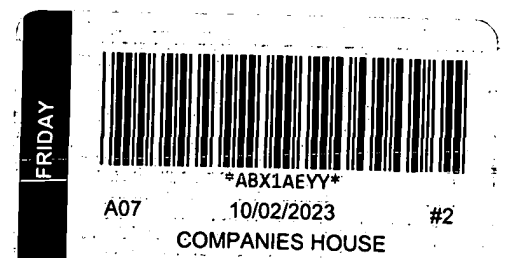


Company No: 06192065

Swan Commercial Services Limited
Annual Report and Financial Statements
Year ended 31 March 2022



Swan Commercial Services Limited
Year ended 31 March 2022

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Swan Commercial Services Limited
Year ended 31 March 2022

Legal and Administrative Details

Directors	Jeremy Vickers	(Appointed 24 December 2021, resigned 30 September 2022)
	Susan Hickey	(Appointed 10 January 2022)
	Susan McBride	(Appointed 1 October 2022)
	John Synnuck	(Resigned 10 January 2022)
	James King	(Resigned 24 December 2021)
Secretary	Susan McBride	
Registered Office	Pilgrim House High Street Billericay Essex CM12 9XY	
External Auditor	Grant Thornton UK LLP 30 Finsbury Square London EC2A 1AG	
Internal Auditor	RSM Risk Assurance Services LLP 25 Farringdon Street London EC4A 4AB	
Solicitor	Devonshires Solicitors LLP Salisbury House Finsbury Circus London EC2M 7DT	
Banker	National Westminster Bank plc 29 East Walk Basildon Essex SS14 1HD	
Company's Registered Number	06192065	

Swan Commercial Services Limited
Year ended 31 March 2022

Strategic Report

Principal Activity

Swan Commercial Services Limited's (the "Company") principal activity is the provision of design and build construction services within Essex and London and development of property. It is a wholly owned subsidiary of Swan Housing Association Limited ("Parent", "Swan").

Review of the Business for the Year and Future Developments

The directors measure performance against plan through regular reporting of financial and non-financial metrics. The key performance indicators are as follows:

KPI	2021/22	2020/21
Turnover	£85.1m	£59.0m
Loss for the financial year	(£9.4m)	(£1.9m)
Gift aid payment	-	£0.6m
Modules manufactured	331	391

Annual turnover fluctuates with the Company's construction service activity and property development programme. Turnover for the year is higher than the prior year due to traditional construction works on sites such as Blackwall Reach and Purfleet 1A where design and build construction activities were carried out during the year. Offsetting this is lower production of modules manufactured at Beechwood Village, due to programme delays.

The loss for the financial year of £9.4m reflects impairment provisions of £44.1m, comprising £39.6m on the scheme at Laindon and £4.5m on an additional modular factory. Further information is provided in note 8. Work was paused at the Company's Laindon development site, due to an increase in costs and the risk around financial viability of the scheme. Work continues at the modular housing manufacturing facility, but expenditure on an additional facility to expand manufacturing capability has now been impaired, due to uncertainty on the Laindon project and other developments. The Company's debt from its Parent has been released by £33.6m at year end and a further £11.2m since 31 March 2022, as it is considered irrecoverable as the result of impairments.

Due to the significant impairments there is no donation under the gift aid scheme to the Parent in the current year.

Future developments

Construction services will continue at the next phases of Beechwood Village and Blackwall Reach developments. Further plans for the future will be formulated following a business combination of the Company's Parent with Sanctuary, scheduled for 8 February 2023.

Going Concern

The Company has in place long-term debt facilities which provide adequate resources to finance committed reinvestment and development programmes, along with day to day operations.

The directors have considered the impact of the impairment provisions on the going concern status of the Company. With the release of intragroup debts both before and after 31 March 2022, these provisions can be met from the cumulative reserves.

Swan Housing Association provides finance to its commercial subsidiaries and this is subject to a limit which has needed to be temporarily increased due to cost overruns and delays in scheme completions. The necessary increase has been agreed with relevant lenders on a short-term basis to the business combination date with Sanctuary.

The financial plans on which the Board has made its assessment of Going Concern, are predicated on the completion of the acquisition of the Swan Group by Sanctuary Affordable Housing Limited. The continued operational existence of the Company is dependent on the completion of the acquisition, scheduled for 8 February 2023. The required refinancing of Swan Housing Association during the going concern assessment period, renegotiation of covenants and the fact that the plans will be implemented by a new board and management team are considered individually and in aggregate to represent material uncertainties, which may cast significant doubt on the Company's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the ordinary course of business.

Swan Commercial Services Limited
Year ended 31 March 2022

Strategic Report (continued)

Going Concern (continued)

Nevertheless, after making enquiries, and considering the uncertainties described above, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the annual report and accounts.

Risk Management

Swan Commercial Services Limited has developed a comprehensive risk register. This covers health and safety, corporate, operational and financial risks. It is reviewed and updated on a regular basis by the directors of Swan Commercial Services Limited. The principal risks affecting the Company are increasing costs, changing building and fire regulations, recruiting and retaining key personnel and employment of contractors for the development of sites. These and other risks are included in the risk register.

Section 172 Statement

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members. In doing this, section 172 requires a director to have regard, amongst other matters, to the:

- likely consequences of any decisions in the long-term;
- interests of the company's employees;
- need to foster the company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and environment;
- desirability of the company maintaining a reputation for high standards of business conduct, and
- need to act fairly as between members of the company.

In discharging their section 172 duties, the directors have given regard to their responsibilities as set out above. The Company has faced significant external and internal challenges in the year, the resolution of which has been guided by high standards of business conduct and maintaining a strong focus on risk management. The directors have worked closely with the sole shareholder of the Company, Swan Housing Association Limited, who has been vital to the success of the Company. During the year Swan Housing Association Limited released £33.6m intragroup debt obligations, with a further £11.2m released after 31 March 2022. The directors have also been actively engaged in the planned merger with Sanctuary. These steps will enable the Company to deliver its existing commitments to suppliers and customers, which include much needed housing for the community. The Company acknowledges the global environmental crisis and includes modern methods of construction in its approach to providing new homes. The Company has no employees.

Approved by the Board of Directors and signed on its behalf by:



Susan Hickey
7 February 2023

Swan Commercial Services Limited
Year ended 31 March 2022

Directors' Report

The directors submit their annual report and audited financial statements of Swan Commercial Services Limited (the "Company"), registered number 06192065, for the year ended 31 March 2022.

Results

The Company has generated a loss before tax of £9,348k (2021: loss before tax of £1,924k) on a turnover of £85,138k (2021: £59,020k).

A review of the business for the year, future developments, risk management and stakeholder engagement is included in the above Strategic Report.

Directors

A list of the Company's directors at the year end, during the year and at the date of this report can be found in the Legal and Administrative details on page 1 of this Annual Report and Financial Statements.

Employee and Personnel Policy

It is the policy of the Company to provide and to make reasonable adjustment to accommodate disabled persons wherever the requirements of the organisation will allow and if applications for employment are received from suitable individuals. If existing employees become disabled, every reasonable effort will be made to ensure that their employment with the Company can continue on a worthwhile basis, with career opportunities available to them.

Directors' Responsibilities Statement

The directors are responsible for preparing the Strategic Report and the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law 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, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'). Under company law 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 of the profit or loss of the Company for that year.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' Indemnity Insurance

The Company maintains directors' and officers' liability insurance for its Board members and officers, which is renewed annually.

Streamlined energy and carbon reporting

Results are reported in the Swan Housing Association Limited consolidated financial statements.

Swan Commercial Services Limited
Year ended 31 March 2022

Directors' Report (continued)

Financial risk management

The Company's treasury activities are managed by the Parent's centralised treasury function which is responsible for the management of funds and control of associated risks, with responsibility for the management of liquidity, interest rate and counterparty risk. Further details are set out in the Swan Housing Association Limited consolidated financial statements.

Post balance sheet events

Since 31 March 2022 the Parent has released further debt balances of £11.2m to reflect further impairment recognised as at 31 March 2022. Further details are provided in notes 20 and 21.

Disclosure of information

The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Approved by the Board of Directors and signed on their behalf by:



Susan Hickey
7 February 2023

Swan Commercial Services Limited
Year ended 31 March 2022

Independent auditor's report to the members of Swan Commercial Services Limited

Disclaimer of opinion

We were engaged to audit the financial statements of Swan Commercial Services Limited for the year ended 31 March 2022, which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

We do not express an opinion on the accompanying financial statements of the Company. Because of the significance of the matter described in the basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

The company operates a number of development schemes which require a high level of management judgement and are subject to high levels of estimation uncertainty. The company's financial statements include an impairment charge of £44.1million, recognised in the year to 31 March 2022 in respect of these development schemes. The developments have been impacted by significant operational challenges, resulting from factors which include, changes to the company's management team, changes to the building regulations, along with the impact of macro-economic conditions. As a result, the company's current management team have been unable to provide evidence to substantiate the quantum and timing of the impairment charge and any related liabilities.

These challenges have restricted our ability to conduct appropriate audit procedures over these balances and transactions.

As a result, we have been unable to obtain sufficient appropriate audit evidence over:

- The accuracy of the impairment charge, including the extent to which elements of this charge relate to prior periods; and
- The completeness of the impairment charge, associated provisions and contingent liabilities.

Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law.

Material uncertainty related to going concern

We draw attention to note 2 in the financial statements, which notes the required refinancing of its parent undertaking, Swan Housing Association Limited, during the going concern assessment period, renegotiation of covenants and the fact that the continued operational existence of the Company is dependent on the completion of the acquisition of the Swan Group by Sanctuary Affordable Housing Limited and that the plans will be implemented by a new board and management team. As stated in note 2, these events or conditions, along with the other matters as set forth in note 2, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion would not have been modified in respect of this matter.

Our responsibilities

Our responsibility is to conclude on the appropriateness of the board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. However, because of the matter described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion on those financial statements.

The responsibilities of the directors with respect to going concern are described in the 'Responsibilities of directors for the financial statements' section of this report.

Swan Commercial Services Limited
Year ended 31 March 2022

Opinions on other matters prescribed by the Companies Act 2006

Notwithstanding our disclaimer of an opinion on the financial statements, in our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006

Notwithstanding our disclaimer of an opinion on the financial statements, in the light of the knowledge and understanding of the company and its environment obtained in the course of the audit performed subject to the pervasive limitation described above, we have not identified material misstatements in the strategic report or the directors' report.

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 Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made.

However, arising from the matters described in the basis for disclaimer of opinion referred to above:

- we have not received all the information and explanations we require for our audit.

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement, the directors are 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 directors determine 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 directors are responsible for assessing the company'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 directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to conduct an audit of the company's financial statements in accordance with International Standards on Auditing (UK) and to issue an auditor's report. However, because of the matter described in the basis for disclaimer of opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on those financial statements.

We are independent of the company 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.

Explanation as to what extent 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. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company. We determined that the most significant laws and regulations were FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and the Companies Act 2006;

Swan Commercial Services Limited
Year ended 31 March 2022

- We enquired of management about the company's policies and procedures relating to the identification, evaluation and compliance with laws and regulations and the detection and response to the risks of fraud and the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations;
- We enquired of management whether they were aware of any instances or non-compliance with laws and regulations and whether they had any knowledge of actual, suspected or alleged fraud;
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it;
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur and the risk of management override of controls. Audit procedures performed by the engagement team included:
 - Identifying and assessing the design and implementation of controls management has in place to prevent and detect fraud;
 - Challenging assumptions and judgements made by management in its significant accounting estimates;
 - Identifying and testing journal entries; and
 - Identifying and testing related party transactions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
 - the company's operations, including the nature of its income sources and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement; and
 - the company's control environment, including management's knowledge of relevant laws and regulations and how the company is complying with those laws and regulations, the adequacy of procedures for authorisation of transactions, and procedures to ensure that possible breaches of law and regulations are appropriately resolved.
- The engagement partner's assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's understanding of, and practical experience with, audit engagements of a similar nature and complexity, through appropriate training and participation.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company'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 company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Grant Thornton UK LLP

Joanne Love
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London

Date: 7/2/2023

Swan Commercial Services Limited
Year ended 31 March 2022

Statement of Comprehensive Income

	Notes	2022 £'000	2021 £'000
Turnover	5	85,138	59,020
Cost of sales		(83,992)	(60,944)
Impairment	8	(44,100)	-
Gross loss		(42,954)	(1,924)
Debt released by Parent	8	33,607	-
Interest receivable and similar income		-	1
Interest payable and similar charges	7	(1)	(1)
Loss on ordinary activities before tax	8	(9,348)	(1,924)
Tax on loss on ordinary activities	9	(98)	357
Loss for the financial year being total comprehensive income for the year		(9,446)	(1,567)

All of the Company's operations are classified as continuing. There were no gains or losses in either year other than those included in the Statement of Comprehensive Income above.

The notes on pages 11 to 19 form part of these Financial Statements.

Statement of Changes in Equity

	Notes	Share Capital £'000	Profit and loss £'000	Total £'000
Balance as at 31 March 2020	15	-	472	472
Total comprehensive income for the year		-	(1,567)	(1,567)
Donation to Parent made under the gift aid scheme		-	(575)	(575)
Balance as at 31 March 2021	15	-	(1,670)	(1,670)
Total comprehensive income for the year		-	(9,446)	(9,446)
Donation to Parent made under the gift aid scheme		-	-	-
Balance as at 31 March 2022		-	(11,116)	(11,116)

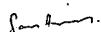
Swan Commercial Services Limited
Year ended 31 March 2022

Statement of Financial Position

	Notes	2022 £'000	2021 £'000
Fixed Assets			
Tangible Fixed Assets	10	1,431	2,537
Current Assets			
Stock and properties held for sale	11	13,773	44,200
Debtors	12	18,702	19,098
Cash in bank and in hand		1,710	89
		34,185	63,387
Creditors: amounts falling due within one year	13	(29,670)	(24,743)
Net current assets		4,515	38,644
Total assets less current liabilities		5,946	41,181
Creditors: amounts falling due after more than one year	14	(17,062)	(42,851)
Net liabilities		(11,116)	(1,670)
Capital and reserves			
Share capital	15	-	-
Profit and loss account		(11,116)	(1,670)
Shareholders' deficit		(11,116)	(1,670)

The notes on pages 11 to 19 form part of these Financial Statements.

These Financial Statements were approved and authorised for issue by the Board of Directors on 7 February 2023 and were signed on its behalf by:



Susan Hickey
Director

Company number: 06192065

Swan Commercial Services Limited
Year ended 31 March 2022

Notes to the Financial Statements

1. Company information

Swan Commercial Services Limited is a private company limited by shares and is incorporated and domiciled in England and Wales. The registered office is Pilgrim House, High Street, Billericay, Essex CM12 9XY.

2. Basis of preparation

The financial statements of the Company have been prepared in compliance with United Kingdom accounting standards, including FRS 102 'the Financial Reporting Standard applicable in the UK and Republic of Ireland' ('FRS 102') and Companies Act 2006.

The principal accounting policies applied in the preparation of these financial statements are set out below in note 4. These policies have been consistently applied in all years presented, unless stated otherwise.

These financial statements are prepared on a going concern basis, under the historical cost convention. The financial statements are prepared in £ sterling.

The Company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS102, as it is a qualifying entity and its financial statements are included in the consolidated financial statements of its ultimate Parent company, Swan Housing Association Limited (see note 19).

- the requirements of Section 4 Statement of Financial Position 4.12 (a)(iv);
- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 11 Financial Instruments paragraphs 11.41(b), 11.41(c), 11.41(e), 11.41(f), 11.42, 11.44, 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c); and
- requirements of Section 33 Related Party Disclosures paragraph 33.7.

The Company has taken advantage of the exemption, under FRS 102 paragraph 1.12(b), from preparing a statement of cash flows, on the basis that it is a qualifying entity and its ultimate Parent undertaking, Swan Housing Association Limited, includes the Company's cash flows in its consolidated financial statements.

Going concern

The Company's business activities, its current financial position, and factors likely to affect its future development are set out within the Strategic Report and Directors' Report. The Company has in place long-term debt facilities which provide adequate resources to finance committed reinvestment and development programmes, along with day to day operations.

The directors have considered the impact of the impairment provisions on the going concern status of the Company. With the release of intragroup debts both before and after 31 March 2022, these provisions can be met from the cumulative reserves as at 31 March 2022.

Swan Housing Association provides finance to its commercial subsidiaries and this is subject to a limit which has needed to be temporarily increased due to cost overruns and delays in scheme completions. The necessary increase has been agreed with relevant lenders on a short-term basis to the business combination date with Sanctuary.

The financial plans on which the Board has made its assessment of Going Concern, are predicated on the completion of the acquisition of the Swan Group by Sanctuary Affordable Housing Limited. The continued operational existence of the Company is dependent on the completion of the acquisition, scheduled for 8 February 2023. The required refinancing of Swan Housing Association during the going concern assessment period, renegotiation of covenants and the fact that the plans will be implemented by a new board and management team are considered individually and in aggregate to represent material uncertainties, which may cast significant doubt on the Company's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the ordinary course of business.

Nevertheless, after making enquiries, and considering the uncertainties described above, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the annual report and accounts.

Swan Commercial Services Limited
Year ended 31 March 2022

Notes to the Financial Statements (cont.)

3. Significant judgements and estimates

The preparation of financial statements in conformity with FRS 102 requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the year end 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.

Recoverability of stock and properties held for sale

Stock and properties held for sale are carried at the lower of cost or net realisable value. Management assesses the net realisable value of schemes using publicly available information and internal forecasts on future sales price after allowing for all further costs of completion and disposal. Expert third party advice has also been received in assessing impairment of the scheme at Laindon. All projects have been reviewed during the year and impairment provisions made of £39.6m on the scheme at Laindon and £3m on stock at an additional manufacturing facility.

Tangible fixed assets

Tangible fixed assets include leasehold improvements and plant and machinery at the additional manufacturing facility which has been impaired by £1.5m as the recoverable amount is less than the carrying value.

Lease commitments

Non-cancellable lease commitments on the additional modular factory are guaranteed by Swan New Homes Limited. A provision of £12m has been recognised by Swan New Homes Limited as at 31 March 2022. Due to its status as the tenant there is a possibility that the Company will need to meet the cost of any lease termination, but given the guarantee in place from Swan New Homes Limited this is not considered probable.

4. Principal accounting policies

Turnover

Turnover represents the fees received for the provision of design and build and other construction services (including those at the manufacturing facility) provided to customers in the UK. Turnover may also represent the proceeds from the sale of completed properties, where the Company has acquired and developed land for sale.

For fixed price construction contracts turnover is recognised based upon an internal assessment of the value of works carried out. This assessment is arrived at after due consideration of the performance against the programme of works, measured works, detailed evaluation of the costs incurred and comparison to external certification of the work performed.

Turnover from the sale of properties, whether by way of sale of freehold or grant of lease for a premium, is recognised upon legal completion and therefore the risks and rewards of ownership have been transferred to the purchaser.

All turnover is stated exclusive of VAT.

Financial instruments

Financial instruments which meet the criteria of a basic financial instrument as defined in Section 11 of FRS102 are accounted for under an amortised cost model. The effective interest rate method, which applies the interest rate that exactly discounts the estimated future cash flows to the carrying amount of the financial instrument at initial recognition, has been used to calculate amortised cost. Any related fees and transaction costs are also amortised using this method.

Expenditure

Net operating expenditure is recognised in respect of goods and services received when supplied in accordance with contractual terms. Expenditure in inventory is expensed through cost of sales in the Statement of Comprehensive Income on an accruals basis in line with the invoicing of turnover for services provided as sales made.

Interest payable

Interest payable is recognised on a time apportioned basis by reference to the principal outstanding and the effective interest rate. Borrowing costs are recognised in the Statement of Comprehensive Income on an accruals basis in the period in which they are incurred.

Taxation

Current tax is recognised for the amount of corporation tax payable in respect of the taxable profit for the current or past reporting years using the rates and laws that have been enacted or substantially enacted at the reporting date. Current tax for the current period is reduced, where appropriate, to the extent that a gift aid payment to the charitable parent company is probable within nine months of the period end.

Swan Commercial Services Limited
Year ended 31 March 2022

Notes to the Financial Statements (cont.)

4. Principal accounting policies (cont.)

Deferred taxation

Deferred tax is recognised in respect of all timing differences at the reporting date, except as indicated. Deferred tax assets are only recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or future taxable profits. Deferred tax is calculated using the rates and laws enacted or substantively enacted at the reporting date that are expected to apply to the reversal of the timing difference. Deferred tax liabilities are presented in provision for liabilities and deferred tax assets in debtors. Such assets and liabilities are only offset where the Company has a legal right of set off.

VAT

The Company is registered for VAT and its expenditure on taxable activities is shown exclusive of VAT.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Company adds to the carrying amount of an item of tangible fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the Company. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to profit or loss during the year in which they are incurred.

Depreciation is charged so as to allocate the cost of assets less their residual value over their useful lives, on a straight line basis. Depreciation begins when the asset is capable of operating in the manner intended by management. The estimated useful lives range as follows:-

Plant and Machinery	5 to 10 years
Leasehold Improvements	5 to 10 years
Fixtures and Fittings	5 years
Computer Equipment	4 years

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of Comprehensive Income.

Stock and work in progress

Inventories primarily represent the costs of ongoing design and build works and is stated at the lower of cost and net realisable value. Net realisable value is assessed by considering the both expected total costs to complete and expected income.

The costs of design and build works includes the costs of the manufacture, off-site, of modular housing units. The raw materials utilised in this process are stated at the lower of cost or net realisable value.

Otherwise the cost of design and build works, modular housing units or owned land developed for sale is determined on the first-in, first-out (FIFO) method. Cost includes the purchase price, including taxes and duties and transport and handling directly attributable to bringing the inventory to its present location and condition.

At each balance sheet date inventory is assessed for impairment. If inventories are impaired, the carrying value is reduced to its recoverable value less the costs to sell. The impairment loss is recognised immediately in profit or loss.

Trade debtors

Trade debtors which do not carry any interest are stated at their fair value amount and included in current assets where maturity is less than 12 months.

Trade creditors

Short term trade creditors are measured at the transaction price.

Gift aid payments

Donations made under the gift aid scheme to the ultimate Parent are recognised through the Statement of Changes in Equity when paid following formal approval by the Board of Directors.

Swan Commercial Services Limited
Year ended 31 March 2022

Notes to the Financial Statements (cont.)

5. Turnover

Turnover by activity comprises:

	2022 £'000	2021 £'000
Design and build construction services	85,138	59,020
All turnover is derived in the UK.		

6. Directors' and employees' remuneration

The directors did not receive any remuneration in the current or prior year for their qualifying services to the Company (2021: £nil). The Company benefits from services provided by other group companies and consequently employed no staff itself in either the current or prior year.

7. Interest payable and similar charges

	2022 £'000	2021 £'000
Interest on amount due to group undertakings	2,372	1,765
Other bank charges	1	1
	<u>2,373</u>	<u>1,766</u>
Less interest capitalised:	<u>(2,372)</u>	<u>(1,765)</u>
	<u>1</u>	<u>1</u>

8. Loss on ordinary activities before taxation

	2022 £'000	2021 £'000
Loss on ordinary activities before taxation is stated after charging (crediting):		
Operating lease rentals	1,048	1,180
Group service charge from Swan Housing Association Limited	829	761
Impairment		
- Work in progress	42,600	1,961
- Tangible fixed assets	1,500	-
Debt released by Parent	(33,607)	-
Depreciation on tangible fixed assets	958	562

Auditor's remuneration for audit services to the Company amounting to £29k (2021: £16k) is included within the service charge from Swan Housing Association Limited. There were no non-audit fees paid to the Company's auditors.

Impairment of £44.1m has been recognised for the scheme at Laindon and the modular manufacturing facility. During the year, the Company paused development on the Laindon scheme due to increased costs and the risk around financial viability of the scheme. The Company is working with key stakeholders to find a way to enable this scheme to continue. Based on third party expert assessment the Company has provided for an impairment of £39.6m (2021: £2m) against the Laindon scheme.

In addition, £4.5m expenditure (£1.5m tangible fixed assets; £3m stock) on an additional facility to expand manufacturing capability has now been impaired, due to uncertainty on the Laindon project and other developments within the Group.

On the 31 March 2022, Swan Housing Association Limited notified the Company that it had decided to release £33.6m of debt owing, based on impairment estimates at that time. Since 31 March 2022 Swan Housing Association Limited notified the Company of a further release of £11.2m (see note 20: Non-adjusting events after the end of the reporting period). Debt released comprises £9.6m loan and £35.2m working capital.

Swan Commercial Services Limited
Year ended 31 March 2022

Notes to the Financial Statements (cont.)

9. Tax on loss on ordinary activities

Tax charge on loss on ordinary activities	2022 £'000	2021 £'000
Corporation tax		
Current tax charge/(credit) on loss for the year	-	(259)
Total current tax on loss on ordinary activities	<u>-</u>	<u>(259)</u>
Deferred tax		
Current year	98	(106)
Adjustments in respect of prior years	-	8
	<u>98</u>	<u>(98)</u>
Tax charge/(credit) on ordinary activities recorded in the Statement of Comprehensive Income	<u>98</u>	<u>(357)</u>
 Loss on ordinary activities before tax	 <u>(9,348)</u>	 <u>(1,924)</u>
 Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of: 19% (2021: 19%)	 (1,776)	 (366)
Permanent differences	(8,738)	-
Depreciation of assets not qualifying for capital allowances	-	1
Remeasurement of deferred tax for changes in tax rates	(3,348)	-
Movement in deferred tax not recognised	13,933	-
Adjustments in respect of prior years	-	8
Group relief surrendered/(claimed)	<u>27</u>	<u>-</u>
Tax charge/(credit) on loss on ordinary activities	<u>98</u>	<u>(357)</u>

Factors impacting future taxes

The Company is a wholly owned subsidiary of a charitable Company and was formed on the expectation that its profits would be donated to its charitable parent under the gift aid scheme. Such donations if made within nine months of the end of an accounting period may be used to reduce the corporation tax payable in respect of the profits of that year. The directors do not anticipate that such a donation will be made for the year under review owing to the Company's financial position, and no obligation to make such a payment exists.

The UK Government previously announced that the rate of UK corporation tax would increase to 25% with effect from 1 April 2023. This increase was substantively enacted on 24 May 2021. Therefore, unprovided deferred tax assets are calculated at that rate.

Deferred tax assets of £13,948k (2021: £0k) relating to other tax losses of £43,256k and capital allowances have not been recognised since, although the Board expect the respective subsidiary undertaking which generated these timing differences to generate future taxable profits capable of offset by them, they do not consider that the standards required for recognition have yet been met.

Swan Commercial Services Limited
Year ended 31 March 2022

Notes to the Financial Statements (cont.)

10. Tangible fixed assets

	Leasehold Improvements	Plant and Machinery	Fixtures and Fittings	Computer Equipment	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 April 2021	1,001	2,948	151	53	4,153
Additions	425	927	-	-	1,352
At 31 March 2022	1,426	3,875	151	53	5,505
Depreciation					
At 1 April 2021	440	1,041	97	38	1,616
Charge for the year	223	694	30	11	958
Impairment	500	1,000	-	-	1,500
At 31 March 2022	1,163	2,735	127	49	4,074
Net book value					
At 31 March 2022	263	1,140	24	4	1,431
At 31 March 2021	561	1,907	54	15	2,537

During the year ended 31st March 2022, the Company impaired the value of Leasehold Improvement by £0.5m (2021: £0m) and Plant and Machinery by £1.0m (2021: £0m). The impairment relates to the Company's second modular manufacturing factory and is due to the risk around financial viability of the Laindon scheme.

11. Stock and properties held for sale

	2022 £'000	2021 £'000
Raw materials	1,529	1,919
Work in progress	12,244	42,281
	13,773	44,200

All projects have been reviewed for impairment during the year.

12. Debtors

	2022 £'000	2021 £'000
Trade debtors	21	116
Amounts owed by fellow group undertakings	13,405	15,042
Other debtors	2,781	1,826
Prepayments and accrued income	2,495	2,016
Deferred tax	-	98
	18,702	19,098

The amounts owed by fellow group undertakings are repayable on demand and non interest bearing.

Swan Commercial Services Limited
Year ended 31 March 2022

Notes to the Financial Statements (cont.)

13. Creditors: amounts falling due within one year

	2022 £'000	2021 £'000
Trade creditors	8,560	8,023
Amounts owed to fellow group undertakings	14,146	8,909
Other creditors	3,348	2,747
Accruals and deferred income	3,616	5,064
	<u>29,670</u>	<u>24,743</u>

The amounts owed to fellow group undertakings are repayable on demand and non interest bearing.

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

	2022 £'000	2021 £'000
Loans due to Swan Housing Association (a)	-	28,900
Loans due to Swan Housing Finance (b)	14,597	13,951
Grant	2,465	-
	<u>17,062</u>	<u>42,851</u>

(a) A loan facility agreement exists which was entered into between Swan Housing Association Limited and the Company effective 15 February 2017 which has a limit of £75 million (2021: £50 million) and is fully repayable on 31 March 2024. Interest is payable at 6% which is 2% above the lender's cost of funds and the borrowing is secured by floating charge over the assets of the Company.

(b) On 31 January 2019, the Company (together with fellow group undertaking, Swan New Homes Limited as borrowers) entered into a loan facility agreement for an aggregate sum of £30 million with a further fellow group company, Swan Housing Finance Limited. The facility is to provide funds for the Company's development at Laindon and carries interest at EC Base Rate plus 4% and is repayable on the earlier of 30 June 2025 or the date of sale of the last residential unit on the development site. As at 31 March 2022 a sum of £13.7m (2021: £13.7m) had been drawn down by the Company and Swan New Homes Limited had drawn down £16.5 (2021: £16.5m).

Swan Housing Finance Limited has itself entered a borrowing facility on the same terms with the Homes Communities Agency (under its trading name Homes England). In order to secure the borrowing of Swan Housing Finance Limited, The Company, along with Swan New Homes Limited who have the same ultimate Parent company, are jointly and severally guarantors to Homes England, and has provided security in the form of a floating charge and a fixed charge over its Laindon site.

15. Share capital

	2022 £	2021 £
Called up, allotted and fully paid		
1 Ordinary share of £1	<u>1</u>	<u>1</u>

The share carries one vote at general meetings of the Company.

Swan Commercial Services Limited
Year ended 31 March 2022

Notes to the Financial Statements (cont.)

16. Commitments

Future minimum lease payments under non-cancellable operating leases are as follows:

	2022	2021
	£'000	£'000
Operating leases which expire:		
Within one year	1,623	1,544
Between two to five years	4,800	5,434
After 5 years	11,176	9,583
	<u>17,599</u>	<u>16,561</u>

Performance under the lease on the additional modular factory is guaranteed by Swan New Homes Limited.

17. Related party disclosures

The Company has taken advantage of related party disclosure exemptions related to wholly owned group undertakings in preparing these financial statements, as permitted by the FRS102, as it is a qualifying entity and its financial statements are included in the consolidated financial statements of its ultimate Parent company, Swan Housing Association Limited (see note 19).

18. Contingent liabilities

The Company has entered into a Deed of Guarantee and Indemnity with Thurrock Borough Council in relation to a regeneration project in Purfleet, Essex. As at 31 March 2022 there were no material obligations under this guarantee.

The HSE and Police investigation following the crane incident at Watts Grove, London E3 on 8 July 2020 is on-going, such that there is no probable obligation as at 31 March 2022. Any potential outflow is contingent upon the outcome of the investigation and cannot be reliably qualified until concluded, the timing of which is currently uncertain.

As shown in note 16 the Company has non-cancellable lease commitments on the additional modular factory which are guaranteed by Swan New Homes Limited. A provision of £12m has been recognised by Swan New Homes Limited as at 31 March 2022. Due to its status as the tenant there is a possibility that the Company will need to meet the cost of any lease termination, but given the guarantee in place from Swan New Homes Limited this is not considered probable.

19. Ultimate Parent undertaking

Swan Commercial Services Limited is a wholly owned subsidiary of Swan Housing Association Limited. Swan Commercial Services Limited regards Swan Housing Association Limited, a Registered Society and a Co-operative and Community Benefit Society, registered in England and Wales, as its ultimate parent undertaking and controlling party.

Swan Housing Association Limited is also the largest and smallest group which includes the results of the Company and for which Consolidated Financial Statements are prepared. Financial Statements for the ultimate parent undertaking can be obtained from its registered office at Pilgrim House, High Street, Billericay, Essex, CM12 9XY.

20. Non-adjusting events after the end of the reporting period

Since 31 March 2022 the Parent has released further debt balances of £11.2m to reflect further impairment recognised as at 31 March 2022. The impairment has been treated as an adjusting event but the associated debt release granted on 8 August 2022 has been treated as a non-adjusting event.

Production has been discontinued at the off-site modular construction factories. The sites are being decommissioned and employees redeployed where possible. A full estimate of the financial effect cannot be made yet.

Swan Commercial Services Limited
Year ended 31 March 2022

Notes to the Financial Statements (cont.)

21. Proforma unaudited financial information

The net asset position at year end, had all debt releases been effected prior to the year end, is as follows. This is presented on a non-statutory basis.

	Balance sheet at 31 March 2022 £'000	Subsequent release (Note 20) £'000	Proforma unaudited balance sheet £'000
Net Assets	(11,116)	11,148	32