

Encircle Housing

Annual Report and Financial Statements

For the year ended 31 March 2023

Encircle Housing

Co-operative and Community Benefit Society registration number: 8071

Annual Report and Financial Statements For the year ended 31 March 2023

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Board Members, Executive Officers, Advisors and Bankers For the year ended 31 March 2023

Chair:	David Baybut (NED)
Board Members:	Peter Aviston (Executive Director) Michael Whitehead (NED) Alistair How (NED) Matthew Spittles (NED)
Secretary:	Peter Aviston
Registered Office:	Suite 1 2 High Street House Yeadon West Yorkshire LS19 7PP
Co-operative and Community Benefit Society Registration Number:	8071
Regulator of Social Housing Registration Number:	4784
External Auditors:	Beever and Struthers Statutory Auditors One Express 1 George Leigh Street Manchester M4 5DL
Bankers:	Santander Corporate Banking 298 Deansgate Manchester M3 4HH

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Report of the Board For the year ended 31 March 2023

The Directors present their Annual Report and Financial Statements for the year ended 31 March 2023 for Encircle Housing ("the Society", "Encircle"). Encircle is a registered provider of social housing (4784) and a Community Benefit Society and is also recognised by HMRC as a charitable organisation for tax purposes and has been issued with the Charities reference number ZD01819.

Overview of the Business and Principal Activities

Encircle provides high quality supported living accommodation in England, Wales and Northern Ireland which is specially designed to meet the individual and unique needs of adults, who have needs related to their learning disability, mental ill-health, acquired brain injury, physical or sensory disability, diagnosed long term condition such as dementia or who may for a multitude of reasons have found themselves homeless and require short or long-term support.

Vision and Purpose

Across the country there remains a shortage of specialist, carefully planned housing that is specifically designed to meet the changing and increasing demographic profile of people with learning disabilities, mental health, and other sensory impairments. Encircle believe that living in your own home, being safe, warm, and well is a key indicator of a successful society. We also believe that every one of us is unique and some of us need more support to achieve this common goal than others. Our vision is to **'create the right home and environment for every person'**.

We provide high quality housing management support with housing specifically designed and adapted to meet the need of the individual, relating to learning disability, mental-ill health, acquired brain injury, physical or sensory disability, or a diagnosed long-term condition such as dementia. Our purpose is to **'provide specialised supported housing and advice to enable people to thrive in their lives'**.

We believe that everyone has the right to feel safe and secure in their own home and be supported to gain the maximum independence and choice about how and who they share their lives with. We ensure tenants will achieve this and more, by providing them with the right support and guidance to help maintain their tenancy and reach their true potential. We work closely with our tenants, their families, and their representatives to gain a holistic understanding of their wants and needs. We also develop a growth strategy that is competitive and meets the evolving demands of the supported living sector.

Encircle exists to provide solutions for people as set out above, both by direct provision of specialist housing and by providing advice and assistance to a level that would not be provided in general needs housing.

Our **four core values** are:

- **We are honest, respectful, and open about everything we say and do**
- **We understand people's housing needs and do our best to help people achieve their goals**
- **We are committed to help our tenants find a personalised housing option**
- **We are approachable and passionate about everything we do**

At the end of March 2023 Encircle provided 587 units of specialist supported housing across England, Wales, and N.Ireland, and 135 units in residential care home settings in England. At the start of 2022/23 we began diversifying our business model to reduce our reliance on the long lease housing model. In 2022/23 we also completed a programme of sale, lease assignments and surrenders for a residual number of schemes totalling 90 units for which there was no demand, or the schemes were not financially viable. In their place will be further new needs led supported housing without reliance on a long lease housing model, which comprises of shorter leases and/or more flexible lease terms.

We also renegotiated a reduction in lease charges on a selection of properties where long term voids could not be let due to property and/or service characteristics.

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Objectives

Encircle's Five Year Rolling Strategy 2021 to 2026 sets out the organisation's strategic objectives and outcomes. It provides a framework against which the business will continue to be reshaped to ensure long term viability.

Below are our three strategic objectives that underpin how Encircle will deliver new much needed specialist housing:

1. Have a viable business to provide security for our existing tenants
2. Grow the number of tenancies, primarily for people with learning disabilities and mental health
3. Provide a high quality, caring and efficient housing service

Key Achievements

We are now over four years on from the Regulator of Social Housing's April 2019 Regulatory Notice, and the Board is pleased to report that Encircle has addressed the majority of the Regulators concerns and continues to make further improvements working collaboratively with the Regulator. We have continued our programme of audits by our internal auditor TIAA, and further details are provided later in this report.

During the latter part of 2022/23 in response to the cost-of-living crisis and significant increases in CPI we secured caps to our lease rent increases. We also negotiated the assignment or surrender of 46 units of accommodation with our landlords (and a further 50 units within 2 months of year-end) – properties that were for the main part empty and were not supported by local authorities and health commissioners for supported accommodation. This divestment of leases also reduced our annual operating lease commitments by £386k (plus £396k by end of May 2023).

Properties that prior to the C-19 pandemic had been empty continued to be used for temporary homeless accommodation.

We partnered with five new care providers and leased eight new properties (11 new tenancies) in 2022/23, all on short term leases. All our new leases include financial viability and change in demand clauses which in adverse circumstances mean that vacant properties can be returned to superior landlords without penalty.

Towards the end of the year Encircle undertook a procurement exercise to secure a new ICT managed service provider. We also strengthened our own in-house financial management capability in advance of ending our service contract with Change Housing. Migration of these key business functions was successfully completed shortly after the end of the financial year.

We completed our corporate branding plans and published our second annual report which was distributed to all our tenants. Specialist factsheets for our tenants, commissioners and investor landlords were also produced as part of our wider communications and marketing strategy.

This combination of rationalising our housing, new organic needs led growth, and driving up performance and tenant satisfaction contributed to a successful financial outturn – slightly down on the prior year, but only marginally which the Board considers positive given the challenging cost and operating environment caused by global factors.

Operational Performance

Our housing team sustained an extensive programme of commissioner engagement and assured the Board of its continued compliance with the Regulator of Social Housing 2020 Rent Standard.

Financial scrutiny continues to be a priority for the Board given the low margins that all long leased based housing providers are constrained by. Detailed financial reports at scheme and landlord portfolio level were routinely report to the Board throughout 2022/23 with scrutiny exercised by the Boards Audit and Risk Committee.

Despite materials and labour costs increasing throughout the year, tight budget monitoring resulted in the repairs and maintenance costs remaining in budget. However, although utility charges were constantly kept under review, and

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where possible and more favourable tariffs were available, we did switch to alternative suppliers. Nevertheless, costs of communal heating and lighting exceeded the base budget by 60%.

Occupancy dropped from 86% at the start of the year to 83% by year end. Factors include delays in referrals from commissioners and available care budgets, recruitment delays for some of our care partners, unsuitability of some accommodation, and change of service management whereas in the case of Ridge House, Encircle took over the management of this temporary accommodation scheme following the failure of the previous operator. Our head landlords responded positively during the year with financial support and agreed lease rent reductions on selected schemes.

Specialist Housing Management

We provide a bespoke housing and tenancy management service to our tenants to enable them to live as independently as possible within the community. This starts before a person takes up a tenancy with Encircle, with holistic pre-tenancy interviews, risk assessments, and income and expenditure checks to ensure the needs of the individual can be fully met and that the property is right for them and sustainable. Our service then continues to support the individual during the life cycle of their tenancy, and this requires close partnership working with local authorities, health, and social care trusts and, our care providers to ensure that they are meeting their objectives of their service level contracts and delivering high quality care and support to our tenants.

Below is a list of our principal housing management functions, this list is not exhaustive of our services: -

- Liaising with Commissioners/Health Authorities to seek referrals.
- Conducting pre-tenancy interviews and allocations risk assessments to ensure applicant suitability.
- Management of Rent and Service charge income by supporting tenants to claim Housing Benefit and Council Tax reductions, where applicable.
- Providing advice and support to tenants for income maximisation and early preventative work to manage rent arrears.
- Undertaking weekly wellbeing calls with our tenants and service managers.
- Acting as an advocate for all tenants promoting their physical, social, and financial wellbeing, by working with the Care Provider/Key Workers to ensure that the tenants needs are being met.
- Managing tenancy and tenancy responsibilities, including the management of ASB/risk. We do this by working with our tenants, care providers and professional partners to ensure that cases are managed effectively and when necessary, taking the lead in organising and chairing case conference meetings, reviews and agreeing action plans/outcomes to meet the needs of our tenants and services.
- Effectively promote active tenant involvement in all aspects of service provision affecting their home and/or their care provision, where appropriate, including regular monthly residents' meetings and participation in resident involvement events.
- Safeguarding tenants, including identifying risk, reporting and, effective management of the risk.
- Completing bi-monthly quality assurance checks with care provider partner to ensure compliance with health & safety regulations, review of care & support plans, personal emergency evacuation plans, management of tenancy breaches/anti-social behaviour and property inspections to ensure effective delivery of services.
- Effectively managing vacant properties to minimise rent loss and minimise void turnaround/relet times in line with agreed KPIs.
- Providing a 24/7 repairs service and ensuring all compliance documentation is maintained.

In addition to the above we also implemented the first year of our tenant involvement strategy, to place our residents at the heart of our service delivery. At Encircle we want to encourage our tenants to genuinely engage in decisions that affect their lives and, over the last 12 months we have developed strong relationships. We produced our second Annual Report as well as worked alongside our tenants and their care staff at garden make over days and paint pot days. We also consulted with our tenants on Rent and Service Charge setting and the delivery of soft services at their homes.

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At the end of 2022/23 Encircle directly employed the following housing management staff:

- Head of Housing
- 2 Housing Officers plus 1 part time N. Ireland Housing Officer
- 1 Systems Performance Lead Officer
- 1 Rent and Income Manager
- 1 Income Officer
- 1 Business Administration Support Assistant
- 1 Senior Support Worker

Void Performance

	Total Bed Spaces	Void Bed spaces	Void %age
31/03/2019	120	80	67%
31/03/2020	448	167	37%
31/03/2021	596	148	25%
31/03/2022	596	85	14%
31/03/2023	587	99	17%

Occupancy levels were 3% down on last year's reported performance of 86%. There is not one single cause for this, being a combination of factors. We saw delays in referrals due to funding with ICB's (Integrating Commissioning Boards) still being in their infancy. In Qtr1 & 2, we also had a high volume of voids in our portfolio with Northern Healthcare, with three properties (Merchants House, Milnshaw House and Heleners House) accounting for nearly 30% of the overall void count. We also took over the direct management of two temporary social housing properties, Marlow Lodge and Ridge House in August 2022. Both services were in decline, and we placed a temporarily hold on new referrals for a period of three months to allow for us to stabilise the services and work with the local authority and partners, to assess long term demand and alignment with homeless priorities for the properties. With the agreement of the authority residents at Marlow Lodge were rehoused and Marlow closed on 2nd December 2022.

Income Management (Housing Benefit)

	Full HB Payment	Partial HB Payment	Pending /Inactive/Ended	Self-Funding (*)
31/03/2019	41%	11%	48%	0%
31/03/2020	52%	10%	34%	4%
31/03/2021	85%	4%	2%	9%
31/03/2022	82%	3%	7%	8%
31/03/2023	75%	4%	17%	4%

(*) this includes rent received from care providers and commissioners for units let under licencing arrangements.

Housing Benefit in full payment fell for the first time in March 2023 to 75%, this was largely due to applications for rent uplifts based on high inflationary pressures, which reached local authorities at the end of February 2023. The rental uplifts prompted some local authorities to temporarily suspend payments, pending requests for additional information, such as care and support plans. This was evidenced in the increase in pending/inactive/ended claims at 17% of which only 3% relate to brand new claims awaiting payment. By the end of Q1, 2023/24 the proportion of Housing Benefit payments paid in full had returned to 85%

Our target for 2022/23 is to reduce voids to 86% and sustain tenants' payments at 96%.

Property Compliance

Encircle has an in-house team responsible for repairs, planned maintenance and property compliance. Our own Repairs & Compliance Service Desk is supported by two Maintenance and Compliance Surveyors employed by Encircle. Below is an overview of compliance at year end:

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Compliance Area	Performance
Boiler Servicing CP12 Gas	100%
NICEIC 5-year certificate	100%
Fire Risk Assessments within date	100%
Fire detection test (six monthly)	100%
Legionella	100%
Lift Inspections	100%
Hoist Services	100%

In addition to our own repairs reporting service, we also provide an out of hours repairs call handling service. The Board has agreed that in 2023/24 that two in-house operatives should be employed where we have concentrations of properties in the north of England. This investment is now possible as we have established our systems and processes, and we expect to see further improvements to customer satisfaction.

Growth

Encircle took a decision to not enter any further long leases in 2020, and over the last 3 year we have taken time to focus on securing referrals for existing schemes. We did, however, establish eight new schemes through private leasing arrangements with short term lease commitments. As a result of our needs lead approach, we are working with smaller regional care providers, who in many cases either own or have access to local investor developers. We also supported one family through a Trust vehicle to purchase and adapt a property for three tenants including their son as part of a planned move from a residential institution to supported living. During 2023/24 our focus will be to continue to build the number of care provider and commissioner relationships to deliver 20 more new units of accommodation.

The Board will also engage with other partners, families and not for profit trust funds to invest in much needed specialist supported housing during the next year. We remain open to working with institutional investors on new schemes however the lease conditions would need to include provisions that mitigate risks for Encircle linked to changes in rent standard and Housing Benefit regulations, adverse changes in demand, and depending on the age and condition of properties a partial or full carve out of repairing and insuring liabilities. We also see continued benefit of working with our peer long leased based registered providers to continue to de-risk our businesses and develop a consistent framework for new businesses development.

Our key growth criteria continue to be:

- Needs led focussed with early full engagement of commissioners, care providers, housing benefit departments, and where appropriate tenants, their families, and appointees.
- Based around reduced scheme sizes, the maximum being 10 to 12 self-contained blocks of accommodation or shared housing of 6 tenants.
- Focussed on learning disability, autism, mental health, and sensory impairments.
- Where possible a mixed approach to leasehold and freehold, with lease commitments less onerous and shorter than previously signed by Encircle, and
- Focussed on growth in localities where Encircle has a presence and with care providers that have sound relationships with commissioners.

Following an extended period of negotiation with Change Housing and its parent Four Synergy Group we terminated our contract for strategic finance and ICT services in May 2023. Encircle has recruited its own finance team and procured a new ICT managed service provider. We will see cost saving benefits in 2023/24, as well as improvements to our financial management systems as a result of accounts management sitting under the same roof as income collection and debtor management.

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Financial Review – 2022/23 Performance

Turnover at £11.1m is £0.5m lower than prior year, following the divestment of void long-lease units as Encircle focused on securing referrals for operational schemes.

The rate of growth experienced in 2019/20 was challenging for Encircle as a small organisation leading to an inability to recover all costs in prior years. Lease rents remain a significant proportion of income generated, as the full CPI linked lease rent for the property is due even when occupancy levels are lower than required to be sustainable. Through careful management, and much improved occupancy, Encircle has generated a surplus of £0.16m in the year, returning the Society to surplus a year earlier than anticipated. This represented a substantial improvement on initial budget driven by negotiations to divest Encircle of underperforming lease properties.

In April 2022 and December 2022 Encircle divested itself of two long-lease properties comprising 46 void units, and shortly after year end a further two long leased properties comprising 50 void units. As part of the overall transaction and in return for a £100k lease arrears settlement Encircle received rent arrears forgiveness of £0.7m. This write off was in recognition that Encircle had not generated sufficient income to cover historic lease rents due.

Encircle's retained properties with this head landlord also received an ongoing lease rent reduction to support long-term financial viability.

Encircle manages its cash position closely, retaining a cash balance of £1.6m. Both debtors and creditors at year-end are improved following the divestment of properties and subsequent arrears forgiveness, however further improvements need to be made. Payment plans are in place with major debtors and Encircle continues to have support from head landlords with rent holidays until Encircle is in receipt of payment.

During the year, bad debts reduced from £1.25m to £0.08m. The tenancy arrears write off in March 2023 and additional provision required represents 1.03% of rental income. In the business plan over the next 4 years, a reduction in tenancy bad debts has been targeted, resulting in a bad debt expense of 1% of total rental income. However, there is large debtor of £1.019m included in the balance sheet which is being negotiated together with accrued income of £1.083m. Directors are confident these negotiations will lead to full recovery of the balances. Since the year end, Encircle has continued to progress negotiations with the superior landlord and the care provider debtor and is confident of a resolution that will suit all parties without a detrimental impact on Encircle via a debt write off.

Going Concern

The Society's business activities, its current financial position, and factors likely to affect its future development are set out within the report of the board. Encircle has a stress tested 30-year business plan which considers a range of adverse income and cost scenarios, as well as assessing the impact of multiple scenarios.

Encircle made a small surplus in the year, mainly due to concessions and variations to lease rents which was partly offset by the costs of heating and lighting our properties. However, with uplifts in our services charges which are at an advanced stage of approval by Housing Benefit departments we are forecast making a surplus of £180k in the year 2023/24, with a projected return to a net assets position by the end of 2025/26.

In response to cost-of-living increases in the last 6 months of 2022/23, in particular the impact of utility pricing increases several of our superior landlords applied lease de-risking initiatives to existing leases. Furthermore, working in collaboration with a wider peer group of long-lease registered providers we have aligned our lease anniversaries to September CPI reference dates for 2023 forwards. We are also engaged in negotiating lease variations so that future rent liabilities are aligned to government rent setting policy, future Housing Benefit regulations, and de-risking leases should there be an adverse change in demand. These actions combined with new business underpinned by flexible leasing with less asset investment liability all combine to support regulatory compliance improvements and address perceptions of risk. Encircle continues improve its business reliance to ensure that our tenants can remain living in their homes should wider external factors adversely impact our business. Encircle, through both individual and collective negotiation with our peers will continue to work with our long lease landlords to further reduce the long tail liability that our historic leased portfolio carries.

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The business plan will continue to be stress tested and assessed for any imminent or likely impact and no significant concerns have been noted. On this basis the board has a reasonable expectation that the Society has adequate resources to continue in operational existence for the foreseeable future, being a period of at least twelve months after the date on which the financial statements were approved.

We consider it appropriate to continue to prepare the financial statements on a going concern basis.

VALUE FOR MONEY STATEMENT

Introduction

Encircle is required to comply with the regulatory framework for the sector as issued by the Regulator of Social Housing (RSH). The regulatory framework contains a specific standard dealing with value for money (VFM) and how registered providers are expected to address this issue.

The following metrics have been calculated by Encircle as required by the RSH VFM Standard. These metrics have been prepared using the latest technical guidance note update May 2022.

Value for Money

The board believes following its self-assessment in November 2022 that Encircle Housing complies with the Regulator of Social Housing's standard for VFM.

In 2022/23 Encircle received the full year benefit of market testing the insurance market through an alternative broker and despite increases across the market we saved £8,692.88 on a like for like renewal basis for our combined commercial, and combined business travel, personal accident and sickness insurance. The increase in our cyber-crime insurance premium of £2,184.97 was offset by this saving. All policies were also aligned to a 1 January 2024 renewal date thereby enabling accurate rent setting in future years based on up-to-date insurance market conditions and pricing.

Following a tendering exercise and as part of a migration of services in house at the end of Q4, 2022/23 Encircle commenced in house recruitment of finance staff and an alternative ICT managed service provider. Full year savings of £70,000 are forecasted for 2023/24.

In March 2023 Encircle transferred £1.4m to deposit accounts to benefit from an increase in interest rates. Following year end interest of £5k had been received by the end of Q1 2022/23, and careful management of finances between instant access and savings accounts will be maintained.

Although Encircle does not currently employ its own direct labour workforce for repairs we do undertake a limited number of repairs by utilising our own staff with trades experience. Our two surveyors also undertook fire risk assessments and asbestos reviews across our portfolio. Combined we calculate that this saved over £20k last year (£21k in 2021/22).

There is a budget in place this year with a plan to make further improvements on current performance. A business case for employing our own staff in a limited capacity as we gear up for cyclical works including our painting programme in 2023/24 has been approved by the Board.

In line with regulatory requirements Encircle has included in its published accounts its value for money metrics, focusing on five of the seven ratios required by the regulator. The lease-based model does provide results outside of the norms for the sector, and in particular, Metric 3 Gearing and Metric 4 EBITDA-MRI are both less relevant to Encircle as there are minimal long-term loans.

We strongly believe that our services offer value for money when compared against our peer group providers, as opposed to the global accounts, due to the commissioning of an integrated housing management, income collection, housing benefit administration and repairs and maintenance service delivered nationally.

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With no sub-sector comparison currently available, the Global accounts of all Registered Providers value for money metrics have been used for a point of reference for the financial year ended March 2023. During 2023/24 we will continue to informally use sub sector SSH benchmarks as part of the learning and development opportunities that our participation in the Specialised Supported Housing Network presents.

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Metric 1 – Re-investment %

This metric looks at the investment in properties (existing stock as well as new supply) as a percentage of total properties held.

	Result for financial year ended March 2023	Result for financial year ended March 2022	Target for financial year ended March 2024	Global accounts SH for financial year ended March 2022
Newly built properties acquired	-	-	-	
Works to existing	-	-	-	
Total	-	-	-	
Divided by:				
Housing properties at valuation	£-	£225,000	-	
Reinvestment %	0.0%	0.0%	0.0%	6.5%

Encircle Housing does not own any housing property now. There has not been any reinvestment into tangible fixed assets, as growth focus has been on leased schemes. Encircle intends to invest in future growth through owned assets wherever possible; this hasn't been set as a specific target for 2023/24.

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Metric 2 – New Supply delivered %

This metric sets out the number of new social housing and non-social housing units that have been acquired or developed in the year as a proportion of units owned at year end.

	Result for financial year ended March 2023	Result for financial year ended March 2022	Target for financial year ended March 2024	Global accounts SH for financial year ended March 2022
New social housing units	-	-	-	
New social housing leasehold units	28	8	20	
Total new social housing units	28	8	20	
Divided by:				
Total social housing units owned	-	-	-	
Total social housing leasehold units	772	753	742	
Total social housing units	772	753	742	
New supply (social housing units) %	3.89%	1.06%	2.7%	1.4%
New non-social housing units	-	-	-	
New non-social housing leasehold units	-	-	-	
Total new non-social housing units	-	-	-	
Divided by:				
Total housing units owned	-	-	-	
Total housing leasehold units	72	753	742	
Total housing units	72	753	742	
New supply (non-social housing units) %	0.0%	0.0%	0.0%	0.0%

In line with the business plan there has been no investment in non-social housing.

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Metric 3 – Gearing %

This metric assesses how much of the adjusted assets are made up of debt and the degree of dependence on debt finance.

	Result for financial year ended March 2023	Result for financial year ended March 2022	Target for financial year ended March 2024	Global accounts SH for financial year ended March 2022
Loans: amounts falling due < 1 year	-	-	-	
Loans: amounts falling due > 1 year	-	-	-	
Less: cash and cash equivalents	(£1,587,898)	(£1,643,505)	(£1,767,000)	
Total	(£1,587,898)	(£1,643,505)	(£1,767,000)	
Divided by:				
Housing properties at valuation	£0	£225,000	-	
Gearing %	0	-730.4%	0.0%	44.1%

Encircle's gearing is less relevant than traditional housing associations as it operates a lease-based model. There are now no housing properties held in the Financial statements.

There are no loans outstanding.

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Metric 4 – EBITDA MRI interest cover %

The Earnings Before Interest, Tax, Depreciation, Amortisation, Major Repairs Included interest cover percentage is a key indicator for liquidity and investment capacity. It seeks to measure the level of surplus that a registered provider generates compared to interest payable. Again, as Encircle operates a lease-based model and has a very low level of debt and therefore interest, this measure is not considered overly relevant.

	Result for financial year ended March 2023	Result for financial year ended March 2022	Target for financial year ended March 2024	Global accounts SH for financial year ended March 2022
Operating surplus	£8,049	£27,137	£180,000	
Add: Loss on disposal of fixed assets (housing properties)	£-	£4,167	-	
Add: interest receivable	£4,600	£-	-	
Add: total depreciation charge	£2,759	-	-	
Total	£14,408	£33,907	£180,000	
Divided by:				
Interest payable and similar expenses	£13,457	£6,612	-	
EBITDA MRI interest cover %	114%	513%	0.0%	146.0%

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Metric 5 – Headline social housing cost per unit

The unit cost metric assesses the headline social housing cost per unit as defined by the regulator.

	Result for financial year ended March 2023	Result for financial year ended March 2022	Target for financial year ended March 2024	Global accounts SH for financial year ended March 2022
Management (excluding lease rent)	£1,994,033	£2,097,759	£1,975,531	
Lease rents payable	£6,281,258	£6,063,665	£7,703,739	
Service charge costs	£1,924,899	£1,425,722	£1,672,637	
Routine maintenance	£492,206	£485,632	£475,000	
Planned maintenance	£200,705	£159,432	£260,000	
Major repairs	£129,156	£161,358	£498,960	
Total	£11,022,694	£10,393,568	12,585,867	
Divided by:				
Total social housing units owned or managed	722	753	742	
Headline social housing cost per unit	£15,267	£13,803	£16,962	£4,150
Headline social housing cost per unit (excluding lease rent)	£6,567	£5,750	£6,580	£-

Encircle Housing's management costs and investment into properties will be sustained to ensure safety compliance and tenant satisfaction. We do seek to negotiate the best possible prices but must reflect market realities. Encircle's headline cost per unit is high compared with the global accounts as the global accounts do not typically reflect the lease model, nor the increased level of housing management and maintenance costs associated with the specialised support Encircle offers tenants. When lease costs are removed costs per unit are more comparable with the global accounts for the sector. Both measures are forecast to improve further by March 2023 following a series of operational improvements and lease renegotiations.

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Metric 6 – Operating Margin %

The operating margin demonstrates the profitability of operating assets before exceptional expenses are considered. Increasing margins are one way to improve the financial efficiency of a business. In assessing this ratio, it is important that consideration is given to registered providers' purpose and objectives.

	Result for financial year ended March 2023	Result for financial year ended March 2022	Target for financial year ended March 2024	Global accounts SH for financial year ended March 2022
A – Operating margin (social housing lettings only) %				
Operating surplus/(deficit) from social housing lettings	£8,049	31,304	£180,441	
Divided by:				
Turnover from social housing lettings	£11,127,891	£11,674,588	£12,766,308	
Operating margin (social housing lettings only) %	0.07%	0.3%	1.4%	23.3%
B – Operating margin (overall) %				
Operating surplus/(deficit)	£8,049	27,137	£43,603	
Add: Loss on disposal of fixed assets (housing properties)	£-	£4,167	-	
Total	£8,049	£31,304	£50,203	
Divided by:				
Turnover	£11,127,891	£11,674,588	£12,534,373	
Operating margin (overall) %	0.07%	0.3%	1.4%	20.5%

Encircle's break-even margin is due to specific upfront costs to support new leased schemes while occupancy is increased. Lease rents are a significant proportion of income generated, with rent for the property due even when occupancy levels are lower than required to be sustainable. In addition to the surplus in 2022/23, there is a surplus position also forecasted in 2023/24.

Normal margins experienced by the lease sector are typically at best a quarter of the sector median due to the impact of the lease rent charges incurred as an operating cost.

Encircle Housing

Co-operative and Community Benefit Society registration number: 8071

Report of the Board For the year ended 31 March 2023

Metric 7 – Return on capital employed (ROCE) %

This metric compares the operating surplus to total assets less current liabilities and is a common measure in the commercial sector to assess the efficient investment of capital resources.

	Result for financial year ended March 2023	Result for financial year ended March 2022	Target for financial year ended March 2024	Global accounts SH for financial year ended March 2022
Operating surplus/(deficit)	£8,049	27,137	£180,411	
Divided by:				
Total assets less current liabilities	(£290,122)	(£298,172)	£42,560	
Return on capital employed %	-2.77%	-9.1%	-4.28%	3.2%

Encircle's ROCE is distorted by the impact of net liabilities in the year, due to specific upfront costs to support new leased schemes while occupancy is increased.

Encircle Housing

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Report of the Board For the year ended 31 March 2023

Ongoing delivery of Value for Money

Following a period of rapid growth and stabilisation, Encircle is embedding a range of activities across the organisation to ensure the ongoing delivery of VFM. This will increase measurement and benchmarking of VFM activities, enabling improved communication with staff which will further embed VFM priorities into their daily roles.

Encircle has sought to renegotiate leases and seek head landlord arrears forgiveness where it has assessed schemes to be unviable for SSH. This strategy will continue to ensure all leased properties are financially viable and offering value for money for our tenants.

Key Risks

We recognise the key risks faced by small specialist supported housing providers operating a lease-based model in the current economic climate and have developed a comprehensive organisational risk register that takes account of the RSH October 2022 Sector Risk Profile and 'Addendum to the Sector Risk Profile 2019' (published April 2019) that identifies and mitigates against financial, regulatory, and wider external economic and environmental risks. The Board reviewed its strategic risk register, mitigation actions and assurances on a quarterly basis throughout 2022/23. Encircle's eight key risks, which are common to many other specialised supported housing providers at the end of the year, are assessed as being:

1. Insufficient Demand from commissioners for properties.
2. Short term income out of line with costs because of HB payment delays, non-payment of void costs by care providers, and/or the impact of welfare reforms and review of exempt accommodation regulations.
3. Poor long term financial viability linked in part to increased costs of operating and maintaining our properties.
4. Over reliance on the inflations linked long lease financing model and no ability to establish cash reserves to protect the business in the event of an adverse trading period.
5. Care provider failure exposes tenants to risk.
6. Long term costs of maintaining properties are unaffordable.
7. Property portfolio is insufficiently flexible to meet changing needs of commissioners.
8. Utility cost increases unaffordable.

Previous years risks associated with Covid 19 were replaced at the start of 2022/23 with utility cost increases and inflationary pressures on materials and labour repair costs. Changes to the Regulators Rent Standard published in April 2023 did not materially impact on our rent setting for the 2022/23 year, and CPI indexed linked lease increases were for the main approved by Housing Benefit.

Encircle Housing

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Report of the Board For the year ended 31 March 2023

Board members regularly participate in risk seminars and will continue to assess the impact of emerging risks including the de-carbonisation/building safety agenda, supply chain pressures for materials and labour, and data security and cyber resilience.

Corporate Governance & Compliance with the RSH Governance and Financial Viability Standards

No further Regulatory Notices have been issued by the Regulator of Social Housing since Encircle's original April 2019 Regulatory Judgment, stating that it found Encircle to be non-compliant in terms of both the governance and financial viability standards. Encircle continues to work diligently with the Regulator to address any remaining concerns they have around governance and financial compliance. Our action plan has been regularly updated and shared with the RSH who has commented positively on progress and plans throughout the year.

The Board has experienced directors and senior managers with experience in the real estate, social housing finance, the housing social and health sector, asset management, and the specialist supported housing development and management sectors. The Board met monthly throughout the year to provide strategic direction, governance, and operational scrutiny.

In 2022/23 TIAA our internal auditors undertook their third annual programme of audits. The Board allocated 30 days of audit time and assessed five areas of compliance:

System	Type	Assurance Assessment
Responsive Repairs	Assurance	Reasonable
Housing Allocations	Assurance	Substantial
Business Planning & Stress Testing	Assurance	Substantial
Procurement	Assurance	Reasonable
Void Management	Assurance	Reasonable

TIAA's Head of Internal Audit reported that in its annual opinion that it is satisfied that, for the areas reviewed during the year, Encircle Housing has reasonable and effective risk management, control, and governance processes in place.

In March 2023 the Board undertook its latest annual self-assessment of compliance with the Regulator of Social Housing Governance and Financial Viability Standards. Our self-assessment demonstrated further compliance improvements since the original Regulatory Notice was issued by the Regulator. All board papers are also provided to the Regulator in a timely and transparent manner.

Over the last two years Encircle has assessed itself against the 2020 National Housing Federation Code of Governance and the Board and senior management followed an action plan that addressed gaps. Following a self-assessment by the Board in March 2023 the Board assessed itself as being compliant against the Code.

Encircle had previously adopted the NHF Model Rules 2015. The Board amended its Terms of Reference, and Conflicts of Interest Policy and Procedure at its meeting in November 2022 to assure compliance with the 2022 National Housing Federation Code of Conduct. All current and new employees are also required to formally confirm that they will adhere to the requirements of the Code of Conduct.

Encircle Housing

Co-operative and Community Benefit Society registration number: 8071

Report of the Board For the year ended 31 March 2023

Financial Plan

In 2019 a bespoke 30-year financial model was co-produced by Altair and Encircle that is fully compliant with the Regulator's financial reporting requirements. This model has been regularly updated and was last stress tested in January 2023. Other control frameworks include a Financial Responsibilities and Authorisation Framework, monthly compliance and operational reporting to the Board, monthly management accounts, and routine reporting of disposals and new lease commitments.

The financial statements are prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP) including Financial Reporting Standard 102 (FRS 102) and the Housing SORP 2018: Statement of Recommended Practice for Registered Social Housing Providers and comply with the Accounting Direction for Private Registered Providers of Social Housing 2022.

The Board also obtains other external specialist advice from time to time, as necessary.

Directors and Officers Indemnity Insurance.

Policy cover is in place that protects the personal assets of corporate directors and officers, and their spouses, in the event they are personally sued by employees, vendors, competitors, investors, customers, or other parties, for actual or alleged wrongful acts in managing a society up to a limit of £5m.

In 2022/23 Encircle also has combined commercial insurance cover of £10m, combined personal accident/business travel cover, and cyber-crime insurance cover of £1m.

Employees

On 31 March 2023 Encircle had 15 full time employees, one employee on a 0.8FTE, and one employee on a 0.5FTE contract. All employees are actively involved in the operational management of Encircle and are supported with personal development opportunities. Encircle does not discriminate on the grounds of disability, gender or ethnicity and has an equal opportunities recruitment policy. The organisation has group life insurance cover in place, as well as other employee benefits including a workplace medical expenses policy.

Internal Controls Assurance

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

The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and to provide reasonable (and not absolute) assurance against material misstatement or loss, in line with the Board's view that risks should be controlled and managed.

The Directors are satisfied that the major risks to which the organisation is exposed are understood, well documented and that appropriate action plans are in place to mitigate these risks. The Directors acknowledge that there has been continued investment in the control framework during 2022/23.

Encircle Housing

Co-operative and Community Benefit Society registration number: 8071

Report of the Board For the year ended 31 March 2023

Statement of Board Responsibilities

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

The Co-operative and Community Benefit Societies Act 2014 and registered social housing legislation require the Board to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Society's and of the Society's income and expenditure for the year then ended.

In preparing these financial statements, the Board is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, 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 Society will continue in business.

The Board is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Society and enable it to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing in England 2022. It has general responsibility for taking reasonable steps to safeguard the assets of the Society and to prevent and detect fraud and other irregularities.

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

The Report of the Board was approved by the Board on 27th September 2023 and signed on its behalf by:



..... Chair
David Baybut

Encircle Housing

Co-operative and Community Benefit Society registration number: 8071

Independent Auditor's Report to the Members of Encircle Housing

Opinion

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

In our opinion, the financial statements:

- give a true and fair view of the state of the Society's affairs as at 31 March 2023 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2022.

Basis for opinion

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

Emphasis of Matter – Bad debt provision

We draw attention to Note 1d. to the financial statements which describes that bad debts have been provided for on a specific debt recoverability probability, and estimates were agreed by the board. However, there is a large debtor of £1,019k included in the balance sheet which is being negotiated together with a deferred creditor payment agreement on settlement of the outstanding debt. In addition, other debts totalling £306k are subject to execution of settlement agreements agreed between all parties and have therefore not been provided for. Directors are confident these negotiations will lead to full recovery of the balances.

Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

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

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

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

Encircle Housing

Co-operative and Community Benefit Society registration number: 8071

Independent Auditor's Report to Members of Encircle Housing

Other information

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

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

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

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

Responsibilities of the Board

As explained more fully in the Statement of Board Responsibilities set out on page 20, the Board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board is responsible for assessing the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board either intend to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

Encircle Housing

Co-operative and Community Benefit Society registration number: 8071

Independent Auditor's Report to the Members of Encircle Housing

Extent to which the audit was considered capable of detecting irregularities, including fraud

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

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

- We obtained an understanding of laws, regulations and guidance that affect the Society, focusing on those that had a direct effect on the financial statements or that had a fundamental effect on its operations. Key laws, regulations and guidance that we identified included the Co-operative and Community Benefit Societies Act 2014, the NHF Code of Governance 2020, the Regulatory Standards, the Statement of Recommended Practice for registered housing providers: Housing SORP 2018, the Housing and Regeneration Act 2008, the Accounting Direction for Private Registered Providers of Social Housing 2022, tax legislation, health and safety legislation, and employment legislation.
- We enquired of the Board and reviewed correspondence and Board meeting minutes for evidence of non-compliance with relevant laws and regulations. We also reviewed controls the Board have in place, where necessary, to ensure compliance.
- We gained an understanding of the controls that the Board have in place to prevent and detect fraud. We enquired of the Board about any incidences of fraud that had taken place during the accounting period.
- The risk of fraud and non-compliance with laws and regulations was discussed within the audit team and tests were planned and performed to address these risks. We identified the potential for fraud in the following areas: laws related to the construction and provision of social housing recognising the regulated nature of the Society's activities.
- We reviewed financial statements disclosures and supporting documentation to assess compliance with relevant laws and regulations discussed above.
- We enquired of the Board about actual and potential litigation and claims.
- We performed analytical procedures to identify any unusual or unexpected relationships that might indicate risks of material misstatement due to fraud.
- In addressing the risk of fraud due to management override of internal controls we tested the appropriateness of journal entries and assessed whether the judgements made in making accounting estimates were indicative of a potential bias.

Due to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing fraud or non-compliance with laws and regulations and cannot be expected to detect all fraud and non-compliance with laws and regulations.

Use of our report

This report is made solely to the members of the Society, as a body, in accordance with section 87 of the Co-operative and Community Benefit Societies Act 2014 and Section 128 of the Housing and Regeneration Act 2008. Our audit work has been undertaken so that we might state to the Society those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society for our audit work, for this report, or for the opinions we have formed.

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



Date: 29/09/2023

Encircle Housing

Co-operative and Community Benefit Society registration number: 8071

Statement of Comprehensive Income For the year ended 31 March 2023

	Notes	2023 £	2022 £
Turnover	2	11,127,891	11,674,588
Operating expenditure	2	(11,110,985)	(11,643,284)
Loss on disposal of housing properties		-	(4,167)
Operating surplus		16,906	27,137
Interest receivable	5	4,600	-
Interest and financing costs	6	(13,457)	(6,612)
Surplus before taxation		8,049	20,525
Taxation	7	-	-
Surplus for the year	8	8,049	20,525
Unrealised surplus on revaluation of housing properties		-	36,000
Total comprehensive income for the year		8,049	56,525

All of the above results derive from the continuing operations of the Society.

The notes on pages 28 to 41 form an integral part of these financial statements.

The financial statements on pages 24 to 41 were approved and authorised for issue by the Board on 27th September 2023 and were signed on its behalf by:-



SECRETARY

Peter Aviston



BOARD MEMBER

David Baybut



BOARD MEMBER

Michael Whitehead

Encircle Housing

Co-operative and Community Benefit Society registration number: 8071

Statement of Financial Position As at 31 March 2023

	Notes	2023		2022	
		£	£	£	£
Fixed assets					
Housing properties	11	-		225,000	
Other fixed assets	12	6,153		5,207	
			6,153		230,207
Current assets					
Trade and other debtors	13	3,151,405		2,674,084	
Cash and cash equivalents	14	1,587,898		1,643,505	
		4,739,303		4,317,589	
<u>Less:</u>					
Creditors: amounts falling due within one year	15	(5,035,579)		(4,845,968)	
			(296,276)		(528,379)
Net current liabilities					
			(290,123)		(298,172)
Total assets less current liabilities					
Creditors: amounts falling due after more than one year	16		-		-
Total net liabilities					
			(290,123)		(298,172)
Reserves					
Non-equity share capital	18		5		5
Income and expenditure reserve			(290,128)		(476,948)
Revaluation reserve			-		178,771
Total reserves					
			(290,123)		(298,172)

The notes on pages 28 to 41 form an integral part of these financial statements.

The financial statements on pages 24 to 41 were approved and authorised for issue by the Board on 27th September 2023 and were signed on its behalf by:-



SECRETARY

Peter Aviston



BOARD MEMBER

David Baybut



BOARD MEMBER

Michael Whitehead

Encircle Housing

Co-operative and Community Benefit Society registration number: 8071

Statement of Changes in Reserves For the year ended 31 March 2023

	Non-equity share capital £	Income and expenditure reserve £	Revaluation reserve £	Total £
Balance at 1 April 2021	6	(717,473)	362,770	(354,697)
Surplus for the year	-	20,525	-	20,525
Shares surrendered during the year	(1)	1	-	-
Revaluation of fixed assets	-	-	36,000	36,000
Transfer to income and expenditure reserve	-	219,999	(219,999)	-
	_____	_____	_____	_____
Balance at 31 March 2022	5	(476,948)	178,771	(298,172)
	=====	=====	=====	=====
Balance at 1 April 2022	5	(476,948)	178,771	(298,172)
Surplus for the year	-	8,049	-	8,049
Transfer to income and expenditure reserve	-	178,771	(178,771)	-
	_____	_____	_____	_____
Balance at 31 March 2023	5	(290,128)	-	(290,123)
	=====	=====	=====	=====

The notes on pages 28 to 41 form an integral part of these financial statements.

Encircle Housing

Co-operative and Community Benefit Society registration number: 8071

Statement of Cash Flows For the year ended 31 March 2023

	2023		2022	
	£	£	£	£
Net cash (used in)/generated from operating activities (note 1)		(268,045)		(251,313)
Cash flow from investing activities				
Purchase of tangible fixed assets	(3,705)		-	
Proceeds from sale of property	225,000		220,000	
Interest received	4,600		-	
		225,895		220,000
Cash flow from financing activities				
Interest paid	(13,457)		(6,612)	
Loan repayments	-		(100,000)	
		(13,457)		(106,612)
Net change in cash and cash equivalents		(55,607)		(137,925)
Cash and cash equivalents at beginning of year		1,643,505		1,781,430
Cash and cash equivalents at end of the year		1,587,898		1,643,505
Note 1				
Surplus for the year		8,049		20,525
Adjustments for:				
Depreciation of tangible fixed assets		2,759		2,603
(Increase)/ decrease in trade and other debtors		(477,321)		2,207,599
Increase/(decrease) in trade and other creditors		189,611		(2,488,652)
Interest payable		13,457		6,612
Interest receivable		(4,600)		-
		(268,045)		(251,313)

The notes on pages 28 to 41 form an integral part of these financial statements.

Encircle Housing

Co-operative and Community Benefit Society registration number: 8071

Notes to the Financial Statements For the year ended 31 March 2023

1. Principal accounting policies

The Society is incorporated in England under the Co-operative and Community Benefit Societies Act 2014 and is registered with the Regulator of Social Housing as a Private Registered Provider of Social Housing. The registered office is Suite 1, 2 High Street House, Yeadon, West Yorkshire, LS19 7PP.

Basis of accounting

The financial statements have been prepared in accordance with applicable United Kingdom Generally Accepted Accounting Practice (UK GAAP) and the Statement of Recommended Practice for registered housing providers: Housing SORP 2018.

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

The financial statements have been prepared in compliance with FRS 102. In complying with FRS 102 the Society meets the definition of a public benefit entity.

Going concern

The Society's business activities, its current financial position, and factors likely to affect its future development are set out within the Report of the Board. Encircle has a stress tested 30-year business plan and assessed for any imminent or likely impact and no significant concerns have been noted. We consider it appropriate to continue to prepare the financial statements on a going concern basis.

On this basis the Board has a reasonable expectation that the Society has adequate resources to continue in operational existence for the foreseeable future, being a period of at least twelve months after the date on which the financial statements were approved.

Judgements and key sources of estimation uncertainty

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

a. Classification of operating leases

The Society classifies a lease as a finance lease if it transfers substantially all the risks and rewards incidental to ownership otherwise the lease is classified as an operating lease. The Society has reviewed its lease agreements and concluded that all current leases meet the criteria of an operating lease as ownership of the properties is not transferred to the Society at the end of the leases, there is no option to purchase the properties, the leases are not for the major part of the economic life of the properties and the properties can be used by any specialised supported housing organisation or can be easily repurposed for use by other lessees too.

Notes to the Financial Statements For the year ended 31 March 2023

1. Principal accounting policies (continued)

b. Developer rent income

Rent received to cover the rent expense for void properties in development, these receipts have been recognised as income.

c. Facilitation fees

Facilitation fee income received has been deferred over 15 months from the date of receipt, which is the typical time period of a scheme to be delivered from inception.

d. Bad debt provision

Bad debts have been provided for on a specific debt recoverability probability, estimates were agreed by the board. However, there is a large debtor of £1.019k included in the balance sheet which is being negotiated together with a deferred creditor payment agreement of £1.083m on settlement of the outstanding debt. Directors are confident these negotiations will lead to full recovery of the balance. Since the year end, Encircle has continued to progress negotiations with the superior landlord and the care provider debtor and is confident of a resolution that will suit all parties without a detrimental impact on Encircle via a debt write off. Other debts totalling £306k are subject to execution of settlement agreements agreed between all parties and have therefore not been provided for.

e. Fixed asset housing properties valuation (prior year)

The fixed asset was revalued based on an offer received for the property, which was deemed as fair value of the asset at 31 March 2022. The property was sold for this value in July 2022.

Tangible fixed assets

Housing properties

Housing properties are stated in the statement of financial position at market value, using the revaluation method, this is driven by periodic valuations or desktop valuations where the deemed market value differs from the carrying value.

Revaluations are made with sufficient regularity to ensure that the carrying amount does not materially differ from the fair value of the properties as at the year end.

Depreciation was provided so as to write off the cost of the assets, in equal instalments over the estimated useful lives of the assets. Depreciation begins once the housing property is in its current use and capitalised out of assets under construction.

Major components of housing properties are depreciated at rates calculated to write off the cost, less estimated residual value, of each asset on a systematic basis over its expected useful life as follows:

Structure	50 years
Bathrooms	30 years
Kitchens	20 years
Doors and windows	30 years
Roof	50 years
Electrics	30 years
Boilers and central heating	15 years

Freehold land is not depreciated. Housing properties under construction are not depreciated until they are in use and the useful economic lives of all tangible fixed assets are reviewed annually.

Encircle Housing

Co-operative and Community Benefit Society registration number: 8071

Notes to the Financial Statements For the year ended 31 March 2023

1. Principal accounting policies (continued)

Other

Other tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value, of each asset on a systematic basis over its expected useful life as follows:

Plant and machinery	5 years
Fixtures and fittings	4 years
Motor vehicles	4 years

Leasehold properties

Alterations to leasehold properties are charged to the income and expenditure account at the point expenditure occurs.

Leases

Rentals payable and receivable under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease. Lease payments are recognised as an expense in the year they become due.

Debtors and creditors receivable / payable within one year

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the statement of comprehensive income in other administrative expenses.

Financial Instruments

The Society only has financial assets and financial liabilities of a kind that qualify as basic financial instruments. Financial instruments, which meet the criteria of a basic financial instrument as defined in Section 11 of FRS 102, are accounted for under an amortised historical cost model.

Taxation

Current tax represents the amount of tax payable or receivable in respect of taxable income for the current or past reporting periods. It is measured at the amount expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Value Added Tax

The Society is an exempt business from Value Added Tax (VAT). The nature of supplied services of residential letting for social housing is exempt from VAT. The financial statements include VAT to the extent that it is suffered by the Society and not recoverable from HM Revenue and Customs.

Irrecoverable VAT is charged against the category of resources expended for which it was incurred.

Encircle Housing

Co-operative and Community Benefit Society registration number: 8071

Notes to the Financial Statements For the year ended 31 March 2023

1. Principal accounting policies (continued)

Turnover and revenue recognition

Turnover comprises rental income receivable in the year and other services included at the invoiced value of goods and services supplied in the year.

Rental income is recognised from the point when properties under development reach practical completion or otherwise become available for letting, net of any voids.

Deferred income at the year-end is included in creditors for rent contribution, sinking fund, voids, furniture and white goods.

Employee benefits

Short-term employee benefits and contributions to defined contribution plans are recognised as an expense in the period in which they are incurred.

Revaluation reserve

The difference between the fair value of social housing properties and the historical cost carrying value is credited to the revaluation reserve.

Encircle Housing

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Notes to the Financial Statements For the year ended 31 March 2023

2. Particulars of turnover, operating expenditure and operating surplus

	2023		
	Turnover £	Operating Expenditure £	Operating Surplus £
Social housing lettings (see note 3)	11,127,891	(11,110,985)	16,906
Total	11,127,891	(11,110,985)	16,906
2022			
	Turnover £	Operating Expenditure £	Operating Surplus £
Social housing lettings (see note 3)	11,674,588	(11,643,284)	31,304
Total	11,674,588	(11,643,284)	31,304

Encircle Housing

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Notes to the Financial Statements For the year ended 31 March 2023

3. Particulars of turnover and operating expenditure from social housing lettings

	Supported housing and housing for older people £	Registered care homes £	Total 2023 £	Total 2022 £
Income				
Rent receivable net of identifiable service charges	8,012,261	547,310	8,559,571	10,206,123
Service charge income	1,661,542	7,311	1,668,853	1,258,485
Other income	899,467	-	899,467	209,980
Total turnover from social housing lettings	10,573,270	554,621	11,127,891	11,674,588
Operating expenditure				
Management	1,994,470	-	1,994,470	2,097,759
Lease costs	5,776,034	505,224	6,281,258	6,063,665
Service charge costs	1,918,538	6,361	1,924,899	1,425,722
Routine maintenance	493,556	(1,350)	492,206	485,632
Planned maintenance	200,705	-	200,705	159,432
Major repairs	129,156	-	129,156	161,358
Rent losses from bad debts	88,291	-	88,291	1,249,716
Total operating expenditure on social housing lettings	10,600,750	510,235	11,110,985	11,643,284
Operating surplus on social housing lettings	(27,480)	44,386	16,906	31,304
Net void losses	303,576	28,527	332,103	331,157

Encircle Housing

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Notes to the Financial Statements For the year ended 31 March 2023

4. Accommodation owned, managed and in development

	At 1 April 2022 No	Additions No	Disposals No	Transfers No	At 31 March 2023 No
Under management at end of year					
Held under an operating lease – Supported housing	596	-	(9)	-	587
Held under an operating lease – Registered care homes	135	-	-	-	135
	<u>731</u>	<u>-</u>	<u>(9)</u>	<u>-</u>	<u>722</u>
Managed by other organisations					
Held under an operating lease – Supported housing	22	-	(22)	-	-
	<u>22</u>	<u>-</u>	<u>(22)</u>	<u>-</u>	<u>-</u>
	At 1 April 2022 No	Additions No	Disposals No	Transfers No	At 31 March 2023 No
Under development at end of year					
Owned – Supported housing	8		(8)	-	-
Held under an operating lease – Supported housing	50	101	-	(24)	127
	<u>58</u>	<u>101</u>	<u>(8)</u>	<u>(24)</u>	<u>127</u>

Supported housing units under management includes 27 units in Northern Ireland (2022: 27 units).

5. Interest receivable	2023 £	2022 £
Bank interest receivable	4,600	-
	<u>4,600</u>	<u>-</u>
6. Interest payable and similar charges	2023 £	2022 £
Interest and financing costs	13,457	6,612
	<u>13,457</u>	<u>6,612</u>

Encircle Housing

Co-operative and Community Benefit Society registration number: 8071

Notes to the Financial Statements For the year ended 31 March 2023

7. Taxation

Encircle Housing is registered with HMRC as having charitable status, it is entitled to exemption from corporation tax on donations, investment income and gains, and on profits from any trading activities carried out in the furtherance of the charitable primary objectives, if they are applied to charitable purposes.

This charitable status was confirmed from 11th March 2019.

8. Surplus for the year	2023	2022
	£	£
Is stated after charging:		
Auditors' remuneration (excluding VAT):		
In their capacity as auditors	25,000	16,500
In respect of other services	-	-
Depreciation of other tangible fixed assets	2,759	2,603
Operating lease rentals	6,281,696	6,063,665
	<u> </u>	<u> </u>

9. Employee information

The average monthly number of employees expressed in full time equivalents (calculated based on a standard working week of 40 hours) was:

	2023	2022
	No	No
Average number of employees	15	16
	<u> </u>	<u> </u>

	2023	2022
	£	£
Staff costs (for the above persons):		
Wages and salaries	667,058	713,315
Social security costs	68,764	71,620
Other pension costs	21,482	22,493
	<u> </u>	<u> </u>
	757,304	807,428
	<u> </u>	<u> </u>

Aggregate number of full-time equivalent staff whose remuneration exceeded £60,000 in the year	2023	2022
	No	No
£60,000 – £70,000	2	-
£70,001 – £80,000	-	-
£80,001 – £90,000	-	-
£90,001 – £100,000	1	1
	<u> </u>	<u> </u>
	3	1
	<u> </u>	<u> </u>

Encircle Housing

Co-operative and Community Benefit Society registration number: 8071

Notes to the Financial Statements For the year ended 31 March 2023

10. Key management personnel emoluments

Key management personnel are defined as the Board members and the Chief Executive.

The remuneration paid to key management personnel was:

	2023			
	Basic salary £	NI £	Pension £	Total £
Chief Executive Officer – Peter Aviston	96,206	12,645	3,680	112,531
Non-Executive Chairman – David Baybut	12,000	421	-	12,421
Non-Executive Board Member – Michael Whitehead	8,000	-	-	8,000
Non-Executive Board Member – Alistair How	6,000	-	-	6,000
Non-Executive Board Member – Matthew Spittles	6,000	-	-	6,000
	<u>128,206</u>	<u>13,066</u>	<u>3,680</u>	<u>144,952</u>
	2022			
	Basic salary £	NI £	Pension £	Total £
Chief Executive Officer – Peter Aviston	92,736	11,572	3,222	107,530
Non-Executive Chairman – David Baybut	12,000	435	-	12,435
Non-Executive Board Member – Michael Whitehead	8,000	-	-	8,000
Non-Executive Board Member – John Stuart Westhead	3,000	-	-	3,000
Non-Executive Board Member – Alistair How	6,000	-	-	6,000
Non-Executive Board Member – Matthew Spittles	6,000	-	-	6,000
	<u>127,736</u>	<u>12,007</u>	<u>3,222</u>	<u>142,965</u>
	2023		2022	
	£		£	
Emoluments: paid to the highest paid Director (the Chief Executive)				
(Excluding pension contributions)	96,206		92,736	

The Chief Executive is an ordinary member of the Society's defined contribution pension scheme. No enhanced or special terms apply. There are no additional pension arrangements. A contribution of £3,680 (2022: £3,222) was made by the Society in addition to the personal contributions of the Chief Executive.

Compensation paid to a director in relation to the period of account in respect of loss of office was £Nil (2022: £Nil).

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Notes to the Financial Statements For the year ended 31 March 2023

11. Housing properties

	Social housing properties for letting – completed	Total £
	£	£
Valuation		
At 1 April 2022	225,000	225,000
Revaluation	-	-
Disposal	(225,000)	(225,000)
	<hr/>	<hr/>
At 31 March 2023	-	-
	<hr/>	<hr/>
Depreciation		
At 1 April 2022	-	-
Charge for the year	-	-
	<hr/>	<hr/>
At 31 March 2023	-	-
	<hr/>	<hr/>
Net book value		
At 31 March 2023	-	-
	<hr/> <hr/>	<hr/> <hr/>
At 31 March 2022	225,000	225,000
	<hr/> <hr/>	<hr/> <hr/>

Valuation

The social housing property was sold in July 2022 for £225,000 which informed the valuation and was a fair reflection of the March 2022 position.

Housing properties comprise:

	2023 £	2022 £
Freeholds	-	225,000
	<hr/>	<hr/>

Historical cost of housing properties:

	2023 £	2022 £
Cost	-	46,229
Accumulated depreciation	-	(10,171)
	<hr/>	<hr/>
	-	36,058
	<hr/> <hr/>	<hr/> <hr/>

Encircle Housing

Co-operative and Community Benefit Society registration number: 8071

Notes to the Financial Statements For the year ended 31 March 2023

11. Housing properties (continued)

Grant and financial assistance

There was no financial assistance or other government grant received or receivable at 31 March 2023 (2022: £Nil). This includes Social Housing Grant.

Capitalised interest

The Society has not capitalised any finance costs within the valuation of housing properties.

12. Other fixed assets

	Office equipment £	Fixtures and fittings £	Total £
Cost			
At 1 April 2022	7,905	2,508	10,413
Additions	3,705	-	3,705
Disposals	-	-	-
	<hr/>	<hr/>	<hr/>
At 31 March 2023	11,610	2,508	14,118
	<hr/>	<hr/>	<hr/>
Depreciation			
At 1 April 2022	3,952	1,254	5,206
Charge for the year	2,132	627	2,759
Eliminated on disposals	-	-	-
	<hr/>	<hr/>	<hr/>
At 31 March 2023	6,084	1,881	7,965
	<hr/>	<hr/>	<hr/>
Net book value			
At 31 March 2023	5,526	627	6,153
	<hr/>	<hr/>	<hr/>
At 31 March 2022	3,953	1,254	5,207
	<hr/>	<hr/>	<hr/>

Encircle Housing

Co-operative and Community Benefit Society registration number: 8071

Notes to the Financial Statements For the year ended 31 March 2023

13. Debtors	2023	2022
	£	£
Amounts falling due within one year:		
Rental debtors	919,145	679,974
<u>Less: Provision for rental bad debts</u>	<u>(215,975)</u>	<u>(53,000)</u>
	703,170	626,974
Other debtors	1,717,435	1,524,635
<u>Less: Provision for other bad debts</u>	<u>(44,187)</u>	<u>(444,909)</u>
Prepayments	494,577	267,909
Accrued income	280,410	699,475
	<u>3,151,405</u>	<u>2,674,084</u>
	<u><u>3,151,405</u></u>	<u><u>2,674,084</u></u>
14. Cash and cash equivalents	2023	2022
	£	£
Cash at bank	1,587,898	1,643,505
	<u>1,587,898</u>	<u>1,643,505</u>
	<u><u>1,587,898</u></u>	<u><u>1,643,505</u></u>
15. Creditors: Amounts falling due within one year	2023	2022
	£	£
Trade creditors	2,818,348	3,105,500
Rent received in advance	111,109	58,034
Corporation tax	108	108
Other taxation and social security	16,739	33,571
Accruals and deferred income	2,085,654	1,646,427
Other creditors	3,621	2,328
	<u>5,035,579</u>	<u>4,845,968</u>
	<u><u>5,035,579</u></u>	<u><u>4,845,968</u></u>
16. Creditors: Amounts falling due after more than one year	2023	2022
	£	£
Loans	-	-
	<u>-</u>	<u>-</u>
	<u><u>-</u></u>	<u><u>-</u></u>

As at 31 March 2022 £1m of a £1m loan facility was remaining to be drawn down with a commitment period to 1 August 2023 and a final repayment date of 31 December 2027. This facility no longer exists at 31. March 2023

Encircle Housing

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Notes to the Financial Statements For the year ended 31 March 2023

17. Operating leases

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

	2023 £	2022 £
Properties		
Not later than one year	8,087,953	8,047,626
Later than one year and not later than five years	33,679,767	33,723,528
Later than five years	107,161,019	108,049,119
	<u>148,928,740</u>	<u>149,820,273</u>

The lease agreements do not include any contingent rent or restrictions. Leases for land and buildings include renewal periods after 25 years throughout the lease.

18. Non-equity share capital

	2023 £	2022 £
Allotted, issued and fully paid:		
At 1 April 2022	5	6
Issued during the year	-	-
Surrendered during the year	-	(1)
	<u>5</u>	<u>5</u>
At 31 March 2023	5	5

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

19. Contingent liabilities

At the balance sheet date there were no contingent liabilities (2022: £Nil).

20. Pension scheme

The Society operates a defined contribution scheme for its employees.

The costs for the year were £21,483 (2022: £22,493).

Total outstanding contributions as at 31 March 2023 were £3,621 (2022: £3,752).

Encircle Housing

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Notes to the Financial Statements For the year ended 31 March 2023

21. Analysis of changes in net debt

	At 1 April 2022	Cash flows	Other non- cash changes	At 31 March 2023
	£	£	£	£
Cash and cash equivalents	1,643,505	(55,607)	-	1,587,898
Loans falling due within one year	-	-	-	-
Loans falling due after more than one year	-	-	-	-
	<u>1,643,505</u>	<u>(55,607)</u>	<u>-</u>	<u>1,587,898</u>

22. Related parties

One of the Board members of the Society (David Baybut) is also a director of Change Housing, a Community Benefit Society. Change Housing have provided services in the year totalling £159,297 (2022: £218,515).

At 31 March 2023 the Society owed £18,767 to Change Housing (2022: £43,421).

On the 21 May 2023 the service contract was terminated and as such the related party relationship ended.