subsidiary companies of £28.2m (2023: £23.6m), relates to intercompany loans between Karbon Homes Limited and Prince Bishops Homes Limited (PBH), Enterprise Durham Partnership Limited (EDP) and Karbon Land Ventures Limited (KLV). In 2023, KHL made payments on account of £4.6m to KLV in respect of the Seaham Garden development, previously treated as a property asset, it has been reclassified as an amount due from group undertakings in the prior year.

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 2025. 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 KLV. 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.

On 16 January 2024 NLD provided a loan facility for up to £7.5m to Karbon Carlton Staindrop LLP, interest is charged at 7%. The loan is repayable by 16 April 2028.

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.

22. Investments

	Group		Association	
	2024	2023 Restated	2024	2023 Restated
	£ '000	£ '000	£ '000	£ '000
Liquidity Investment Reserve	1,701	1,634	1,082	1,029
Nationwide Building Society	-	50	-	50
Santander UK	5,397	14,466	5,396	14,466
Lloyds Bank	-	1,408	-	-
	7,098	17,558	6,478	15,545

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

Investments have been restated in accordance with FRS102 section 7.2 whereby only investments with a maturity of three months or more are included above. Accounts with a maturity date less than three months are now included in cash and cash equivalents.

23. Creditors: amounts falling due within one year

	Group		Association	
	2024	2023 Restated	2024	2023 Restated
	£ '000	£ '000	£ '000	£ '000
Debt (note 27)	7,570	4,299	3,675	3,398
Trade creditors	2,240	2,679	1,142	1,705
Rent and service charges received in advance	3,211	3,194	2,545	2,605
Amounts due to contractors for certified work	4,445	1,205	4,445	1,205
Amounts due to local authorities for Right to Buy sales	97	284	97	284
Amounts due to group undertakings	-	-	7,189	7,140
Recycled capital grant fund (note 25)	8	-	1	-
Other taxation and social security	1,021	858	909	767
Other creditors	5,566	3,604	5,263	3,152
Accruals and deferred income	30,295	33,962	18,844	21,595
Service charge creditor	828	556	828	556
Deferred capital grant (note 26)	5,203	5,250	4,953	5,008
	60,484	55,891	49,891	47,415

The Strategic Partnership grants previously disclosed in social housing grant received in advance are considered to fall due after more than one year, consequently 2023 has been restated.

Notes to the financial statements (continued)...

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

	Group 2024 £ '000	Group 2023 Restated £ '000	Association 2024 £ '000	Association 2023 Restated £ '000
Debt (note 27)	499,455	474,339	449,437	424,439
Loan breakage costs (note 27)	560	611	560	611
Loan premium	33,712	35,236	29,366	30,709
Total debt	533,727	510,186	479,363	455,759
Recycled capital grant fund (note 25)	1,860	1,387	1,756	1,304
HomeBuy grant	172	184	172	184
Social housing grant received in advance	85,423	18,419	85,423	18,419
	621,182	530,176	566,714	475,666

2023 has been restated to include Strategic Partnership grants due after more than one year. 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.

25. Recycled capital grant fund

Funds pertaining to activities within areas covered by Homes England:

	Group 2024 £ '000	Group 2023 £ '000	Association 2024 £ '000	Association 2023 £ '000
At 1 April	1,387	1,343	1,304	1,336
Acquisition - business combination	22	67	22	-
Grants recycled	1,460	755	1,432	746
Interest accrued	88	32	88	32
Major repairs and works to existing stock	-	-	-	-
Withdrawal for development of properties	(1,089)	(810)	(1,089)	(810)
Balance at 31 March	1,868	1,387	1,757	1,304
Further analysed as:				
Grant remaining:				
- in the fund for three years at 31 March	-	-	-	-
- in the fund for two years but fewer than three	8	-	1	-
- in the fund for one year but fewer than two	244	533	168	526
- in the fund less than one year	1,616	854	1,588	778
Balance at 31 March	1,868	1,387	1,757	1,304

26. Deferred capital grant

	Group 2024 £ '000	Group 2023 £ '000	Association 2024 £ '000	Association 2023 £ '000
At 1 April	376,274	358,963	349,695	332,803
Grant received in the year	25,299	17,399	20,092	16,971
Transferred from/(to) RCGF	(236)	81	(208)	90
Reclassification	(2,000)	-	(2,000)	-
Grant write off on disposal	(278)	(146)	(278)	(146)
Grant write off on replacement	(519)	(23)	(519)	(23)
At 31 March	398,540	376,274	366,782	349,695
Grant amortisation				
At 1 April	73,996	69,104	67,395	62,742
Amortisation in year	5,118	5,121	4,868	4,879
Released on disposal - properties	(288)	(217)	(281)	(214)
Released on disposal - replacements	(247)	(12)	(247)	(12)
Released on change of property use	(123)	-	(123)	-
At 31 March	78,456	73,996	71,612	67,395
Deferred capital grant				
At 31 March	320,084	302,278	295,170	282,300
At 1 April	302,278	289,859	282,300	270,061
Further analysed as:				
Amount due to be released:				
- within one year	5,203	5,250	4,953	5,008
- after one year	314,881	297,028	290,217	277,292
	320,084	302,278	295,170	282,300

Social housing grant and other grant

	Group 2024 £ '000	Group 2023 £ '000	Association 2024 £ '000	Association 2023 £ '000
Total accumulated grant receivable at 31 March was:				
Capital grants	398,540	376,274	366,782	349,695
Revenue grants	5,918	5,823	5,354	5,354
	404,458	382,097	372,136	355,049

During the year Karbon Homes Limited, the association, applied for and received grant funding from the Social Housing Decarbonisation Fund. The grant will be used to deliver housing retrofit measures to improve the energy efficiency of 511 social homes below EPC C by 31 March 2025.

Notes to the financial statements (continued)...

27. Debt analysis

	Group		Association	
	2024 £'000	2023 £'000	2024 £'000	2023 £'000
Due within one year				
Bank loans	7,358	4,049	3,713	3,398
STHVT loan fair value	(38)	-	(38)	-
The Housing Finance Corporation debt	250	250	-	-
	7,570	4,299	3,675	3,398
Due after more than one year				
Bank loans	211,929	177,640	174,078	140,162
STHVT loan fair value	(8,549)	-	(8,549)	-
The Housing Finance Corporation debt	12,750	13,000	-	-
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	(1,075)	(701)	(492)	(123)
	499,455	474,339	449,437	424,439
	507,025	478,638	453,112	427,837

	Group		Association	
	2024 £'000	2023 £'000	2024 £'000	2023 £'000
Due within one year	7,570	4,299	3,675	3,398
Between one and two years	21,955	7,222	13,684	3,299
Between two and five years	51,495	59,612	33,338	38,122
After five years	427,080	408,206	402,907	383,141
Less: Loan issue costs	(1,075)	(701)	(492)	(123)
	507,025	478,638	453,112	427,837

Breakage costs	Group		Association	
	2024 £'000	2023 £'000	2024 £'000	2023 £'000
Opening breakage cost	611	684	611	684
Amortised to interest payable	(51)	(73)	(51)	(73)
	560	611	560	611

At 31 March 2024 the group had undrawn loan facilities of £176.7m (2023: £115.6m).

27. 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 7.39% in instalments due as detailed above.

The Housing Finance Corporation loans are at fixed rates of between 1.41% 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.

Financial instruments

The group and association had the following financial instruments:

	Group		Association	
	2024 £'000	2023 Restated £'000	2024 £'000	2023 Restated £'000
Financial assets that are debt instruments measured at amortised cost:				
Cash and cash equivalents	45,872	53,760	40,858	47,324
Investments	7,098	17,558	6,478	15,545
HomeBuy loans	156	184	156	184
Investment in joint venture	-	-	-	-
Rental and service charge debtors	8,683	8,329	7,919	7,753
Other debtors	6,780	5,397	5,798	4,697
Social housing grant receivable	18,694	12,730	18,694	12,730
Accrued income	1,669	1,231	1,029	893
Amounts due from subsidiaries	-	-	32,646	27,619
Amounts due from joint venture	2,011	-	-	-
Financial liabilities measured at amortised cost:				
Loan debt	(507,025)	(478,638)	(453,112)	(427,837)
Trade creditors	(2,240)	(2,679)	(1,142)	(1,705)
Recycled capital grant fund	(1,868)	(1,387)	(1,757)	(1,304)
Deferred capital grant fund	(398,540)	(376,274)	(366,782)	(349,695)
HomeBuy grants	(172)	(184)	(172)	(184)
Social housing grant received in advance	(85,423)	(18,419)	(85,423)	(18,419)
Amounts due to subsidiary undertakings	-	-	(7,189)	(7,140)
Other creditors and accruals	(32,541)	(39,653)	(28,251)	(26,786)

27. Debt analysis (continued)

Financial instruments (continued)

Investments and cash and cash equivalents have been restated with investments with a maturity date of less than three months being reclassified as cash. Strategic Partnership grant previously included in the association's prepayments and accrued income in 2023 has been re-categorised as social housing grant receivable.

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 £45.9m and investments of £7.1m, the group has £176.7m 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 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.

28. Provisions for liabilities and charges

GROUP	Dilap-idations £ '000	Site demolition £ '000	Land rectification £'000	Deferred tax £'000	Total 2024 £'000	Total 2023 £'000
At 1 April	325	294	1,281	78	1,978	1,855
Utilised in the year	-	(100)	(928)	-	(1,028)	(79)
Released in the year	-	-	-	-	-	(16)
Provided in the year	-	-	-	90	90	218
At 31 March	325	194	353	168	1040	1,978

28. Provisions for liabilities and charges (continued)

ASSOCIATION	Dilap-idations £ '000	Site demolition £ '000	Land rectification £'000	Deferred tax £'000	Total 2024 £'000	Total 2023 £'000
At 1 April	325	294	1,281	-	1,900	1,845
Utilised in the year	-	(100)	(928)	-	(1,028)	(79)
Released in the year	-	-	-	-	-	(16)
Provided in the year	-	-	-	-	-	150
At 31 March	325	194	353	-	872	1,900

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	
	2024 £ '000	2023 £ '000	2024 £ '000	2023 £ '000
At 1 April	78	10	-	-
Deferred tax charged to Statement of Comprehensive Income	90	68	-	-
At 31 March	168	78	-	-
Summarised:				
Accelerated capital allowances	260	243	-	-
Losses and other deductions	(92)	(165)	-	-
	168	78	-	-

The group has not recognised £701.1k of deferred tax. Unused tax losses totalled £1,036.3k (2023: £1,044.7k).

29. Share capital

	2024 £'s	2023 £'s
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.

30. Acquisitions

In the year ended 31 March 2024

On 17 July 2023 Karbon Homes Limited (KHL) acquired South Tyneside Housing Ventures Trust Limited (STHVT) via a transfer of engagement. No consideration was paid by KHL for the fair value of assets and liabilities as detailed below.

The STHVT transfer of engagement is considered to be an acquisition; hence acquisition accounting was followed and Section 19 (Business Combinations and Goodwill) of FRS 102 has been applied such that housing properties and loan are included in the Statement of Financial Position at the fair value at the date of acquisition; however other assets and liabilities remain at unadjusted book value.

The difference between the fair value of the net identifiable assets and the purchase consideration is considered negative goodwill. This was 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 Savills (UK) Limited has been used to establish the fair value of the South Tyneside Housing Ventures Trust Limited stock that transferred on 17 July 2023.

The valuation was made in accordance with the RICS Valuation – Global Standards (incorporating the IVSC International Valuation Standards) 2022.

The assets and liabilities of South Tyneside Housing Ventures Trust Limited at 17 July 2023 were:

	Book value £ '000	Fair value adjustments £ '000	Fair value to the group £ '000
Fixed assets			
Housing properties	45,980	(12,035)	33,945
Current assets			
Debtors	66	-	66
Cash at bank and in hand	441	-	441
Liabilities			
Creditors < 1 year	(481)	-	(481)
Creditors > 1 year	(37,831)	8,595	(29,236)
Recycled capital grant fund	(22)	-	(22)
Deferred capital grant	(10,329)	10,329	-
Net assets acquired	(2,176)	6,889	4,713
Costs associated with the transfer of engagement			(184)
Negative goodwill as per the Statement of Comprehensive Income			**4,529**

30. Acquisitions (continued)

Summary Statement of Comprehensive Income

	17 July 2023 to 31 March 2024 £ '000
Turnover	2,164
Cost of sales	-
Operating costs	(338)
Surplus on sale of housing property	-
Operating Surplus	1,826
Net interest payable	(746)
Other finance costs	-
Surplus for the financial year before taxation	1,080

In the year ended 31 March 2023

On 16 December 2022 York Housing Association (YHA) acquired Leeds & Yorkshire Housing Association (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 was considered to be an acquisition; hence acquisition accounting was followed and Section 19 (Business Combinations and Goodwill) of FRS 102 was applied such that housing properties were included in the Statement of Financial Position at the fair value at the date of acquisition; however other assets and liabilities including loans remained 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 was considered negative goodwill. This was 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 was recognised as a gain in the Statement of Comprehensive Income.

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

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

Notes to the financial statements (continued)...

30. Acquisitions (continued)

The assets and liabilities of Leeds & Yorkshire Housing Association at 16 December 2022 were:

	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**

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

31. Reserves

At 31 March 2024 the revenue reserve included £9.6m defined benefit pension liability (2023: £8.6m).

GROUP	Revenue reserves £ '000	Restricted reserves £ '000	Total reserves £ '000
At 1 April 2023	441,655	450	442,105
Surplus for the year	32,408	-	32,408
Actuarial loss relating to pension scheme	(5,176)	-	(5,176)
At 31 March 2024	468,887	450	469,337

ASSOCIATION	Revenue reserves £ '000	Restricted reserves £ '000	Total reserves £ '000
At 1 April 2023	350,676	450	351,126
Surplus for the year	30,288	-	30,288
Actuarial loss relating to pension scheme	(4,754)	-	(4,754)
At 31 March 2024	376,210	450	376,660

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.

32. Financial commitments

Capital expenditure commitments were as follows:

	Group		Association	
	2024 £ '000	2023 £ '000	2024 £ '000	2023 £ '000
Expenditure contracted for but not provided in the accounts	207,889	226,314	182,957	222,167
Expenditure authorised by the board, but not contracted	305,381	305,171	284,008	275,363
	513,270	531,485	466,965	497,530
The group expects these commitments to be contracted within the next year and financed with:				
Social housing grant	56,804	132,419	48,820	129,059
Proceeds from the sales of properties	13,465	13,510	11,250	11,615
Committed loan facilities	176,650	115,650	150,000	100,000
Loans under negotiation	266,351	269,906	256,895	256,856
	513,270	531,485	466,965	497,530

Expenditure either contracted or authorised by the board of £513.3m 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.

32. Financial commitments (continued)

Operating leases payable

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

	Group		Association	
	2024 £ '000	2023 £ '000	2024 £ '000	2023 £ '000
Land and buildings:				
Within one year	201	345	157	221
Two to five years	218	389	218	345
Five years or more	-	-	-	-
	419	734	375	566
Vehicles and office equipment:				
Within one year	1,743	1,450	1,743	1,450
Two to five years	1,635	2,363	1,635	2,363
Five years or more	-	-	-	-
	3,378	3,813	3,378	3,813

Operating leases receivable

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

	Group		Association	
	2024 £ '000	2023 £ '000	2024 £ '000	2023 £ '000
Land and buildings:				
Within one year	139	218	139	218
Two to five years	658	512	658	512
Five years or more	586	402	586	402
	1,383	1,132	1,383	1,132

33. Contingent liabilities

The group had contingent liabilities at 31 March 2024 of £49.1m (2023: £40.4m) which is the original government funding relating to the acquisition of properties from Guinness Partnership in 2019, Byker Community Trust in 2021, Leeds & Yorkshire Housing Association in 2022 and South Tyneside Housing Ventures Trust Limited in 2023. Karbon Homes Limited is responsible for the recycling of the grant in the event of the disposal of the properties.

34. Net cash flow from operating activities

Cash flow from operating activities	2024 £ '000	2023 £ '000
Surplus for the year	32,408	83,453
Adjustments for non-cash items:		
Revaluation gain in year	(565)	(1,140)
Negative goodwill arising on acquisition - business combination	(4,713)	(53,632)
Depreciation of tangible fixed assets	31,204	27,712
Release of deferred grant income	(6,203)	(5,132)
Impairment	1,471	(17)
Increase in provisions	(1,028)	55
Pension operating charge	2,157	5,043
Pension contributions paid	(6,289)	(6,345)
Share of operating deficit in joint venture	-	-
Taxation	90	(63)
Working capital movements:		
Increase in stock	(279)	(158)
Increase in properties for sale	(4,456)	(624)
Increase in trade and other debtors	(1,024)	(6,237)
Increase in trade and other creditors	25	6,340
	10,390	(34,198)
Adjustments for investing or financing activities:		
Gain from sale of tangible fixed assets	(2,155)	(2,927)
Grants utilised in the year	(1,089)	(810)
Interest payable	20,629	19,088
Interest receivable	(2,309)	(1,931)
	15,076	13,420
Taxation		
Corporation tax paid	155	7
Net cash generated from operating activities	**58,029**	**62,682**

Notes to the financial statements (continued)...

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

GROUP	2024 £ '000	2023 Restated £ '000
Decrease in cash	(7,888)	(6,818)
Cash inflow from decrease in liquid resources	(10,460)	(45,351)
Cash inflow from increased debt and lease finance	(36,974)	(11,848)
Increase in net debt from cash flows	**(55,322)**	**(64,017)**
Net debt at 1 April	(407,320)	(343,303)
Net debt at 31 March	**(462,642)**	**(407,320)**

36. Analysis of net debt

GROUP	1 April 2023 Restated £ '000	Non-cash movements £ '000	Cash flow £ '000	31 March 2024 £ '000
Cash and cash equivalents	53,760	441	(8,329)	45,872
Changes in cash	**53,760**	**441**	**(8,329)**	**45,872**
Current asset investments	**17,558**	**-**	**(10,460)**	**7,098**
Housing loans due in one year	(4,299)	-	(3,309)	(7,608)
Housing loans after one year	(474,339)	(37,831)	4,166	(508,004)
Changes in debt	**(478,638)**	**(37,831)**	**857**	**(515,612)**
Changes in net debt	**(407,320)**	**(37,390)**	**(17,932)**	**(462,642)**

Investments with a maturity date less than three months previously classified as current asset investments have been transferred to cash and cash equivalents in accordance with FRS102 (s7.2).

In July 2023, KHL acquired South Tyneside Housing Ventures Trust (STHVT) for no consideration, the non-cash items represent the cash and the loan on STHVT's Statement of Financial Position at the point of acquisition.

37. Related parties

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

38. Post balance sheet events

In April 2024, the boards of Leazes Homes Limited (LHL) and Karbon Homes Limited (KHL) approved an outline business case to bring about a merger by a transfer of engagements of LHL into KHL. On 17 June 2024, after a process of due diligence and further approvals from the board and shareholders, all LHL's assets, liabilities, operations and contractual positions transferred to KHL.