

Company No: 06192065

Swan Commercial Services Limited
Annual Report and Financial Statements
Year ended 31 March 2023



Swan Commercial Services Limited
Year ended 31 March 2023

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Swan Commercial Services Limited
Year ended 31 March 2023

Legal and Administrative Details

Directors

Susanne Dodd	Appointed 8 February 2023
Peter Martin	Appointed 8 February 2023
David Soothill	Appointed 8 February 2023
Nathan Warren	Appointed 8 February 2023
Jeremy Vickers	Resigned 30 September 2022
Susan Hickey	Resigned 8 February 2023
Susan McBride	Resigned 8 February 2023

Secretary

Nicole Seymour	Appointed 8 February 2023
Susan McBride	Resigned 8 February 2023

Registered Office

Chamber Court
Castle Street
Worcester
WR1 3ZQ

External Auditor

Grant Thornton UK LLP
30 Finsbury Square
London
EC2A 1AG

Internal Auditor

Pricewaterhouse Coopers LLP
One Chamberlain Square
Birmingham
B3 3AX

Solicitors

Devonshires Solicitors LLP
Salisbury House
Finsbury Circus
London
EC2M 7DT

Gowling WLG (UK) LLP
Two Snowhill
Birmingham
B4 6WR

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 2023

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 ("Immediate Parent", "Swan"). On 8th February 2023, Swan Housing Association Limited and its subsidiaries ("Swan Group"), were acquired by Sanctuary Housing Association ("Sanctuary"). The Swan Group are now members of the "Sanctuary Group" as a result of this acquisition, with Sanctuary Housing Association as "Ultimate Parent".

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	2022/23	2021/22 restated
Turnover	£64.7m	£85.1m
Loss for the financial year	(£72.6m)	(£19.0m)
Gift aid payment	-	-
Modules manufactured	80	331

Turnover has reduced to £64.7 million, down from £85.1 million in the prior year. Annual turnover fluctuates with the Company's construction service activity and property development programmes and in the current year has decreased due to a reduction in modular build activities. The loss for the financial year of £72.6 million (2022: restated loss of £19.0 million) reflects a number of significant one-off adjustments.

During the year the Company took the difficult decision to close operations at its modular factories which had been running at a loss. The Company will continue to serve customers who have already bought modular homes at Beechwood West and has retained the skills required to complete these homes and to deliver any after care and remediation works required.

Due to the decision to close the modular factories, plant and equipment has been fully impaired by £1.5 million (2022: £1.5 million). Additionally, grant received from the Government's Getting Building Fund in relation to the modular housing project, totalling £3.1 million, was repaid post year end.

Impairment of development projects was recognised totalling £9.8 million (2022: £42.6 million), comprising £9.8 million on the scheme at Laindon, where work has paused due to an increase in costs and risk around financial viability of the scheme, all development work in progress is now fully written down. Subsequently a review of the site is well underway, to get the regeneration back on track.

In the prior financial year, £33.6 million of debt due to the Company's parent, Swan Housing Association, was released and a further £11.2 million was released in the current financial year. No additional amounts have been released since the acquisition by Sanctuary Housing Association.

A provision of £29.1 million (2022: £nil) was recognised against intercompany trading balances due from Swan New Homes of £33.0 million, leaving a net balance of £3.9 million at year end.

Following the merger with Sanctuary Group, a complete review was undertaken regarding potential liabilities in relation to development-related obligations such as defect rectification and other legal obligations, which has resulted in recognition of provisions totalling £41.9 million during the year (2022: restated £7.2 million).

The Company is currently evaluating the next phases of developments at Beechwood Village and Blackwall Reach. The Company is also working with Sanctuary to establish a route forward with the Laindon development and a review of the site is well underway, to get the regeneration back on track.

Swan Commercial Services Limited
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Strategic Report (continued)

Future developments

Construction services will continue at the next phases of Beechwood Village and Blackwall Reach developments. Further plans have been formulated following a business combination of the Company's Parent with Sanctuary, which took place on 8th February 2023.

Going Concern

On 8th February 2023, the group headed by Swan Housing Association Limited (the 'Swan Group') of which this Company is a member, was acquired by Sanctuary Housing Association. The Swan Group are now members of the 'Sanctuary Group' as a result of this acquisition, with Sanctuary Housing Association as 'Ultimate Parent'. The going concern assessment performed by the directors of the Company reflects the structure of the new, wider group and takes into account the availability of additional funding available via Sanctuary Group partners.

Further explanation on the going concern assessment as part of the new, wider group is included within the financial statements of Swan Housing Association.

The Company made a loss for the year of £72.6 million (2022 restated: £19.0 million) and had net liabilities of £93.2 million at 31 March 2023 (2022 restated: £20.7 million).

The Company's primary source of funding is from its parent, Swan Housing Association Limited (Swan Housing Association), and consequently the Company needs to consider its own going concern position in light of its parent's and the wider Swan Group's financial position. In making their assessment of going concern, the directors have considered cash flow forecasts for the period to 31 March 2025 (the going concern assessment period). In this respect the directors have also reviewed the going concern assessments of Swan Housing Association.

The Company has the continued support of its ultimate parent, Sanctuary Housing Association, who has provided a letter of support to the directors of the Company to confirm that it intends, should the need arise, to provide financial and/or other support, including, if required, not seeking repayment of amounts currently made available, for the period to 31 March 2025. Wider Sanctuary Group support provides further comfort over the viability of the Swan Group.

Whilst, at the date of approval of these financial statements, the directors have no reason to believe that the financial support provided by other group entities will not continue, they acknowledge that this is not certain.

The circumstances of the Swan Group, including reliance on wider Sanctuary Group support, represent a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and whether it is able to realise its assets and discharge its liabilities in the ordinary course of business.

However, based on all of the above considerations the directors confirm that they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Company continues to adopt the going concern basis in its financial statements.

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.

Swan Commercial Services Limited
Year ended 31 March 2023

Strategic Report (continued)

Section 172 Statement

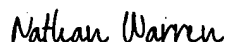
Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the company for the benefit of its members. In doing this, section 172 requires a director to have regard, amongst other matters, to the:

- 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, who has been vital to the success of the Company.

During the year Swan Housing Association restructured £11.2 million of loan and working capital obligations in addition to the release of £33.6 million of loan and working capital obligations in the previous year. The directors were also actively engaged in the merger with Sanctuary, which completed on 8 February 2023. These steps 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:



Nathan Warren
Director

Date: 19 March 2024

Swan Commercial Services Limited
Year ended 31 March 2023

Directors' Report

The directors submit their annual report and financial statements of Swan Commercial Services Limited (the "Company"), registered number 06192065, for the year ended 31 March 2023.

Results

The Company has generated a loss of £72.6 million (2022: restated loss of £19.0 million) on a turnover of £64.7 million (2022: £85.1 million). A review of the business for the year, future developments, risk management and stakeholder engagement is included in the above Strategic Report.

Directors

The Directors of the Company who have served during the year and to the date the financial statements were signed were:

Jeremy Vickers	Resigned 30 September 2022
Susan Hickey	Resigned 8 February 2023
Susan McBride	Resigned 8 February 2023
Susanne Dodd	Appointed 8 February 2023
Peter Martin	Appointed 8 February 2023
David Soothill	Appointed 8 February 2023
Nathan Warren	Appointed 8 February 2023

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 recognise that this entity is part of a wider Group of companies that has been through significant change during the 2022/23 financial year. The directors that were in place at the start of the financial year were all replaced on 8 February 2023, seven weeks before the year end when Swan was acquired as part of a rescue by Sanctuary Group. Since 8 February 2023 there has been significant focus on stabilisation of the business alongside integrating Swan into Sanctuary Group. Following the rescue of Swan by Sanctuary Group, Sanctuary Group accounts for 2023 were prepared which subsequently received an unqualified audit opinion from KPMG.

Directors' Indemnity Insurance

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

Directors' Report (continued)

Streamlined energy and carbon reporting

Advancing environmental sustainability is a well-embedded ambition across all areas of Swan Commercial Services. Phasing out fossil fuels, improving the energy efficiency of homes, and decarbonising supply chains continue to be complex, long-term journeys.

Swan Commercial Services Limited
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The Company's energy consumption and associated carbon emissions are reported below in line with the Government's Streamlined Energy and Carbon Reporting (SECR) regulations. The following tables show the Company's energy usage for the year, together with associated greenhouse gas emissions, as well as the target for 2024.

UK energy use	2023
Electricity (kWh)	348,075
Gas (kWh)	314,003
Transport (kWh)	
Associated greenhouse gas emissions (GHG)	
Electricity (Tonnes of CO ₂ e)	67
Gas (Tonnes of CO ₂ e)	57
Transport (Tonnes of CO ₂ e)	
Intensity ratios	
Tonnes of CO ₂ e per £m of revenue	1.9
	Target - 2024
Tonnes of CO ₂ e per £m of revenue	1.8

Energy data, where relevant, was captured using consumption reports from site gas and electricity providers. This relates to factories managed by Swan Commercial Services. No emissions from company transport were produced by Swan Commercial Services. Greenhouse gas emissions were calculated with the Department for Energy Security and Net Zero's 2022 Conversion Factors.

Financial risk management

The Company's treasury activities are now managed by the ultimate 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 Sanctuary Housing Association consolidated financial statements.

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:

Nathan Warren

Nathan Warren
Director
Date: 19 March 2024

Swan Commercial Services Limited
Year ended 31 March 2023

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 ('the Company') for the year ended 31 March 2023, 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 undertakes development activity, including modular construction, the balances associated with this activity require a high level of management judgement and are subject to high levels of estimation uncertainty. In respect of development activity, the Company's financial statements for the year ended 31 March 2023 include an impairment charge of £9.8 million (2022: £44.1million), charges in respect of development provisions of £39.6 million (2022 restated: £9.5million) and a write-down of amounts due from fellow-group undertakings of £29.1million (2022: £nil). The Company's development activity has been impacted by significant operational, regulatory and macro-economic challenges and we have been unable to conduct appropriate audit procedures over these balances and transactions, such that we are unable to obtain sufficient and appropriate evidence to substantiate the quantum and timing of the impairment charge and related liabilities.

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

- The accuracy of the impairment and provision charges, including the extent to which elements of these charges 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.

Material uncertainty related to going concern

We draw attention to note 2 in the financial statements, which notes the Company's reliance on the continued financial support from its parent undertaking, Swan Housing Association Limited and given the financial position of Swan Housing Association Limited, in turn the wider Sanctuary Group. 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 directors' 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
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Qualified opinions on other matters prescribed by the Companies Act 2006

In our opinion, the information given in the strategic report and directors' report in relation to Streamlined Energy and Carbon Reporting ("SECR") has not been prepared in accordance with applicable law as it does not include comparative information.

Notwithstanding our disclaimer of an opinion on the financial statements, and the issue identified above, 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

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we were unable to determine whether there were material misstatements in the strategic report or the directors' report in relation to SECR reporting as management did not maintain adequate books and records to support the disclosures made.

Notwithstanding our disclaimer of an opinion on the financial statements, and the issue identified above 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:

- 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;
- adequate accounting records have not been kept.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 5, 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.

Swan Commercial Services Limited
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Irregularities, including fraud, are instances of non-compliance with laws and regulations. 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;
- 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.
- We communicated relevant laws and regulations and potential fraud risks to all engagement team members, including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Swan Commercial Services Limited
Year ended 31 March 2023

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
19 March 2024

Swan Commercial Services Limited
Year ended 31 March 2023

Statement of Comprehensive Income

	Notes	2023 £'000	2022 restated £'000
Turnover	5	64,740	85,138
Cost of sales		(66,173)	(86,332)
Impairment	8	(11,324)	(44,100)
Development provisions	8, 15	(39,578)	(7,202)
Intercompany trading balances provided for	8	(29,100)	-
Gross loss		<u>(81,435)</u>	<u>(52,496)</u>
Debt released by Parent	8	11,148	33,607
Interest payable and similar charges	7	(2,267)	(1)
Loss before taxation	8	<u>(72,554)</u>	<u>(18,890)</u>
Taxation	9	-	(98)
Loss for the financial year		<u>(72,554)</u>	<u>(18,988)</u>

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 13 to 24 form part of these Financial Statements.

Statement of Changes in Equity

	Share Capital £'000	Profit & loss account £'000	Total £'000
Balance as at 31 March 2021	-	(1,670)	(1,670)
Total comprehensive loss for the year (restated)	-	(18,988)	(18,988)
Balance as at 31 March 2022 (restated)	<u>-</u>	<u>(20,658)</u>	<u>(20,658)</u>
Total comprehensive loss for the year	-	(72,554)	(72,554)
Balance as at 31 March 2023	<u>-</u>	<u>(93,212)</u>	<u>(93,212)</u>

Swan Commercial Services Limited
Year ended 31 March 2023

Statement of Financial Position

	Notes	2023 £'000	2022 restated £'000
Fixed Assets			
Tangible Fixed Assets	10	-	1,431
Current Assets			
Stock and properties held for sale	11	-	13,773
Debtors	12	15,679	18,702
Cash in bank and in hand		3,826	1,710
		19,505	34,185
Creditors: amounts falling due within one year	13	(53,040)	(29,670)
Net current (liabilities) / assets		(33,535)	4,515
Total assets less current liabilities		(33,535)	5,946
Creditors: amounts falling due after more than one year	14	(10,279)	(17,062)
Provision for Liabilities	15	(49,398)	(9,542)
Net liabilities		(93,212)	(20,658)
Capital and reserves			
Share capital	16	-	-
Profit and loss account		(93,212)	(20,658)
Shareholders' deficit		(93,212)	(20,658)

The notes on pages 13 to 24 form part of these Financial Statements.

These Financial Statements were approved and authorised for issue by the Board of Directors on 19 March 2024 and were signed on its behalf by:

Nathan Warren

Nathan Warren
Director

Company number: 06192065

Swan Commercial Services Limited
Year ended 31 March 2023

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, Chamber Court, Castle Street, Worcester, WR1 3ZQ.

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, Sanctuary Housing Association (see note 20).

- 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.

Going concern

On 8th February 2023, the group headed by Swan Housing Association Limited (the 'Swan Group') of which this Company is a member, was acquired by Sanctuary Housing Association. The Swan Group are now members of the 'Sanctuary Group' as a result of this acquisition, with Sanctuary Housing Association as 'Ultimate Parent'. The going concern assessment performed by the directors of the Company reflects the structure of the new, wider group and takes into account the availability of additional funding available via Sanctuary Group partners.

Further explanation on the going concern assessment as part of the new, wider group is included within the financial statements of Swan Housing Association.

The Company made a loss for the year of £72.6 million (2022 restated: £19.0 million) and had net liabilities of £93.2 million at 31 March 2023 (2022 restated: £20.7 million).

The Company's primary source of funding is from its parent, Swan Housing Association Limited (Swan Housing Association), and consequently the Company needs to consider its own going concern position in light of its parent's and the wider Swan Group's financial position. In making their assessment of going concern, the directors have considered cash flow forecasts for the period to 31 March 2025 (the going concern assessment period). In this respect the directors have also reviewed the going concern assessments of Swan Housing Association.

The Company has the continued support of its ultimate parent, Sanctuary Housing Association, who has provided a letter of support to the directors of the Company to confirm that it intends, should the need arise, to provide financial and/or other support, including, if required, not seeking repayment of amounts currently made available, for the period to 31 March 2025. Wider Sanctuary Group support provides further comfort over the viability of the Swan Group.

Whilst, at the date of approval of these financial statements, the directors have no reason to believe that the financial support provided by other group entities will not continue, they acknowledge that this is not certain.

The circumstances of the Swan Group, including reliance on wider Sanctuary Group support, represent a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and whether it is able to realise its assets and discharge its liabilities in the ordinary course of business.

However, based on all of the above considerations the directors confirm that they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Company continues to adopt the going concern basis in its financial statements.

Swan Commercial Services Limited
Year ended 31 March 2023

Notes to the Financial Statements (cont.)

3. Significant judgements, estimates and assumptions

The Company's financial statements for the year ended 31 March 2023 are prepared 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").

This 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.

Estimates and assumptions are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual experience may differ from these estimates and assumptions.

Management judgements made in applying policies of the Company that have the most significant effect on the financial statements, together with estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed in the following sections.

Carrying value of schemes under development

Properties held for sale are carried at the lower of cost and estimated selling price less costs to complete and sell. The carrying value of schemes under development are assessed using a combination of internal appraisals, external valuations and independent third-party specialist assessments of costs to complete.

Laindon

Laindon is a complex town centre redevelopment, where work is currently on hold whilst future plans are reassessed. Based on external valuations, it has been determined that the value of the scheme in its current form, excluding any developer margin, is negative £1.4 million. Clearly indicating that the whole work in progress value of £9.8 million should be impaired to nil. Furthermore, public statements have indicated the intent to take the project forward. Management will fulfil their obligations to develop the site, recognising a provision for £1.4 million in addition to fully writing down the inventory.

Purfleet

The development of Purfleet is within a joint venture of the Group, Purfleet Centre Regeneration Limited. The Company had recognised a carrying value of £nil for work in progress within its own balance sheet.

Replacement of cladding

Potential issues with cladding have been identified at one 18m+ site where the Company was the developer. It is management's view that as the Company was the developer, they are obligated to the relevant external parties to rectify those issues and so a liability in respect of rectification resides with them at the date of reporting.

In quantifying the required provision, sources of estimation uncertainty exist in relation to both the nature of the required works and the cost of the works. Estimates have, where possible, been based on third-party information, with adjustments to reflect indexation (due to the timing of the original estimates compared to the date of review), additional contingency and value added tax. However, these estimates are high level and based on the scope of works identified in initial assessments, so whilst they represent a reasoned basis for quantifying the provisions, there is potential that the final outcome could be materially different.

The total provision recognised, after discounting, is £7.3 million.

Recoverability of intercompany balances

At 31 March 2023 there were total trading balances due from fellow subsidiary Swan New Homes of £33.0 million.

Management conducted an assessment of recoverability of this balance, based on financial projections for Swan New Homes, which reflect future development expenditure and sales income.

Based on this assessment, it was concluded that £29.1 million of the amounts currently due from Swan New Homes should be provided for. A provision has therefore been recognised against the intercompany trade debtor, with the provision movement presented as a separate line item within the Statement of total Comprehensive Income called 'Intercompany trading balances provided for'. The Company intends to continue to seek recovery of balances that have been provided for.

Swan Commercial Services Limited.
Year ended 31 March 2023

Notes to the Financial Statements (cont.)

3. Significant judgements, estimates and assumptions (cont.)

Property related liabilities

Due to a decision to end the use of certain leased properties, plant and equipment has been fully impaired by £1.5 million (2022: £1.5 million).

Non-cancellable lease commitments on leased properties that are guaranteed by Swan New Homes Limited. A provision was originally recognised by Swan New Homes Limited at 31 March 2022, which has been unwound in line with the original lease during the year. 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 this is not considered probable. It has therefore been disclosed as a contingent liability.

The judgement that the liability falls in Swan New Homes Limited rather than the Company who is the tenant is based on joint and several liability under the lease and the financial standing of the tenant at the time the lease was entered into.

Management has determined, however, that certain unavoidable costs have arisen because of property related liabilities for which provisions are required within the Company.

- Dilapidations – the cost of restorative building works are based on third party estimates and total £3.0 million, this balance has been recognised within provisions during the year (see note 22).
- Unavoidable costs – For one leased property costs such as insurance, rates, and rent will continue to be incurred through the remaining duration of the lease. These have been treated as obligations arising from an onerous contract and total £0.7 million. For another leased property costs have also been treated as obligations arising from an onerous contract, but recognised as a provision recognised at 31 March 2022 over the life of the lease and unwound during the year. Total provision at 31 March 2023 was £6.8 million (2022: restated £7.2 million).
- Stored modules – the Company has an obligation to Swan New Homes to rectify issues in relation to stored modules. Cost has been estimated at £1.1 million.

Legal matter

Following an incident at a development site in 2020, where the Company was serving as principal contractor, there is an ongoing investigation by police and the Health & Safety Executive (HSE) as well as civil claims from certain effected parties.

Having obtained legal advice, management has determined that in respect of the criminal/HSE investigations there was insufficient progress at 31 March 2023 to deem the likelihood of a penalty probable and so the impact on the financial statements is limited to disclosure as a contingent liability. At this early stage of investigation, the broad range of possible outcomes means that quantification of any potential penalty is not possible.

Management has separately concluded, based on legal discussions, that in respect of civil actions and damage to equipment an outflow of resources was probable at 31 March 2023 and so a provision should be recognised. Management has also concluded that insurance receipts in respect of these claims, should they be paid, are virtually certain and so a reimbursement asset should be recognised. With the assistance of legal advisors, an appropriate figure for total potential outflows to be recognised as a provision has been estimated alongside, where appropriate, an associated reimbursement asset.

Property defects

Provisions totalling £19.9 million have been recognised for rectification of defects on properties that have been developed by the Company. As primary contractor, the Company holds responsibility for rectification of any defects that arise post-sale, even though those sales have been made through other Group entities. The obligation has been determined by applying a defect cost percentage of between 2 and 6 percent to total build costs on the respective schemes, with the variation in percentage driven by the build type and age of the developments.

Intercompany loan creditor release

During the year ended 2023, Swan Housing Association notified the Company of a release of £11.2 million of intercompany loans due from the Company, reflecting final impairment provisions from 2022. The Company has recognised this release in the current year as a separate line item within the Statement of total Comprehensive Income called 'Debt released by parent'.

Swan Commercial Services Limited
Year ended 31 March 2023

Notes to the Financial Statements (cont.)

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.

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.

Swan Commercial Services Limited
Year ended 31 March 2023

Notes to the Financial Statements (cont.)

4. Principal accounting policies (cont.)

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.

Government grants

Government grants include grants receivable from local authorities. Capital grants received are accounted for under the accruals method within creditors and released to income in line with the useful life of the associated asset.

Swan Commercial Services Limited
Year ended 31 March 2023

Notes to the Financial Statements (cont.)

5. Turnover

Turnover by activity comprises:

	2023 £'000	2022 £'000
Design and build construction services	64,740	85,138

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 (2022: £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

	2023 £'000	2022 £'000
Interest on amount due to group undertakings	1,989	2,372
Other finance charges	277	-
Other bank charges	1	1
	<u>2,267</u>	<u>2,373</u>
Less interest capitalised:	-	(2,372)
	<u>2,267</u>	<u>1</u>

Interest rate incurred can vary dependant on the lender. The average rate in the year was 5.97% (2022: 4.96%). No interest was capitalised in the current year due to a pause of development sites, which is described within note 3.

8. Loss before taxation

	2023 £'000	2022 restated £'000
Loss before taxation is stated after charging (crediting):		
Operating lease rentals	1,688	1,048
Group service charge from Swan Housing Association Limited	846	829
Impairment		
- Work in progress	9,775	42,600
- Tangible fixed assets	1,549	1,500
Development provisions	39,578	7,202
Debt released by Parent	(11,148)	(33,607)
Intercompany trading balances provided for	29,100	-
Depreciation on tangible fixed assets	<u>925</u>	<u>958</u>

Auditor's remuneration for audit services to the Company amounting to £66k (2022: £29k) is included within the service charge from Swan Housing Association. There were no non-audit fees paid to the Company's auditors.

Impairment of £9.8 million has been recognised for the scheme at Laindon. In addition, £1.5 million of tangible fixed assets have been impaired. Further information is included within note 3.

Development provisions of £39.6 million arise due to a legal matter, property defects, certain leased properties and build and other development costs. Further details for each provision are included within note 15.

Details relating to the debt released by Swan Housing Association to the Company of £11.2 million (2022: £33.6 million) and debt released by the Company for Swan New Homes of £29.1 million are included within note 3.

Swan Commercial Services Limited
Year ended 31 March 2023

Notes to the Financial Statements (cont.)

9. Taxation

Tax charge on loss	2023 £'000	2022 £'000
Corporation tax		
Current tax charge	-	-
Total current tax	-	-
Deferred tax		
Current year	-	98
	-	98
Tax charge recorded in the Statement of Comprehensive Income	-	98
Loss before tax	(72,554)	(9,348)
Loss multiplied by standard rate of corporation tax in the UK of 19% (2022: 19%)	(13,785)	(1,776)
Permanent differences	-	(8,738)
Remeasurement of deferred tax for changes in tax rates	-	(3,348)
Movement in deferred tax not recognised	13,785	13,933
Group relief surrendered	-	27
Total tax charge for the year	-	98

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.

Deferred tax assets of £24,661k (2022: £13,948k) relating to other tax losses of £97,584k (2022: £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 2023

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 2022	1,426	3,875	151	53	5,505
Additions	73	961	9	-	1,043
At 31 March 2023	1,499	4,836	160	53	6,548
Depreciation					
At 1 April 2022	1,163	2,735	127	49	4,074
Charge for the year	223	676	24	2	925
Impairment	113	1,425	9	2	1,549
At 31 March 2023	1,499	4,836	160	53	6,548
Net book value					
At 31 March 2023	-	-	-	-	-
At 31 March 2022	263	1,140	24	4	1,431

During the year ended 31st March 2023, the Company impaired the value of Leasehold Improvement by £113k (2022: £500k), Plant and Machinery by £1,425k (2022: £1,000k), Fixtures & Fittings by £9k (2022: £nil) and Computer Equipment by £2k (2022: £nil). The impairment relates to leased properties and is due to the decision taken during the year ended 31 March 2023 to close that property to use.

11. Stock and properties held for sale

	2023 £'000	2022 £'000
Raw materials	-	1,529
Work in progress	-	12,244
	-	13,773

Included within work in progress is accumulated capitalised interest of £5,191k (2022: £5,191k). Further details on capitalised interest is included within note 7.

All projects have been reviewed for impairment during the year and have been reduced to a carrying value of nil after an impairment charge of £9,775k (2022: £42,600k).

Swan Commercial Services Limited
Year ended 31 March 2023

Notes to the Financial Statements (cont.)

12. Debtors

	2023 £'000	2022 £'000
Trade debtors	275	21
Amounts owed by fellow group undertakings	3,844	13,405
Other debtors	10,088	2,781
Prepayments and accrued income	1,472	2,495
	<u>15,679</u>	<u>18,702</u>

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

Other debtors include £8.8 million in relation to a reimbursement asset for insurance recoveries. Further details are included within note 15(a).

The Company believes that insurance recovery is virtually certain based on third party confirmations received. The Company does not believe it is necessary for liability to have been accepted for an asset to be recognised, because insurance proceeds could be made without prejudice in order to settle.

13. Creditors: amounts falling due within one year

	2023 £'000	2022 £'000
Trade creditors	3,998	8,560
Amounts owed to fellow group undertakings	13,644	14,146
Loans due to Swan Housing Association (a)	25,752	-
Other creditors	3,053	3,348
Grant (b)	3,071	-
Accruals and deferred income	3,522	3,616
	<u>53,041</u>	<u>29,670</u>

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

(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 (2022: £75 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. As at 31 March 2023 a sum of £25.7 million (2022: nil) was outstanding.

(b) Due to the decision to close the use of certain properties, grant received from the Government's Getting Building Fund in relation to the use of those properties was repaid post year end. At year ended 31 March 2023 Grant repayable balance was £3.1 million (2022: £2.5 million).

Swan Commercial Services Limited
Year ended 31 March 2023

Notes to the Financial Statements (cont.)

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

	2023 £'000	2022 £'000
Loans due to Swan Housing Finance	10,279	14,597
Grant	-	2,465
	<u>10,279</u>	<u>17,062</u>

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 2023 a sum of £10.3 million (2022: £14.6 million) had been drawn down by the Company and Swan New Homes Limited had drawn down £nil (2022: £16.5 million).

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. Provision for liabilities

	Development provisions £'000
Balance at 1 April 2022 (restated)	9,541
Provision recognised in the year	40,269
Provision utilised in the year	(412)
Balance at 31 March 2023	<u>49,398</u>

(a) Legal matter

A provision has been recognised for civil claims in relation to a legal matter in which the Company was primary contractor. An associated reimbursement asset relating to insurance has been included within other debtors. Further details are included in note 3.

(b) Property defects

A provision of £19.9 million has been recognised for rectification of defects on properties that have been developed by the Company. Further details are included in note 3.

(c) Property and construction related liabilities

Provisions totalling £11.5 million have been made to cover a range of obligations. Provisions include dilapidations, onerous contract provisions and obligations in respect of rectification works. The balance at 1 April 2022 has been restated to £9.5 million from an original value of £nil. One element is to recognise the dilapidation costs required for leased properties. The second element is to recognise the unavoidable costs present within the lease of leased properties as an onerous contract over the life of the lease. During the year, the provision has been unwound by £412,000, of which, £690,000 is a credit to the Statement of Comprehensive Income within Development provisions and £278,000 is a debit to the Statement of Comprehensive Income within Interest payable. Further details are included in note 3.

(d) Cladding provisions

Potential issues with cladding have been identified at one 18 m+ site where the Company was the developer. The total provision recognised, after discounting, is £7.3 million. Further details are included in note 3.

(e) Other development

A provision of £1.4 million has been recognised to reflect that costs to complete the Laindon development exceed net realisable value. Further details are included in note 3.

Swan Commercial Services Limited
Year ended 31 March 2023

Notes to the Financial Statements (cont.)

16. Share capital

	2023 £	2022 £
Called up, allotted and fully paid		
1 Ordinary share of £1	1	1

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

17. Commitments

Future minimum lease payments under non-cancellable operating leases are as follows:	2023 £'000	2022 £'000
Operating leases which expire:		
Within one year	1,457	1,623
Between two to five years	4,401	4,800
After 5 years	10,040	11,176
	<u>15,898</u>	<u>17,599</u>

Performance under the lease on a property is guaranteed by Swan New Homes Limited.

18. Related party disclosures

The Company has trading activities with PCRL 1A (a subsidiary of a joint venture within the group) during the year relating to the development site at Purfleet. During the year £5,391k was charged by PCRL 1A in relation to development costs at the Purfleet site. At year end the balance due to PCRL 1A was £175k (2022: £nil).

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, Sanctuary Housing Association (see note 20).

19. 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 2023 there were no material obligations under this guarantee.

Following an incident in 2020 at a development site where the Company was acting as principal contractor, there is an ongoing investigation by police and the HSE as well as civil claims from certain affected parties.

In respect of the HSE and Police investigations there was insufficient progress at 31 March 2023 to deem the likelihood of a penalty probable and at this early stage of investigation, the broad range of possible outcomes means that quantification of any potential penalty is not possible.

As shown in note 17 the Company has non-cancellable lease commitments on leased properties which are guaranteed by Swan New Homes Limited. A provision of £11.4 million (2022: £12.0 million) has been recognised by Swan New Homes Limited as at 31 March 2023. 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.

Swan Commercial Services Limited
Year ended 31 March 2023

Notes to the Financial Statements (cont.)

20. Ultimate Parent undertaking

The Company is a wholly owned subsidiary of Swan Housing Association. Swan Housing Association was acquired by Sanctuary Housing Association on 8th February 2023.

The Company regards Sanctuary Housing Association, registered in England as a Registered Society (Number 19059R) and with The Regulator of Social Housing (Number L0247), as its ultimate parent undertaking and controlling party.

Sanctuary Housing Association 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 Chamber Court, Castle Street, Worcester, WR1 3ZQ.

21. Post balance sheet events

As discussed in note 3, Laindon is a complex town centre redevelopment, where work is currently on hold whilst future plans are reassessed. Post year end, changes have been proposed to the plans for the development which have resulted in management assessment that there is some value to the Company in the site. This does not change the value recognised within the current year financial statements, as it is a non-adjusting post year end event.

22. Prior period adjustment

The accounts have been restated as at 31 March 2022 to reflect the fact that there were certain unavoidable costs associated with leased properties. There are two elements to these costs. The first element, relating to ongoing unavoidable costs has been treated as obligations arising from an onerous contract and recognised as a provision. The second, is the anticipated cost to rectify dilapidations.

As the decision not to use one leased property was made during the year ended 31 March 2022 and an associated onerous lease provision has been recognised within Swan New Homes (see note 3), it is appropriate to recognise this provision within the prior year.

The lease costs provision reflects the present value of unavoidable lease commitments such as insurance, rates and other costs required by the terms of the lease spread over the life of the remaining lease contract. The adjustment results in an introduction to provisions of £7.2 million as a credit and a debit to operating costs by the same value.

Also included within the lease costs provision, are dilapidation costs expected to be incurred to return a particular leased property to its original condition, as per the terms of the lease contract. Dilapidation costs of £2.3 million have been valued by a suitably qualified third party and is expected to be a one-off cost. The adjustment is to increase provisions by £2.3 million and debit operating costs by the same value.

The effect of these adjustments are to increase the reported loss of the Company for the prior year by £9.6 million from £9.4 million loss to £19.0 million loss and the impact on net liabilities in the prior year is an increase from £11.1 million net liabilities to £20.7 million net liabilities.