SANCTUARY SCOTLAND HOUSING ASSOCIATION LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2020

Scottish Registered Charity:	**SC024549**
Scottish Housing Regulator:	**HEP302**
Registered Society Number:	**2508RS**

Annual Report and Financial Statements for the year ended 31 March 2020

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Board of Management and Advisors

Members of the Board of Management at the date of approval of the financial statements

John Arthur	
Alexander Clark	(Deputy Chairperson)
Peter Cowe	
James Docherty	
J'	(Deputy Chairperson)
Gillian MacPhie	
Michael McGrane	
Suzanne Phee	
Alan West	(Chair)

Corporate Director
Sanctuary Housing Association

Secretary
Nicole Seymour

Independent statutory auditor
KPMG LLP
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Internal auditor
PricewaterhouseCoopers LLP
One Chamberlain Square
Birmingham
B3 3AX

Bankers
Bank of Scotland PLC
Bank of Scotland Commercial
New Uberior House
11 Earl Grey Street
Edinburgh
EH3 9BN

Barclays Bank plc
Barclays Corporate
Social Housing Team
Level 27
1 Churchill Place
London
E14 5HP

Legal advisors
Burness Paull
120 Bothwell Street
Glasgow
G2 7JL

Harper Macleod
45 Gordon Street
Glasgow
G1 3PE

Registered address
Sanctuary House
7 Freeland Drive
Glasgow
G53 6PG

Scottish registered charity number
SC024549

The Board of Management's Report

The Board of Management (the Board) presents its Annual Report and the audited financial statements for the year ended 31 March 2020.

Principal activity

Sanctuary Scotland Housing Association Limited (the Association) was registered for the purpose of developing, managing and maintaining housing for people in housing need.

The Association is registered with the Scottish Housing Regulator, number HEP302.

The Association's ultimate parent undertaking is Sanctuary Housing Association and it forms part of the Sanctuary Group of entities (the Group).

The Association is registered under the Co-operative and Community Benefit Societies Act 2014, number 2508RS, and is a Scottish Registered Charity, number SC024549.

Results

The financial affairs of the Association remained satisfactory and total comprehensive income for the year was achieved of £10,286,000 (2019: £8,803,000). The Association has £75,539,000 (2019: £65,253,000) of revenue reserves and support via £944,000 (2019: £1,120,000) of loan funding from the Association's parent undertaking, Sanctuary Housing Association and £213,383,000 (2019: £206,511,000) from Sanctuary Treasury Limited, a fellow Group undertaking.

Review of business activities

The Association has the following strategic aims:

- To provide good quality affordable housing both for rent and for sale for those less able to compete in their sections of the housing market.
- To provide housing and associated services for those with more specific housing requirements, such as older people and those with long-term disabilities.
- To provide value for money services and advice to individuals and organisations working to provide social housing.
- To ensure that any investment made by the Association in Scotland provides sustainable benefits for local communities.

The table below highlights the performance by income streams:

	Revenue		Operating surplus	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
General needs	31,542	28,866	16,197	14,576
Sheltered and supported housing	2,098	1,999	1,173	1,056
Other activities	2,271	2,026	1,274	1,056
Other gains and losses	-	-	-	(6)
Totals	**35,911**	**32,891**	**18,644**	**16,682**

The Board of Management's Report (continued)

Review of business activities (continued)

The Executive Team and the Board of Management use a number of key indicators to monitor the outcome of the Association's objectives. A selection of these indicators and results for the year, are as follows:

Indicator	**Actual for year 2020**	**Actual for year 2019**
Current tenant arrears as a % of gross annual rent	4.91%	5.11%
Void loss as a % of gross annual rent	0.46%	0.39%

Accommodation in management

	2020	**2019**
Social housing accommodation:		
General needs housing	6,549	6,473
Sheltered & supported housing accommodation	397	397
Total units in management	**6,946**	**6,870**
Not available for letting	-	(116)
Total stock available for letting	**6,946**	**6,754**

In the prior year, 116 units were being held vacant pending demolition as part of the Cumbernauld high rise project. These units have now been demolished.

24 (2019: 24) units owned by the Association were being managed by a third party, external to the Group, at the reporting date.

No Supported Housing Management Grant was payable during the year in respect of these properties. These units of accommodation are managed on behalf of the Association by Margaret Blackwood Housing Association in Edinburgh.

Housing management

Both void loss and current tenant arrears remain low, with current tenant arrears continuing the improvement seen over the last few years. Void loss for available to let properties was 0.46% (2019: 0.39%). The level of current tenant rent arrears at the year end is 4.91% (2019: 5.11%) of the annual rental amount.

Community initiatives

A number of local community projects were supported during the year both by the Association and by Sanctuary Group, which provided direct funding totalling £49,000 (2019: £48,000) for a wide range of projects taking place throughout Scotland. In addition to providing funding, the Association has supported projects in a number of ways, including helping community projects to access external funding, training, administrative support and practical help in delivering activities.

Property maintenance and improvement

The maintenance service has continued to expand the in-house delivery of repairs, gas servicing, estates management and cyclical works across Scotland, to deliver a high quality, sustainable, value for money service, while decreasing reliance on external contractors. We have a rolling programme of reinvestment across the Association's housing stock to ensure compliance with energy efficiency and the Scottish Housing Quality Standard. Our continued investment in our apprentice and graduate programmes ensures a steady supply of the skills we require into the future. While working with our Information Systems team we have continued our investment in technology to support operational efficiency through integrated materials management, and surveyor mobile and estates management solutions.

The Board of Management's Report (continued)

Review of business activities (continued)

Support services

The Association operates a Sheltered Housing Support Service at its three sheltered housing developments in the wider Aberdeenshire area, with local authority funding confirmed for 2020/2021 under the Supporting People Programme. Across Aberdeen city we are now working with Cornerstone, who provide the care and support services at our three sheltered housing developments. While support services at our two Dundee sheltered housing schemes are now led by Dundee City Council.

Future developments

The year to 31 March 2020 saw a completion of 260 new homes (2019: 541). 192 homes for social rent, 10 homes for mid market rent and 58 for affordable home ownership (through the New Supply Shared Equity (NSSE) model) were completed on projects in Glasgow, Paisley, Cumbernauld, and Moodiesburn.

In 2020/2021, the Association expects to complete 249 homes at sites across Scotland, all of which will be for social rent. New homes are currently in development through the NSSE model and for mid market rental though the Association's subsidiary, Sanctuary Homes (Scotland) Limited for future delivery.

Going concern

The Board confirms it has a reasonable expectation that the Association has adequate resources to continue in operational existence for the foreseeable future. The Association also has the continued support of its ultimate parent, Sanctuary Housing Association, who has provided a letter of support to the Board of the Association to confirm that it intends to provide financial and other support as required for a period of at least 12 months from the date of these financial statements. Accordingly the Association continues to adopt the going concern basis in its financial statements. Further details are given in note 1.

Board of Management Members

John Arthur	
Arthur Bruce	(resigned 17 September 2019)
Alexander Clark	Deputy Chairperson
Peter Cowe	
James Docherty	(appointed 10 December 2019)
Kenneth Gibb	(resigned 17 September 2019)
J'	Deputy Chairperson
Gillian MacPhie	(appointed 10 February 2020)
Michael McGrane	
Suzanne Phee	
Alan West	Chair
Sanctuary Housing Association	

Secretary

Nicole Seymour

Political and charitable donations

The Association made no donations to political or charitable organisations in the year or the prior year.

Health and safety

The Board is aware of its responsibilities on all matters relating to health and safety. The Association's risk appraisal and management processes aim to address all health and safety matters in relation to property, tenants and staff. A report on health and safety matters is submitted to each meeting of the Board.

The Board of Management's Report (continued)

Corporate governance

During the year the Area Committees met regularly to consider matters within their approved remits.

Risk management policy

The Association maintains a detailed risk map which is monitored and updated on a regular basis. The risk map identifies risks which the Association might face, the likelihood of such risks occurring and their impact on the Association if they do occur. The risk map also identifies action taken by the Association to mitigate such risks occurring or to minimise their impact. The risk map is utilised by both the Board and the Executive Team to ensure that the Association minimises, and controls as far as possible, the level of risk to which it is exposed.

Three of the principal risks identified in the most recent (May 2020) risk map are:

- Welfare reform – the likely impact of Government reforms including cutbacks, local authority spending reviews and similar austerity measures on the Association and its tenants;
- Embedding and maximising the benefits of the Association's information technology platform, OneSanctuary; and
- Covid-19 – The outbreak of coronavirus and the measures required to protect staff, residents and customers could have a significant impact on the delivery of services and achievement of stated objectives.

Financial risk management

The Association's operations expose it to a variety of financial risks that include the effects of cash flow risk, liquidity risk and interest rate risk. The Association has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Association by monitoring levels of debt finance and related finance costs.

Cash flow risk

At 31 March 2020, 75% of the Association's debt was on fixed rate terms (2019: 75%). Further to this, the Association seeks to minimise the risk of uncertain funding in its operations by borrowing within a spread of maturity periods. At the year end, 1.29% (2019: 5.99%) of debt was payable within one year. The Association does not use derivative financial instruments to manage interest rate costs.

Liquidity risk

The Association actively maintains a level of debt finance that is designed to ensure that the Association has sufficient available funds for its operations.

Interest rate risk

The Association has interest bearing liabilities, which are maintained at a fixed rate to ensure certainty of future interest cash flows.

The Board of Management's Report (continued)

Statement of internal financial control

The Board of Management is ultimately responsible for ensuring that the Association maintains a system of internal control that is appropriate to the various business environments in which it operates. Internal control systems are designed to meet the particular needs of the Association and the risks to which it is exposed. The controls by their nature can provide reasonable but not absolute assurance against material misstatement or loss.

The Board of Management has established key procedures to provide internal control and there are clear lines of responsibility for the creation and maintenance of the procedures through the designated senior executives. These controls are designed to give reasonable assurance with respect to:

- the reliability of financial information used within the Association or for publication;
- the maintenance of proper accounting records; and
- the safeguarding of assets against unauthorised use or disposition.

Major business risks are identified through a system of continuous monitoring. The financial control framework includes the following key features:

- The Board of Management being directly responsible for strategic risk management.
- The adoption of formal policies and procedures including documentation of key systems and rules relating to a delegation of authorities which allows the monitoring of controls and restricts the unauthorised use of the Association's assets.
- Experienced and suitably qualified staff being responsible for important business functions. Annual appraisal procedures have been established to maintain standards of performance.
- Executives to monitor the key business risks and financial objectives allowing the Association to progress towards its financial plans set for the year and the medium-term. Regular management accounts are prepared promptly providing relevant, reliable and up-to-date financial and other information including significant variances from targets which are investigated as necessary.
- All significant new initiatives, major commitments and investment projects are subject to formal authorisation procedures.
- The Group Audit and Risk Committee reviews reports from management, PricewaterhouseCoopers LLP (internal auditors) and KPMG LLP (external auditors) to provide reasonable assurance that control procedures are in place and are being followed. The Group Audit and Risk Committee receive an annual report on internal controls from the Executive Directors. The Group Audit and Risk Committee makes regular reports to the Group Board. The Group follows formal procedures for instituting appropriate action to correct weaknesses identified in the above reporting and relevant points are communicated to the Association.

The Association follows formal procedures for ensuring appropriate actions are taken to correct weaknesses identified from the above reports, which are followed up by the Board of Management.

On behalf of the Board, the Group Audit and Risk Committee has reviewed the effectiveness of the systems of internal control in existence in the Group for the year ended 31 March 2020 and is not aware of any material changes at the date of signing the financial statements.

The Board of Management's Report (continued)

Statement of Board of Management's responsibilities in respect of the Board of Management's Report and the financial statements

The Board of Management is responsible for preparing the Board of Management's Report and the financial statements in accordance with applicable law and regulations.

Co-operative and Community Benefit Society and charity law require the Board of Management to prepare financial statements for each financial year. Under those regulations the Board of Management has elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and applicable law.

The financial statements are required by law to give a true and fair view of the state of affairs of the Association and of its income and expenditure for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless it either intends to liquidate the Association or to cease operations, or has no realistic alternative but to do so.

The Board of Management is responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Association and enable them to ensure that its financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing (Scotland) Act 2010 and the Registered Social Landlords Determination of Accounting Requirements 2019, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended). It is responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the Association and to prevent and detect fraud and other irregularities.

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

Disclosure of information to Auditor

In the case of each of the persons who are Members of the Board at the date when this report was approved:

(a) so far as the Member is aware, there is no relevant audit information of which the Association's auditor is unaware; and

(b) they have taken all the steps that they ought to have taken as a Member of the Board to make themselves aware of any relevant audit information and to establish that the Association's auditor is aware of that information.

The Board of Management's Report (continued)

Independent Auditor

KPMG LLP has indicated its willingness to continue in office. A resolution concerning the appointment of the auditor will be proposed at the Annual General Meeting.

By order of the Board of Management.

[redacted]

Secretary
9 September 2020

Independent auditor's report to the members of Sanctuary Scotland Housing Association Limited

Opinion

We have audited the financial statements of Sanctuary Scotland Housing Association Limited (the Association) for the year ended 31 March 2020 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view, in accordance with accounting standards, including International Financial Reporting Standards as adopted by the European Union (IFRS), of the state of affairs of the Association as at 31 March 2020 and of its income and expenditure the year then ended;
- comply with the requirements of the Co-operative and Community Benefit Societies Act 2014; and
- have been properly prepared in accordance with the Housing (Scotland) Act 2010 and the Registered Social Landlords Determination of Accounting Requirements 2019.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Association in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Other information

The Association's Board of Management is responsible for the other information, which comprises the Board of Management's report and the Statement of internal financial control. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge.

We are required to report to you if:

- based solely on that work, we have identified material misstatements in the other information; or
- in our opinion, the Statement on internal financial control on page 6 does not provide the disclosures required by the relevant Regulatory Standards within the publication "Our Regulatory Framework" and associated Regulatory Advisory Notes issued by the Scottish Housing Regulator in respect of internal financial controls; or
- in our opinion, the Statement on internal financial control is materially inconsistent with the knowledge acquired by us in the course of performing our audit.

Independent auditor's report to the members of Sanctuary Scotland Housing Association Limited (continued)

Other information (continued)

We have nothing to report in these respects.

Matters on which we are required to report by exception

Under the Co-operative and Community Benefit Societies Act 2014 we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

Board of Management's responsibilities

As more fully explained in their statement set out on page 8, the Association's Board of Management is responsible for the preparation of financial statements which give a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it either intends to liquidate the Association or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Association in accordance with section 87 of the Co-operative and Community Benefit Societies Act 2014 and section 69 of the Housing (Scotland) Act 2010. Our audit work has been undertaken so that we might state to the Association 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 Association as a body, for our audit work, for this report, or for the opinions we have formed.

[redacted]**utory Auditor**

Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Date: 14 September 2020

Statement of Comprehensive Income for the year ended 31 March 2020

	Note	2020 £'000	2019 £'000
Revenue	2	35,911	32,891
Operating expenditure	3	(17,267)	(16,203)
Other gains and losses	8	-	(6)
Operating surplus	3,5	**18,644**	**16,682**
Finance Income	9a	73	51
Finance costs	9b	(9,302)	(8,703)
Surplus for the year from continuing operations		**9,415**	**8,030**
Other comprehensive income			
Items that will not be reclassified subsequently to income or expense:			
Re-measurement of defined benefit pension scheme liability	19	871	773
Other comprehensive income for the year		**871**	**773**
Total comprehensive income for the year		**10,286**	**8,803**

There were no discontinued operations in either the current or previous financial years.

The notes on pages 16 to 54 form part of these financial statements.

Statement of Financial Position as at 31 March 2020

	Note	2020 £'000	2019 £'000
Assets			
Non-current assets:			
Property, plant and equipment	10	324,548	306,640
Investment Property	11	607	612
Other Investments	12	1	1
		325,156	307,253
Current assets			
Inventory	13	-	6,947
Trade and other receivables	14	7,708	7,159
Cash and cash equivalents	22	8,095	4,355
		15,803	18,461
Total Assets		**340,959**	**325,714**
Liabilities			
Current liabilities:			
Trade and other payables	15	16,862	15,157
Contract liabilities	2	1,362	1,609
Loans and borrowings	16	3,177	14,541
		21,401	31,307
Non-current liabilities			
Loans and borrowings	16	243,884	228,260
Retirement benefit obligations	19	135	894
		244,019	229,154
Total liabilities		**265,420**	**260,461**
Equity			
Equity attributable to owners of the parent:			
Share capital	20	-	-
Retained earnings		75,539	65,253
Total Equity		**75,539**	**65,253**
Total Equity and liabilities		**340,959**	**325,714**

The notes on pages 16 to 54 form part of these financial statements.

The financial statements were approved by the Board of Management on 9 September 2020 and signed on its behalf by:

[redacted]

Deputy Chairperson Secretary

Statement of Changes in Equity for the year ended 31 March 2020

	Share capital £'000	Revenue reserve £'000	Total equity £'000
At 1 April 2018	-	56,271	56,271
Adjustment on initial application of IFRS 9	-	179	179
Restated balance at 1 April 2018	-	56,450	56,450
Surplus for the year	-	8,030	8,030
Other comprehensive income	-	773	773
Total comprehensive income	**-**	**8,803**	**8,803**
At 31 March 2019	**-**	**65,253**	**65,253**
At 1 April 2019	-	65,253	65,253
Surplus for the year	-	9,415	9,415
Other comprehensive income	-	871	871
Total comprehensive income	**-**	**10,286**	**10,286**
At 31 March 2020	**-**	**75,539**	**75,539**

The notes on pages 16 to 54 form part of these financial statements.

Statement of Cash Flows for the year ended 31 March 2020

	Notes	2020 £'000	2019 £'000
Cash flows from operating activities			
Surplus for the year		9,415	8,030
Adjustments for:			
Depreciation	5	3,026	2,791
Loss on sale of property, plant and equipment	8	-	6
Net finance costs	9	9,229	8,651
		12,255	11,448
Cash generated before working capital movements		21,670	19,478
Changes in:			
Trade and other receivables		(2,119)	(418)
Trade and other payables		4,232	(1,730)
Retirement benefit obligations		92	243
		2,205	(1,905)
Cash generated from operating activities		23,875	17,573
Interest paid		(9,954)	(9,527)
Net cash inflow from operating activities		**13,921**	**8,046**
Cash flows from investing activities			
Interest received		79	43
Proceeds from sale of property, plant and equipment		-	25
Acquisition and construction of property, plant and equipment and investment property		(32,989)	(41,238)
Capital grants received		18,582	17,905
Net cash outflow from investing activities		**(14,328)**	**(23,265)**
Cash flows from financing activities			
Proceeds from loans and borrowings		25,220	47,000
Repayment of borrowings		(21,073)	(26,377)
Net cash flow from financing activities		**4,147**	**20,623**
Net movement in cash and cash equivalents		**3,740**	**5,404**
Cash and cash equivalents 1 April		4,355	(1,049)
Cash and cash equivalents 31 March		**8,095**	**4,355**

The notes on pages 16 to 54 form part of these financial statements.

Notes to the Financial Statements

1. Principal Accounting Policies

General Information

The financial statements are presented in pounds sterling which is the Group's functional currency. Unless otherwise stated, amounts are denominated in thousands (£'000) rounded to the nearest £1,000.

Basis of accounting

The Association's financial statements have been prepared and approved by the Board of Management in accordance with IFRS. They are also prepared in accordance with the Co-operative and Community Benefit Societies Act 2014, the Housing (Scotland) Act 2010, the Charities and Trustee Investment (Scotland) Act 2005, the Charities Accounts (Scotland) Regulations 2006 (as amended), Statement of Recommended Practice: Accounting by Registered Social Housing Providers 2014 (the SORP) and the Determination of Accounting Requirements 2019 where these do not conflict with IFRS.

Changes to accounting policies

The Association has adopted IFRS 16 Leases from 1 April 2019, when it became effective. A number of other new standards are also effective from this period, but they do not have a material effect on the Association's Financial Statements.

Due to the transition methods chosen by the Association in applying this standard, comparative information throughout these Financial Statements has not been restated and continues to be reported under IAS 17 Leases and IFRIC 4 Determining Whether an Arrangement Contains a Lease. Additionally, the disclosure requirements have not been generally applied to comparative information.

An explanation of how the transition has affected the Association's financial position and financial performance is set out in the separate transition note (note 26).

Going Concern

The Association's principal activities, together with factors likely to affect its future performance, are set out in the Board of Management's report on pages 3-6.

The financial statements have been prepared on a going concern basis which the Board considers to be appropriate for the following reasons.

The Board has prepared a going concern assessment, based on consideration of cash flow forecasts, for a period of at least 12 months from the date of approval of these financial statements (the going concern assessment period), taking account of severe but plausible downside scenarios that take into consideration the current economic environment due to Covid-19. In forming their view the Board has taken into consideration that Sanctuary Housing Association, the Association's ultimate parent, has provided a letter of support to the Board of the Association to confirm that it intends, should the need arise, to provide financial and or other support to the Association, including, if required, not seeking repayment of amounts currently made available (note 15 - £6,568,000 at 31 March 2020), for the period covered by the forecasts. Based on these considerations it has been concluded that the Association will have sufficient funds to meet its liabilities as they fall due for the period of assessment.

As with any entity placing reliance on other group entities for financial support, the Board acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the Board are confident that the Association will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and have therefore prepared the financial statements on a going concern basis.

Notes to the Financial Statements (continued)

1. Principal Accounting Policies (continued)

IFRSs not yet applied

The following list details new standards, amendments and interpretations which are either not effective or not yet endorsed by the European Union, which may have an impact on the accounting within the Association's financial statements in future periods:

- Amendments resulting from Annual Improvements 2018 - 2020 Cycle (annual period beginning on or after 1 January 2022).
- Amendments to references to the conceptual framework in IFRS Standards (annual periods beginning on or after 1 January 2020).
- Amendments to IAS 1 Presentation of Financial Statements (annual periods beginning on or after 1 January 2020 and 1 January 2022).
- Amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures regarding pre-replacement issues in the context of the IBOR reform (annual periods beginning on or after 1 January 2020).
- Amendments to IAS 8 Accounting Policies, Changing in Accounting Estimates and Errors (annual periods beginning on or after 1 January 2020).

Other forthcoming standards, amendments or interpretations which are not covered within the above are unlikely to impact the Financial Statements of the Association.

Critical accounting judgements

In the process of applying the Association's accounting policies, management have made certain judgements which have a significant impact upon the financial statements, these are detailed below.

Classification of property

A degree of judgement is required over whether property held by the Association is treated as property, plant and equipment or as investment property.

Investment property is property held to earn rentals or for capital appreciation or both. The Association considers all of its commercial property to fall under this definition.

Property held for use in the production or supply of goods or services or for administrative purposes is treated as property, plant and equipment. The Association has therefore classified its office buildings (held for administrative purposes) as property, plant and equipment.

A greater degree of judgement is required over the classification of housing property held for social lettings. It is the Association's opinion that whilst rental income is received from the provision of social housing, the primary purpose is to provide social benefits. The provision of social housing is therefore akin to supplying a service and so property held for this purpose has been accounted for as property, plant and equipment. This treatment is consistent with housing associations that have chosen the alternative option of applying the revised UK GAAP (FRS 102), which contains explicit provisions for this scenario and arrives at a similar conclusion; it is also consistent with guidance contained in the Statement of Recommended Practice: Accounting by Registered Social Housing Providers 2014 (the SORP).

Revenue

Many of the Association's activities involve a high number of end service users, each of whom has a separate contract. However, for each activity type (for example, general needs housing) there is very little variation in the substance of the individual contracts. In arriving at its conclusions over application of IFRS 15, management has therefore applied the practical expedient that allows application of the Standard to portfolios of contracts with similar characteristics, rather than to individual contracts. Management believes that the effect on the

Notes to the Financial Statements (continued)

1. Principal Accounting Policies (continued)

Critical accounting estimates and assumptions (continued)

Financial Statements of applying the Standard to the portfolios does not differ materially from applying the Standard to the individual contracts within the portfolios.

Detailed consideration has been given to the way in which shared ownership property transactions should be accounted for under IFRS 15, with the conclusion that existing practice remains the most appropriate treatment. Since such transactions are unique to the housing industry no specific guidance is offered within the Standard itself and so in reaching this conclusion management has relied upon an assessment of the substance of the underlying elements of the arrangement, while considering guidance within the housing SORP and drawing on wider industry practice.

The preparation of the Association's financial statements requires management to make estimates and assumptions that affect reported carrying amounts of assets and liabilities.

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. The 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 on the following pages.

Retirement benefit obligation valuations

In determining the valuation of defined benefit schemes' assets and liabilities, a number of key assumptions have been made. The key assumptions, which are given below, are largely dependent on factors outside the control of the Association.

- inflation rate;
- life expectancy;
- discount rate; and
- salary and pension growth rates.

The Association is exposed to risks through its defined benefit schemes if actual experience differs to the assumptions used and through volatility in the plan assets.

Impairment of property assets

Where indicators of impairment exist then an asset's recoverable amount must be estimated to determine if an impairment adjustment is required; this entails making a number of assumptions, which include:

- future occupancy levels;
- fee rates;
- inflation rates;
- discount rates; and
- sustainable EBITDARM and EBITDARM multiples for determining valuations.

Further details of the general principles of impairment testing are included later within note 1. Details of the specific assumptions used, and associated sensitivities, are included in notes 10 and 11.

Notes to the financial statements (continued)

1. Principal accounting policies (continued)

Other Accounting Judgements, Estimates and Assumptions

Expected Credit Losses on Trade Receivables and Contract Assets

Under IFRS 9, as long as there is no significant financing component, loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime Expected Credit Losses (ECLs). Lifetime ECLs are a probability-weighted estimate of credit losses that result from all possible default events over the expected life of a financial instrument (see note 17). Due to the diverse activities of the Association a range of different methodologies are used to derive ECLs for the different operational areas, taking into account factors such as service type, customer type, customer status, age of debt, level of debt and legal status. Outcomes have been assessed by using both quantitative and qualitative information and analysis, based on the Association's historical experience and informed credit assessment.

Revenue

The Association has applied IFRS 15 from 1 April 2018. Information about the Group's accounting policies relating to contracts with customers is detailed in note 2.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Leases in which the Association assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses.

Land and buildings:

Land and buildings consists of housing properties for social rent and shared ownership properties. Housing properties are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. The cost of such properties includes the following:

a) cost of acquiring land and buildings;
b) construction costs including internal equipment and fitting;
c) directly attributable development administration costs;
d) cost of capital employed during the development period;
e) expenditure incurred in respect of improvements and extensions to existing properties; and
f) construction costs incurred but not yet certified at the reporting date.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic or social benefits associated with the item will flow to the Association and the cost of the item can be measured reliably.

Expenditure on housing properties which is capable of generating increased future rents, extends their useful life, or significantly reduces future maintenance costs, is capitalised. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the financial year in which they are incurred.

Notes to the financial statements (continued)

1. Principal accounting policies (continued)

Property, plant and equipment and depreciation (continued)

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Structure	40 – 125 years
Doors and door entry systems	10 – 40 years
Bathrooms	15 – 40 years
External works	20 – 25 years
Heating systems	15 – 40 years
Kitchens	30 years
Lifts	10 years
Green technologies	25 years
Roof coverings	50 years
Windows	40 years
Electrical wiring	30 years

The acquisition and disposal of properties is accounted for on the date when completion takes place.

Offices, plant and equipment:

Assets are stated at cost (this includes the original purchase price of the asset and the costs attributable to bringing the asset into its working condition for its intended use) less accumulated depreciation, which is charged on a straight line basis to write off assets over their expected economic useful lives as follows:

Freehold land and buildings (offices)	10 – 40 years
Leasehold land and buildings (offices)	Over the period of the lease
Furniture and equipment	4 – 10 years
Motor vehicles	4 – 7 years
Computer equipment (excluding software)	4 – 10 years

Investment property

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. The Association classifies its commercial property as investment property. The Group has chosen to apply the cost model to all of its investment properties; they are therefore stated at cost less accumulated depreciation.

Depreciation on investment properties is charged on a straight-line basis to write off assets over their expected economic useful lives as follows:

Investment property	As per property, plant and equipment

Borrowing costs and development administration costs

Interest on the Association's borrowings is capitalised when directly attributable to the construction of an asset that necessarily takes a substantial amount of time to get ready for its intended use or sale. Qualifying assets are properties under construction for sale or rental. The interest is either on borrowings specifically financing a scheme (after deduction of interest on Social Housing Grant (SHG) received in advance) or the weighted average borrowing rate across net borrowings deemed to be financing a scheme. Where a scheme has SHG in excess of costs, interest receivable is accrued against the balance.

Labour costs of the Association's own employees that are incurred in relation to the development of properties, whether for sale or rental, are also capitalised.

Notes to the financial statements (continued)

1. Principal accounting policies (continued)

Impairment

Financial assets

At each reporting date, the Association assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The Association recognises loss allowances for Expected Credit Losses (ECLs) on:

- financial assets measured at amortised cost
- contract assets measured at amortised cost.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (that is the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Association expects to receive).

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. Twelve-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months). The maximum period considered when estimating ECLs is the maximum contractual period over which the Association is exposed to credit risk.

Loss allowances for trade receivables and contract assets are measured at an amount equal to lifetime ECLs. Other loss allowances are measured at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date
- other debt securities and bank balances for which credit risk (that is the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Association considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Association's historical experience and informed credit assessment and including forward-looking information.

The Association considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Association considers this to be 'Baa3' or higher as per the rating agency Moody's.

Notes to the financial statements (continued)

1. Principal accounting policies (continued)

Impairment (continued)

When an impairment indicator is identified, an impairment review is performed at an individual CGU level and compared against its recoverable amount, which is defined as the higher of:

- fair value less selling costs, or
- value in use (VIU).

Should the net book value of the CGU exceed the higher of these measures, it is impaired to this value, with the movement going through the Statement of Comprehensive Income.

Fair value is deemed to be the market value of the property based on its existing use. For social housing properties this is existing use value – social housing (EUV-SH); for non-social housing property, open market valuations are used.

For social housing properties a measure of VIU permitted by the SORP is the depreciated replacement cost (DRC) of the property. To determine the DRC, the Group uses information on current and recently completed developments in order to establish a build cost relevant to the property being tested, based on size, location, and other factors.

For non-social housing properties, VIU is calculated using an assessment of future discounted cash flows.

Financial instruments

Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Association becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Notes to the financial statements (continued)

1. Principal accounting policies (continued)

Financial instruments (continued)

Classification and subsequent measurement

a) Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Association changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Business model assessment

The Association makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level, because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the funding needs of the Association
- how the performance of the assets is evaluated and reported to the Association’s management
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed
- the contractual cash flows
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Notes to the financial statements (continued)

1. Principal accounting policies (continued)

Financial instruments (continued)

Assessment of contractual cash flows that are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (for example liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Association considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Association considers:

- contingent events that would change the amount or timing of cash flows
- terms that may adjust the contractual coupon rate, including variable-rate features
- prepayment and extension features
- terms that limit the Association's claim to cash flows from specified assets (for example non-recourse features).

b) Financial liabilities

Financial liabilities are classified as measured at amortised cost or FVPL. A financial liability is classified as at FVPL if it is held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense is recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Derecognition

a) Financial assets

The Association derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Association neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Association enters into transactions whereby it transfers assets recognised in its Statement of Financial Position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

b) Financial liabilities

The Association derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Association also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

Notes to the financial statements (continued)

1. Principal accounting policies (continued)

Provisions for liabilities and charges

A provision is recognised in the Statement of Financial Position when the Association has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Dilapidations provisions are made to reflect the cost of restoring leased assets to their original condition, as required under the terms of the lease.

Financing costs

Costs which are incurred directly in connection with the raising of private finance are deducted from the liability and amortised over the term of the loan on a consistent periodic rate of charge. Premiums or discounts on financial instruments are amortised using the effective interest rate basis or a straight-line basis where it can be demonstrated that there is no material difference between the two methods.

Leasehold service charge sinking funds

The Association is required to set aside sums for future maintenance of certain properties subject to leasehold arrangements. These sums are held in a separate bank account to which interest is added. Amounts accumulated in the fund are included within trade and other receivables and within trade and other payables.

Unutilised contributions to sinking funds and over recovery of service costs repayable to tenants/leaseholders are shown in liabilities (including any interest). Where there has been an under recovery of variable service charges, the balance is included within receivables to the extent it is recoverable.

Shared Equity Housing

Properties developed under the Scottish Government's shared equity initiative are funded by grant and ultimate sales proceeds. For properties commenced and completed before 1 April 2008, the net investment in shared equity properties is shown on the face of the Balance Sheet as investments and carried at historical cost with the linked finance cost, being the grant received, deducted from the gross amount of the shared equity asset. Shared equity properties under construction are shown in inventory, while completed properties commenced and completed after 1 April 2008 are not disclosed in the financial statements, as any interest in the completed property is held by the Scottish Government.

New Supply Shared Equity (NSSE)

The Association administers the sale of homes in Scotland through the Scottish Government's New Supply Shared Equity (NSSE) scheme. Buyers purchase between 60 per cent and 80 per cent of their new build home's value, with the Scottish Government retaining the remaining 20 per cent to 40 per cent stake in the form of a mortgage.

Under IFRS 15, in administering this scheme, the Association is deemed to be acting in an agency capacity, developing properties and arranging sales on behalf of the Scottish Government who is the principal in the arrangement. As an agent, the Association does not recognise revenue and costs from the sale of these properties within its own Financial Statements.

Housing Association Grant (HAG) and other public grant

Where developments have been financed wholly or partly by HAG and/or other public grant, the amount of grant received is offset against the cost of developments on the Balance Sheet. In instances where grant for the development programme exceeds development costs, an amount equal to the excess is held in creditors. Similarly if grant is receivable for the development programme in arrears the amount is accrued in debtors.

Notes to the financial statements (continued)

1. Principal accounting policies (continued)

Retirement benefits

The Association's pension arrangements comprise two defined benefit schemes. Where the underlying assets and liabilities of the defined benefit schemes can be separately identified the Association recognises in full the schemes' surpluses or deficits on the Statement of Financial Position. Actuarial gains and losses for these schemes are included within Other Comprehensive Income. Current and past service costs, curtailments and settlements are recognised within operating surplus. Interest on net pension liabilities is recognised as a finance expense. Key assumptions used in determining the valuation of defined benefit schemes are given within critical accounting estimates and assumptions.

For defined benefit pension schemes where a debt has been, or is soon to be, crystallised, the Group and Association recognise the full liability on the Statement of Financial Position based upon a cessation valuation.

2. Revenue

Under IFRS 15, revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Association recognises revenue when it transfers control over a product or service to a customer.

A significant proportion of the Association's income is derived from contracts of 'residential occupation'. Management has determined that social housing tenancies do not meet the definition of leases; consequently they are treated as revenue contracts under IFRS 15.

As per the Standard, revenue must be recognised either over time or at a point in time. The majority of the Association's activities are services where the customer consumes the benefits of performance simultaneously with the Association performing and so revenue is recognised over time.

IFRS 15 requires that the incremental costs of obtaining a contract with a customer are capitalised if those costs are expected to be recovered through future services to the customer. The Association does not incur costs such as sales commissions in obtaining contracts and any pre-contract costs that are incurred are not incremental, consequently no asset of this nature has been recognised. The Association continually reviews costs incurred in fulfilling contracts to determine if they require capitalisation under the new Standard.

Many of the Association's activities, detailed in the tables on the following pages, involve a high number of end service users, each of whom has a separate contract. However, for each activity type (for example, general needs housing) there is very little variation in the substance of the individual contracts. In arriving at its conclusions over application of IFRS 15, management has therefore applied the practical expedient that allows application of the Standard to portfolios of contracts with similar characteristics, rather than to individual contracts. Management believes that the effect on the Financial Statements of applying the Standard to the portfolios does not differ materially from applying the Standard to the individual contracts within the portfolios.

Contract assets arise when the Association has rights to consideration in exchange for goods or services that have transferred to a customer, but those rights are conditional on something other than the passage of time. Amounts due in relation to construction contracts have been classified within contract assets since entitlement to consideration is conditional upon reaching agreed stages of works. Where construction contracts are loss making IAS 37 is applied to assess whether the contract is onerous and, if it is, to measure the provision, which is presented separately.

Contract liabilities are obligations to transfer goods or services to a customer for which the Association has received consideration, or for which an amount of consideration is due from a customer. Such balances include payments received in advance and deferred income.

Contract receivables are unconditional rights to consideration where only the passage of time is required before payment becomes due. Such balances include rental receivables, other trade receivables and accrued income. The Association has presented contract assets and contract liabilities as separate line items on the Statement of Financial Position while contract receivables are included within trade and other receivables.

Notes to the Financial Statements (continued)

2. Revenue (Continued)

Nature of goods and services and revenue recognition

The following is a description of the principal activities from which the Association derives its revenue.

Product/ Service	Nature, timing of satisfaction of performance obligations and significant payment terms
Social housing lettings income	Social housing lettings income relates to rent and service charges received from social housing tenancies, which may be classified as: general needs or supported housing. Revenue is recognised over time based on rental periods, in accordance with tenancy agreements. Where periodic timing differences arise between billing and rental periods, then revenue is accrued or deferred accordingly. Some older tenancy agreements include rent-free periods each year, in these cases income is accrued or deferred in order to recognise the rent-free periods on a straight-line basis over 52 weeks. Tenants generally pay weekly or monthly in advance.
Supporting People income	Supporting People income is a specific form of revenue received from local authorities to provide housing-related support services to vulnerable individuals. Revenue is recognised based either on support hours delivered in a period (spot contracts) or at a fixed amount each period (block contracts), depending on the specific agreement. Billing is predominantly done on a four-week cycle.
Managed schemes	Managed schemes income relates primarily to property factoring income which is recognised over time, similar to service charges. Billing is generally six monthly in arrears.
Other income	Other income relates primarily to revenue due from the Company's subsidiary, Sanctuary Homes (Scotland) Limited, which lets properties to external tenants in an agency capacity. Revenue recognition is similar to social housing lettings income.

Disaggregation of revenue

In the following table, revenue is disaggregated by major products and services using the same headings as the note prepared to meet the requirements of the Determination of Accounting Requirements 2019 (note 3 and 4).

Year ended 31 March 2020	Rented housing	Supported housing	Other activities	Total
Revenue recognised over time	**£'000**	**£'000**	**£'000**	**£'000**
Income from social housing lettings	31,542	2,098	-	**33,640**
Managed schemes	-	-	374	**374**
Supporting people income	-	-	82	**82**
Other	-	-	1,815	**1,815**
Total revenue over time	**31,542**	**2,098**	**2,271**	**35,911**
Less lease income	**-**	**-**	(119)	(119)
Revenue from contracts with customers	**31,542**	**2,098**	**2,152**	**35,792**

Notes to the Financial Statements (continued)

2. Revenue (Continued)

Contract balances

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers.

	2020 £'000	2019 £'000
Contract receivables (included in trade and other receivables)		
Tenant rental receivables net of impairment loss allowance (note 14)	1,417	1,454
Other trade receivables (note 14)	999	740
Accrued income (note 14)	1,356	2,749
	3,772	4,943
Contract liabilities		
Payments received in advance	1,214	1,513
Deferred income	148	96
	1,362	1,609

The Association applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

3. Revenue, Operating Costs and Operating Surplus

	2020 Revenue £'000	2020 Operating costs £'000	2020 Other gains and losses £'000	2020 Operating Surplus £'000	2019 Operating Surplus/ (deficit) £'000
Social housing lettings	33,640	(16,270)	-	17,370	15,632
Other activities	2,271	(997)	-	1,274	1,056
Other gains and losses	-	-	-	-	(6)
Total	**35,911**	**(17,267)**	**-**	**18,644**	**16,682**
Total for previous year	**32,891**	**(16,203)**	**(6)**	**16,682**	

Notes to the Financial Statements (continued)

4a. Income and Expenditure from Social Housing Lettings

	Rented housing £'000	Supported housing £'000	2020 Total £'000	2019 Total £'000
Income from lettings				
Rents receivable net of service charges	31,250	1,847	33,097	30,552
Service charges	576	254	830	630
Gross income from rents and service charges	31,826	2,101	33,927	31,182
Less voids	(318)	(13)	(331)	(317)
Net income from rents and service charges	**31,508**	**2,088**	**33,596**	**30,865**
Other income	34	10	44	-
Total income from social letting activities	**31,542**	**2,098**	**33,640**	**30,865**
Expenditure on lettings				
Management and maintenance administration costs	(4,518)	(82)	(4,600)	(4,598)
Services costs	(1,766)	(203)	(1,969)	(1,714)
Reactive maintenance	(5,066)	(353)	(5,419)	(5,465)
Planned and cyclical maintenance	(1,446)	(64)	(1,510)	(1,368)
Bad debts – rents and service charges	(81)	(4)	(85)	(84)
Depreciation of social housing	(2,468)	(219)	(2,687)	(2,004)
Operating costs from social letting activities	**(15,345)**	**(925)**	**(16,270)**	**(15,233)**
Operating surplus from social letting activities	**16,197**	**1,173**	**17,370**	**15,632**
Operating surplus from social letting activities for previous year	**14,576**	**1,056**	**15,632**	

4b. Income and Expenditure from Other Activities

	2020 Other income £'000	2020 Other operating costs £'000	2020 Operating surplus/ (deficit) £'000	2019 Operating Surplus/ (deficit) £'000
Managed schemes	374	(230)	144	311
Development administration	-	(155)	(155)	
Supporting People contract income	82	(82)	-	-
Other property income	1,735	(450)	1,285	745
Other	80	(80)	-	-
Total from other activities	**2,271**	**(997)**	**1,274**	**1,056**
Total from other activities for the previous year	**2,026**	**(970)**	**1,056**	

Notes to the Financial Statements (continued)

5. Operating Surplus

	2020 £'000	2019 £'000
The operating surplus is arrived at after charging:		
Depreciation of property, plant and equipment and investment property	3,026	2,791
Loss/(surplus) on the sale of property, plant and equipment	-	6
Auditor's remuneration – audit	28	28

There have been no non-audit services in the year or the prior year.

6. Board of Management Members' Emoluments

Total remuneration paid to Members of the Board of Management by the parent undertaking, Sanctuary Housing Association, amounted to £25,000 (2019: £25,000).

The Members of the Board of Management were reimbursed for expenses necessarily incurred in the conduct of their duties amounting to £1,000 (2019: £3,000).

7. Employee Information

	2020 £'000	2019 £'000
Employee costs charged during the period amounted to:		
Wages and salaries	411	500
Social security costs	42	53
Other pension costs	91	121
	544	674

	2020 Number	2019 Number
The average monthly number of persons employed during the period expressed in full-time equivalents was:		
Office based staff	11	15
	11	15

Full-time equivalents have been calculated based on hours worked compared to the standard level of working hours per week for an equivalent employee in the same business area.

Notes to the Financial Statements (continued)

8. Other gains and losses

	2020 £'000	2019 £'000
Proceeds from sale of property plant and equipment	-	25
Cost of disposals	-	(31)
	-	(6)

9. Finance income and costs

a) Finance income

	2020 £'000	2019 £'000
Interest receivable from:		
Short-term cash deposits	24	11
Other interest	49	40
	73	51

b) Finance costs

	2020 £000	2019 £000
Interest on loans from Group undertakings	7,521	7,496
Interest on external loans	1,972	2,059
Less: amounts transferred to housing properties in the course of construction	(214)	(875)
Finance costs of defined benefit pension schemes	20	23
Interest in respect of right-of-use assets	3	-
	9,302	8,703

Notes to the Financial Statements (continued)

10. Property, plant and equipment

	Land and buildings £'000	Plant and equipment £'000	Offices £'000	Under construction £'000	Total £'000
Cost					
Balance at 1 April 2018	505,489	245	724	106,496	612,954
Additions	4,195	57	-	38,710	42,962
Transfers at completion	83,004	-	-	(83,004)	-
Transfer to investment property	(209)	-	-	-	(209)
Disposals	(312)	(1)	-	-	(313)
Balance at 31 March 2019	592,167	301	724	62,202	655,394
Recognition of right-of-use assets on initial application of IFRS 16	97	-	-	-	97
Adjusted balance at 1 April 2019	592,264	301	724	62,202	655,491
Additions	5,379	35	1	34,904	40,319
Transfers at completion	30,705	-	-	(30,705)	-
Disposals	(343)	-	-	-	(343)
Balance at 31 March 2020	628,005	336	725	66,401	695,467
Depreciation and impairment					
Balance at 1 April 2018	11,608	69	368	-	12,045
Depreciation charge for the year	2,702	47	39	-	2,788
Disposals	(281)	-	-	-	(281)
Balance at 31 March 2019	14,029	116	407	-	14,552
Balance at 1 April 2019	14,029	116	407	-	14,552
Depreciation charge for the year	2,941	54	26	-	3,021
Disposals	(343)	-	-	-	(343)
Balance at 31 March 2020	16,627	170	433	-	17,230
Housing association grant					
Balance at 1 April 2018	240,457	-	-	74,080	314,537
Additions	258	-	-	19,574	19,832
Net transfers at completion	45,380	-	-	(45,380)	-
Transfer to investment property	-	-	-	(167)	(167)
Balance at 31 March 2019	286,095	-	-	48,107	334,202
Balance at 1 April 2019	286,095	-	-	48,107	334,202
Additions	-	-	-	19,487	19,487
Net transfers at completion	14,717	-	-	(14,717)	-
Balance at 31 March 2020	300,812	-	-	52,877	353,689
Net book value					
31 March 2020	310,566	166	292	13,524	324,548
31 March 2019	292,043	185	317	14,095	306,640
1 April 2018	253,424	176	356	32,416	286,372

Notes to the Financial Statements (continued)

10. Property, plant and equipment (continued)

Annual impairment review

The Association annually reviews properties for indicators of potential impairment. Assets that reveal indicators are then subjected to further impairment tests using the methods described in note 1 and below. The Association has determined that for the purposes of impairment testing, each property is a cash-generating unit.

Social housing assets are considered to have indicators of impairment when they have been vacant for a period of sixty days or longer. In the current and prior year, the carrying value of social housing properties identified with indicators of potential impairment was not material to the Association and so further impairment tests were not deemed necessary.

Assets pledged as security

Property with a pre-grant carrying amount of £429,093,000 (2019: £187,884,000) has been pledged to secure borrowings.

11. Investment property

	£'000
Cost	
Balance at 1 April 2018	1,030
Transfers from property, plant and equipment	209
Balance at 31 March/1 April 2019	1,239
Additions	-
Balance at 31 March 2020	1,239
Depreciation	
Balance at 1 April 2018	14
Charge for the year	3
Transfers from property, plant and equipment	1
Balance at 31 March/1 April 2019	18
Charge for the year	5
Balance at 31 March 2020	23
Other grant	
Balance at 1 April 2018	443
Additions	166
Balance at 31 March/1 April 2019	609
Additions	-
Balance at 31 March 2020	609
Net book value	
31 March 2020	**607**
31 March 2019	**612**
31 March 2018	**573**

Notes to the Financial Statements (continued)

11. Investment property (continued)

The Association annually reviews investment properties for indicators of potential impairment. Assets that reveal indicators are then subjected to further review. The Association has determined that for the purposes of impairment testing, each property is a cash-generating unit.

Commercial property is considered to have indicators of impairment if it is vacant or if there has been a significant decline in market value. For the year ended 31 March 2020 no commercial property (2019: none) was identified as having indicators of potential impairment.

Fair value of investment property

The estimated fair value of the investment property is £1,386,000 (2019: £1,386,000). The fair value has been determined by Directors' valuations and may contain a material uncertainty regarding the impact that Covid-19 might have on the future real estate market. In accordance with the fair value measurement hierarchy discussed in note 18, these are deemed to be Level 3 valuations.

12. Other Investments

	2020 £'000	2019 £'000
Shared Equity		
- Investment	1,545	1,545
- Grant	(1,545)	(1,545)
	-	-
Investment in shares – Energy Prospects Co-operative Limited	1	1
Subsidiary company – Sanctuary Homes (Scotland) Limited	-	-
Total other investments	1	1

Properties developed under the Scottish Government's shared equity initiative are funded by grant and ultimate sales proceeds. The net investment in shared equity properties is carried at historical cost with the linked finance cost, being the grant received, deducted from the gross amount of the shared equity asset in line with the SORP.

The Association owns 1,341 shares in Energy Prospects Co-operative Limited.

Sanctuary Homes (Scotland) Limited is a wholly owned subsidiary of the Association. It was incorporated in Scotland under the Companies Act in February 2017. The principal activity of Sanctuary Homes (Scotland) Limited is the management of real estate on an agency basis on behalf of the Association.

13. Inventory

	£'000
Shared equity properties:	
Cost of properties as at 1 April 2019	**6,947**
NSSE properties re-classified to receivables	(6,947)
Total properties held for sale as at 31 March 2020	**-**

NSSE properties have been reclassified from inventory to receivables as the Association has determined that it is acting in an agency capacity in developing and arranging the sale of these properties. Further information can be found in principle accounting policies (note 1).

Notes to the Financial Statements (continued)

14. Trade and other receivables

	2020 £'000	2019 £'000
Current:		
Tenant rental receivables (note 18)	1,705	1,768
Tenant rental impairment loss allowance (note 18)	(288)	(314)
Other trade receivables (note 18)	999	740
Amounts owed from fellow Group undertakings	3,479	1,873
Prepayments	100	117
Accrued income	1,356	2,749
Other receivables	357	226
	7,708	7,159

Amounts due from parent and fellow Group undertakings are trading in nature, repayable on demand and do not bear interest.

15. Trade and other payables

	2020 £'000	2019 £'000
Current:		
Trade payables	1,770	1,743
Amount due to Group entities	6,568	3,363
Other payables	434	615
Accruals	4,252	4,202
Grants received in advance	3,838	5,234
	16,862	15,157

Amounts due to fellow group undertakings and parent undertaking are trading in nature, are repayable on demand and do not bear interest.

16. Loans and borrowings

	2020 £'000	2019 £'000
Current:		
Amounts owed to Group entities	1,779	13,260
Bank loans and mortgages	1,388	1,281
Lease liability (Note 17)	10	-
	3,177	14,541
Non-current:		
Amounts owed to fellow Group entities	212,548	194,371
Bank loans and mortgages	31,329	33,889
Lease liability (Note 17)	7	-
	243,884	228,260
Total loans and borrowings	247,061	242,801

Notes to the Financial Statements (continued)

16. Loans and borrowings (continued)

Based on the lender's earliest repayment date, borrowings fall due as follows:

	2020 £'000	2019 £'000
In one year or less	3,177	14,541
Between one and two years	9,377	8,229
Between two and five years	31,992	21,333
In five years or more	202,515	198,698
	247,061	242,801

17. Leases

The Company applied IFRS 16 Leases from 1 April 2019, replacing the previous leasing standard, IAS 17 Leases. Full details of the transition can be found in note 26.

Lessee arrangements

Leases in the Association most commonly run for a period of 5 years. Leases will be typically appraised prior to expiry of the initial term of the contract or at the next break opportunity. A decision to either terminate or renew the lease will be undertaken. Leases that pass the initial term without a decision will continue in a holdover period until resolved.

Right-of-use assets

Right-of-use assets relates to leased properties that do not meet the definition of investment property are presented as property, plant and equipment (see note 10).

Right-of-use assets included within Property, plant and equipment

	Land and buildings £'000
Cost	
Balance as at 1 April 2019	-
IFRS 16 transition adjustment	97
Balance as at 31 March 2020	**97**
Depreciation and impairment	
Balance as at 1 April 2019	-
Depreciation charge for the year	75
Balance as at 31 March 2020	**75**
Net book value	
31 March 2020	22
31 March 2019	-

Notes to the Financial Statements (continued)

17. Leases (continued)

Amounts recognised in the Statement of Comprehensive Income

	2020 £'000
Interest on lease liabilities	3
Depreciation charge for right-of-use assets	75
	78

Amounts recognised in the Statement of Cash Flows

	2020 £'000
Total cash outflow for leases	83
	83

Lease liabilities

Undiscounted lease payments to be made under lease arrangements fall due as shown below.

	2020 £'000
Land and buildings:	
Under one year	10
In the second to fifth year inclusive	8
Total gross payments	18
Financing costs	(1)
Net lease liability	**17**

The present value of amounts payable under leases is as follows:

	2020 £'000
Land and buildings:	
Under one year	10
In the second to fifth year inclusive	7
	17

All leases are on a fixed repayment basis and no arrangements have been entered into for contingent payments.

Lessor arrangements

It has been determined that contracts of residential occupation, which include social housing tenancies, do not meet the definition of a lease under IFRS 16. These arrangements are treated as revenue contracts under IFRS 15. A small proportion of the Association's income is derived from commercial arrangements that do meet the definition of a lease under IFRS 16 and these are discussed further below.

The Association undertakes an assessment of the financial and operational viability of any potential lessee for a new lease and as such will determine the most appropriate lease terms to put in place. Negotiation of these lease terms will consider the most appropriate terms to ensure they are not unduly onerous or prohibitive and ensure any value continues to be realised or enhanced from the property.

There are no variable lease payments that do not depend on an index or a rate.

Notes to the Financial Statements (continued)

17. Leases (continued)

Lessor arrangements (continued)

During the year ended 31 March 2020, income from operating leases was £119,000 (2019: £148,000).

Amounts receivable under operating leases are due as follows:

	2020 £'000	2019 £'000
Under one year	271	168
Between one and two years	242	139
Between two and three years	139	139
Between three and five years	145	145
In more than five years	361	379
	1,158	970

18. Financial instruments and risk management

Financial risk management objectives and policies

The Group's Treasury function is responsible for the management of funds and control of the associated risks. Other financial risks, for example arrears, are the responsibility of other operating divisions of the Group's finance function. Treasury and finance activities are governed in accordance with the Board approved policy and the management of associated risks is reviewed and approved by the Group Audit and Risk Committee.

Where financial instruments are measured in the Statement of Financial Position at fair value, disclosure of fair value measurements by level is required, in accordance with the following fair value measurement hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The Association's financial instruments include:

Financial assets

Financial assets at amortised cost

	2020 £'000	2019 £'000
Rental receivables (note 14)	1,417	1,454
Other trade receivables (note 14)	999	740
Other receivables (note 14)	357	226
Amounts due from Group entities (note 14)	3,479	1,873
Cash and cash equivalents	8,095	4,355
	14,347	8,648

Of the above loans and receivables balances, rental receivables, amounts due from parent undertaking, amounts due from Group entities and other receivables £6,252,000 (2019: £4,293,000) derive from current trade and other receivables balances on the Statement of Financial Position. Trade and other receivables totalled £7,708,000 at 31 March 2020 (2019: £7,159,000). The remaining balances of £1,456,000 (2019: £2,866,000) are not considered to fall within the definition of a financial asset.

Notes to the Financial Statements (continued)

18. Financial instruments and risk management (continued)

Financial liabilities

As at 31 March the Association's financial liability balances were as follows:

Financial liabilities at amortised cost - current

	2020 £'000	2019 £'000
Debt finance excluding setup costs	3,431	14,805
Trade payables (note 15)	1,770	1,743
Amounts due to Group entities (note 15)	6,568	3,363
Other payables (note 15)	434	615
Lease liability (note 17)	10	-
	12,213	20,526

Current trade and other payables as disclosed in the Statement of Financial Position totalled £16,862,000 (2019: £15,157,000). The difference between the Statement of Financial Position and the amounts disclosed above is £8,090,000 (2019: £9,436,000) and relates to balances that are not considered to fall within the definition of a financial liability. Debt finance consists of loans and mortgages and is presented before deducting setup costs.

Financial liabilities at amortised cost – non-current

	2020 £'000	2019 £'000
Debt finance excluding setup costs	244,891	229,057
Lease liability (note 17)	7	-
	244,898	229,057

Debt finance consists of loans and is presented before deducting setup costs.

Total current and non-current other financial liabilities at 31 March 2020 were £257,111,000 (2019: £249,583,000).

All significant inputs required to value the above instruments are observable and, as such, the Association has classified them as level 2.

Valuation

Balances are valued in accordance with note 1 Principal Accounting Policies – Financial Instruments.

Where applicable, all assets and liabilities at fair value through the Income Statement are designated as such on initial recognition.

Bank loans and mortgages are measured at book value. However, fair value can be calculated and these are disclosed in note 18a.

Notes to the Financial Statements (continued)

18. Financial instruments and risk management (continued)

Analysis of risks

a) Interest rate risk and exposure

Interest rate risk is defined as the risk that interest rates may change in the future materially affecting the Association's liabilities and cash flows.

The interest rate exposure of the Association net debt at 31 March 2020 was:

	£'000	**%**
Fixed rate financial liabilities	193,434	78.3
Variable rate financial liabilities	53,627	21.7
	247,061	100.0

The weighted average interest rate of the Association's total financial liabilities is 3.56% (2019: 3.71%). The weighted average life of fixed rate financial liabilities is 17.7 years (2019: 19.6 years). The Association operates an interest rate policy designed to minimise interest cost and reduce volatility in cash flow and debt service costs.

The Association's cash flow interest rate risk relates to:

- fixed rate financial instruments where benefits of interest rate reductions are lost – a 0.25% rate reduction would result in a lost benefit of £466,000 (2019: £436,000).
- Variable rate financial instruments which are subject to rate changes – a 10% increase in interest costs would result in an additional charge of £73,000 (2019: £100,000).

A comparison of the book value to fair value of Association's long-term borrowings at 31 March 2020 is set out below.

	2020 Book Value £'000	**2020 Fair Value £'000**
Bank loans and mortgages (note 16)	31,329	37,830
Amounts owed to Group entities (note 16)	212,548	284,939
Lease Liability	7	7
	243,884	322,776

The following methods and assumptions have been applied in determining the value of the financial instruments in the table above.

(i) The book value of loans with a maturity of less than one year is assumed to equate to their carrying value. They have therefore been excluded from the table above.
(ii) The fair value of loans greater than one year is established by utilising discounted cash flow valuation models or listed market prices where available.
(iii) The fair value of balances shown above at a variable rate of interest is assumed to approximate to their book value.

Interest rate risk applies to debt finance.

Notes to the Financial Statements (continued)

18. Financial instruments and risk management (continued)

Analysis of risks (continued)

b) Liquidity risk

Liquidity risk is the risk that the Association will fail to be able to access liquid funds - either through:

- lack of available facilities; or
- lack of secured, but available, facilities; or
- lack of identification of need to draw on available facilities.

The Treasury function ensures the above risks are managed by preparing cash forecasts on a daily and longer term basis to ensure that short and longer term requirements are known. The forecasts are cautious in the approach and are constantly updated to allow for sensitivity in assumptions. These are reported to the Chief Financial Officer on a weekly basis. The forecasts identify when draw-downs on existing facilities are required and when existing facilities expire. Further facilities are negotiated and secured well in advance of them being needed for draw-down.

The Treasury function also manages a database of the Association's stock in order to identify unencumbered stock for security of new facilities. A programme of valuations is maintained to ensure that optimum value as security is gained from the Association's stock. These systems ensure that facilities are available to the Association which are secured and available to draw on as required.

The Association's liquidity policy is to maintain sufficient liquid resources to cover cash flow requirements and fluctuations in funding to enable the Association to meet its financial obligations.

The Association has not defaulted on any of its loan arrangements in the year.

Liquidity risk applies to cash and all payables balances.

Notes to the Financial Statements (continued)

18. Financial instruments and risk management (continued)

Analysis of risks (continued)

b) Liquidity risk (continued)

Contractual cash flows for all financial liabilities

The following is an analysis of the anticipated contractual cash flows including interest and finance charges payable for financial liabilities on an undiscounted basis. For the purpose of this table, debt is defined as bank loans, mortgages and deferred finance. Interest is calculated based on debt held at 31 March. Floating rate interest is estimated using the prevailing interest rate at the reporting date.

At 31 March 2020	Debt	Interest on debt	Lease liability	Other liabilities not in net debt	Total
	£'000	£'000	£'000	£'000	£'000
Due less than one year	(3,094)	(10,116)	(10)	(8,772)	(21,992)
Between one and two years	(9,230)	(10,047)	(4)	-	(19,281)
Between two and three years	(3,366)	(9,785)	(3)	-	(13,154)
Between three and four years	(25,169)	(8,539)	-	-	(33,708)
Between four and five years	(2,871)	(8,836)	-	-	(11,707)
Greater than five years	(196,594)	(109,063)	-	-	(305,657)
Gross contractual cash flows	**(240,324)**	**(156,386)**	**(17)**	**(8,772)**	**(405,499)**

At 31 March 2019	Debt	Interest on debt	Other liabilities not in net debt	Total
	£'000	£'000	£'000	£'000
Due less than one year	(14,583)	(10,686)	(7,234)	(32,503)
Between one and two years	(8,094)	(9,923)	-	(18,017)
Between two and three years	(7,230)	(9,952)	-	(17,182)
Between three and four years	(3,366)	(9,818)	-	(13,184)
Between four and five years	(10,169)	(8,671)	-	(18,840)
Greater than five years	(192,465)	(117,737)	-	(310,202)
Gross contractual cash flows	**(235,907)**	**(166,787)**	**(7,234)**	**(409,928)**

Notes to the Financial Statements (continued)

18. Financial instruments and risk management (continued)

Analysis of risks (continued)

c) Credit risk

Credit risk applies to all debtor balances and to debt finance. The risk falls into two categories: financial and operational.

Financial

The Association manages credit risk by carrying out monthly credit checks on all counterparties from which the Association either sources funds or places deposits. The financial credit risk is mitigated to some extent by the existence of borrowing facilities with such counterparties. It is the Association's policy not to take or place funds with any financial institution which is not accepted as a counterparty in the Association's Financial Regulations. Such counterparties are approved by the Board but only on the achievement of the desired credit agency rating. The maximum exposure with a single external funder is £15,000,000 as at 31 March 2020 (2019: £15,000,000).

Operational

The majority of the operational debt at any given time relates to tenants and non-tenants of the Association. These debts are reported to the Board of Management on a regular basis and recovery of debts is coordinated through operational management teams.

Tenant rental receivable arrears

Gross tenant rental arrears due as at 31 March 2020 totalled £1,705,000 (2019: £1,768,000). Most of this balance was past due as the majority of tenancy agreements state that the rent is due in advance. The age of these arrears was as follows:

	2020 £'000	**2019 £'000**
Less than 30 days	504	250
30 to 60 days	251	247
60 to 90 days	174	195
More than 90 days	776	1,076
Balance as at 31 March	1,705	1,768

There is an impairment loss allowance against £288,000 (2019: £314,000) of this balance leaving a net rental arrears balance of £1,417,000 (2019: £1,454,000) (see note 14).

Tenant rental receivable arrears loss allowance

	2020 £'000	**2019 £'000**
Balance as at 1 April	314	822
Adjustment on initial application of IFRS 9	-	(179)
Provided in the year	420	28
Amounts written off	(446)	(357)
Balance as at 31 March	288	314

Under IFRS 9, loss allowances for trade receivables are measured at an amount equal to lifetime Expected Credit Losses (ECLs). Lifetime ECLs are a probability-weighted estimate of credit losses that result from all possible default events over the expected life of a financial instrument.

Notes to the Financial Statements (continued)

18. Financial instruments and risk management (continued)

Analysis of risks (continued)

c) Credit risk (continued)

Other trade receivables

Gross other trade receivables balances as at 31 March 2020 totalled £1,123,000 (2019: £1,212,000). Of this balance £742,000 (2019: £645,000) was deemed past due. Normal payment terms are 30 days. The age of gross other trade receivables balances was as follows:

	2020 £'000	2019 £'000
Less than 30 days	381	567
30 to 60 days	106	59
60 to 90 days	27	13
More than 90 days	609	573
Balance as at 31 March	1,123	1,212

There is an impairment loss allowance against £124,000 (2019: £472,000) of this balance leaving a net other trade receivables balance of £999,000 (2019: £740,000) (see note 14).

Other trade receivables loss allowance

	2020 £'000	2019 £'000
Balance as at 1 April	472	541
Released in the year	(304)	(64)
Amounts written off	(44)	(5)
Balance as at 31 March	124	472

Under IFRS 9, loss allowances for trade receivables are measured at an amount equal to lifetime Expected Credit Losses (ECLs). Lifetime ECLs are a probability-weighted estimate of credit losses that result from all possible default events over the expected life of a financial instrument.

The maximum credit risk at 31 March 2020 and 2019 was as follows:

	2020 £'000	2019 £'000
Receivables	6,252	4,293
Cash and cash equivalents	8,095	4,355
	14,347	8,648

Notes to the Financial Statements (continued)

18. Financial instruments and risk management (continued)

Analysis of risks (continued)

d) Concentration risk

Concentration risk is defined as the risk associated with a reliance on transactions that carry a similar risk profile.

Management determines concentrations of risk through its standard risk management procedures, as detailed in the review of business activities in the Board of Management's report.

Management considers the Association's main concentration of risk to be within rent and service charge arrears. The shared characteristic of this concentration is the social demographic of the client base that can be linked to lower credit quality. However, the arrears are from a number of types of tenancy:

- Rental
- Sheltered housing
- Supported housing
- Commercial tenants
- Home ownership.

A reduced level of risk is associated with home ownership residents.

The maximum exposure to this risk is equal to the tenant arrears balance (net of provision) at 31 March 2020, £1,417,000 (2019: £1,454,000).

e) Market rate risk

Market risk applies to listed investments. Listed investments are exposed to fluctuations in market values that are outside the Association's control. Listed investments at 31 March 2020 totalled £nil (2019: £nil).

f) Capital

The Association considers its capital balances to be share capital (note 20) and reserves (Statement of Changes in Equity).

Notes to the Financial Statements (continued)

19. Retirement benefits

The Association participated in two funded defined benefit schemes. All schemes' assets are held in separate funds administered by the Trustees of each scheme. Details are given below.

Strathclyde Pension Fund

The Association is an admitted body of the Strathclyde Pension Fund, part of the Scottish Local Government Pension Scheme. The Association has contributed at a rate of 22.0% of pensionable salaries for the current year. Members have contributed at a rate of between 5.5% and 12.0% for the current year.

North East Scotland Pension Fund

The Association is also an admitted body of the North East Scotland Pension Fund, part of the Scottish Local Government Pension Scheme. The Association contributed at a rate of 24.8% of pensionable salaries for the current year. Members have contributed at a rate of between 5.5% and 12.0% of pensionable salaries for the current year.

In December 2018, the Court of Appeal ruled that transitional arrangements protection in respect of benefit changes to the Judicial and Fire Fighter Pension Scheme amounted to unlawful discrimination (McCloud case). Due to similar protection arrangements in the local Government pension schemes, the judgement is expected to be applicable to these schemes. Whilst the judgement might be appealed by the Government in the Supreme Court, it is generally considered unlikely that this will be successful.

The Board of Management have considered the potential impact of the McCloud case on the Association's defined benefit liability as at 31 March 2020. No additional liability has been recognised given the profile of the scheme members and assuming a very cautious outcome on the local Government pension scheme liability. The Board of Management are satisfied that when fully accounted for, the impact will not be material to the Association's Financial Statements as at 31 March 2020.

Notes to the Financial Statements (continued)

19. Retirement benefits continued

The financial assumptions used to calculate scheme liabilities for both the Strathclyde Pension Fund and the North East Scotland Pension Fund under IAS 19 Employee Benefits were as follows.

IAS 19 Employee Benefits

	2020 %	**2019** %
Inflation (RPI)	2.60	3.30
Rate of increase in salaries for the next two years	1.70	2.30
Rate of increase in salaries thereafter	1.70	2.30
Rate of increase for pensions in payment	1.70	2.30
Rate of increase for deferred pensions	2.60	3.30
Discount rate	2.35	2.30

The assumptions for mortality rates use the Self-Administered Pension Scheme (SAPS) All Pensioners (excluding dependents) ‘amounts’ tables, with projected improvement rates varying by year of birth with medium cohort and 1.25 per cent per annum minimum improvements for males and 1.25 per cent for females. Based on these assumptions, the average future life expectancies at age 65 are:

	Males	Females
Current pensioners	22.5 years	24.4 years
Future pensioners	23.8 years	25.9 years

The fair values of assets in the schemes, split between quoted and unquoted investments, are as follows:

	2020		**2020**		**2019**		**2019**	
	£’000	**£’000**	**£’000**	**%**	**£’000**	**£’000**	**£’000**	**%**
	Quoted	Unquoted	Total		Quoted	Unquoted	Total	
Equities	8,472	1,831	10,303	64.8	9,349	1,844	11,193	66.7
Bonds	1,267	603	1,870	11.8	1,371	642	2,013	12.0
Property	-	1,307	1,307	8.2	-	1,380	1,380	8.2
Other	940	1,478	2,418	15.2	1,040	1,159	2,199	13.1
Total value of assets	10,679	5,219	15,898	100.0	11,760	5,025	16,785	100.0

Reconciliation of the effect of the asset ceiling:

	2020 £’000	**2019** £’000
Net asset ceiling at 1 April	-	(436)
Restriction of Strathclyde Pension Fund surplus	-	436
Net asset ceiling at 31 March	**-**	**-**

The Strathclyde Pension Fund has been valued at a net asset position. As the Association will derive economic benefit from reduced future contributions to the Strathclyde Pension Fund, it has not applied the asset ceiling in accordance with IAS 19. The Strathclyde Pension Fund was also valued in a net asset position in 2018/2019.

Notes to the Financial Statements (continued)

19. Retirement benefits (continued)

Scheme liabilities are reflected in the Statements of Financial Position:

	2020 £'000	2019 £'000
Present value of employer assets	15,898	16,785
Present value of funded liabilities	(16,033)	(17,679)
Net pension liability	**(135)**	**(894)**

An analysis of the expense reflected in the Statement of Comprehensive Income

Amounts charged to operating surplus:	2020 £'000	2019 £'000
Current service cost	(177)	(202)
Past service cost	(11)	(178)
Expenses	(1)	(1)
Total service cost	(189)	(381)

Analysis of amount charged to finance cost:	2020 £'000	2019 £'000
Interest income on plan assets	382	399
Interest cost on defined benefit obligations	(402)	(422)
Total amount charged to finance cost	(20)	(23)

The total amount recognised in Other Comprehensive Income:	2020 £'000	2019 £'000
Change in demographic assumptions	(213)	124
Change in financial assumptions	1,941	(490)
Return on scheme assets excluding interest	(577)	293
Other experience	37	-
Other re-measurement gains and losses	(317)	410
Effect of net asset ceiling	-	436
Total re-measurement gains	871	773

Notes to the Financial Statements (continued)

19. Retirement benefits (continued)

Reconciliation of the opening and closing balances of the present value of scheme assets:

	2020 £'000	2019 £'000
Opening fair value of assets	16,785	16,090
Expenses	(1)	(1)
Interest income on plan assets	382	399
Return on plan assets excluding interest	(577)	293
Contributions by employer	97	139
Contributions by employees	28	34
Net benefits paid (including expenses)	(499)	(579)
Other re-measurement gains and losses	(317)	410
Closing fair value of the assets	**15,898**	**16,785**

Reconciliation of the opening and closing balances of the present value of scheme liabilities:

	2020 £'000	2019 £'000
Opening defined benefit obligation	17,679	17,056
Current service cost	177	202
Past service cost	11	178
Interest cost	402	422
Contributions by employees	28	34
Change in demographic assumptions	213	(124)
Change in financial assumptions	(1,941)	490
Net benefits paid (including expenses)	(499)	(579)
Other experience	(37)	-
Closing defined benefit obligation	**16,033**	**17,679**

History of defined benefit schemes in the Statements of Financial Position:

	2020 £'000	2019 £'000	2018 £'000	2017 £'000
Defined benefit obligations	(16,033)	(17,679)	(17,056)	(18,398)
Scheme assets	15,898	16,785	16,090	15,901
Net deficit	(135)	(894)	(966)	(2,497)

Only four years are compared above as the Association did not participate in any defined benefit pension schemes prior to 2016/2017.

The Association expects to contribute the following amounts to the defined benefit schemes during the year ended 31 March 2020:

	£'000
North East Scotland	52
Strathclyde Pension Fund	50
	102

Notes to the Financial Statements (continued)

19. Retirement benefits (continued)

Assumption sensitivity analysis -

The impact of a 0.1 percentage point movement in the primary assumptions (longevity: 1 year) on the defined benefit obligations as at 31 March 2020 is set out below:

2020	Strathclyde Pension Fund Movement £'000	North East Scotland Pension Fund Movement £'000
Discount rate +0.1%	(135)	(153)
Discount rate -0.1%	135	153
Rate of inflation +0.1%	118	156
Rate of inflation -0.1%	(118)	(156)
Salary changes +0.1%	15	18
Salary changes -0.1%	(15)	(18)
Life expectancy +1 year	307	228
Life expectancy -1 year	(307)	(228)

The above sensitivity analyses are based on isolated changes in each assumption, whilst holding all other assumptions constant. In practice, this is unlikely to occur, and there is likely to be some level of correlation between movements in different assumptions. In addition, these sensitivities relate only to potential movement in the defined benefit obligations.

The assets, held by the schemes, are to some extent designed to mitigate the full impact of these movements so that the movements in the defined benefit obligations shown would, in practice be partly offset by movements in asset valuations.

However, the above sensitivities are shown to illustrate at a high level the scale of sensitivity of the defined benefit obligations to key actuarial assumptions.

The same actuarial methods have been used to calculate these sensitivities as are used to calculate the relevant balance sheet values, and have not changed compared to the previous period.

The Asset values of the Association for the Local Government Pension Schemes are reported using estimated asset allocations prepared by each scheme Actuary. This Asset value is calculated at each triennial valuation per scheme. Thereafter, it is rolled forward to accounting dates using suitable estimates for investment returns, contributions received and benefits paid out. Each employer's share of the Fund is individually tracked.

Contributions which the Association pay to the Funds are allocated entirely to their identified asset share and are not spread in any way. Asset allocations are also produced using bid values where necessary.

During each annual reporting period between triennial valuation period, asset returns are estimated using 11 months of market experience and 1 month of extrapolation being assumed. As such, actual investment returns over a full year might deviate from those reported by the Actuary that produces an IAS19 estimate.

A sensitivity analysis to reflect a plus or minus 5 per cent movement in asset values in Local Government Pension schemes equates to plus or minus £795,000.

Notes to the Financial Statements (continued)

19. Retirement benefits (continued)

Defined benefit schemes – risk factors

Through its post-employment pension scheme, the Association is exposed to a number of risks, the most significant of which are detailed below. The Association's focus is on managing the cash demands which the pension scheme has in place on the Association, rather than balance sheet volatility in its own right. For funded schemes cash requirements are generally determined by funding valuations which are performed on a different basis from accounting valuations.

Asset volatility: scheme liabilities are calculated using discount rates set with reference to bond yields (although the discount rate methodology differs for accounting and funding purposes). If plan assets deliver a return which is lower than the discount rate, this will create or increase a plan deficit.

The Association's pension schemes hold a significant proportion of equities and similar 'growth assets', which are expected to out-perform bonds in the long term, albeit at the risk of short term volatility.

As the pension scheme matures, with a shorter time horizon to cope with volatility, the scheme Trustees and administering authority will gradually reduce holdings of growth assets in favour of increased matching assets (bonds and similar). In the meantime, the Association considers that equities and similar assets are an appropriate means of managing pension funding requirements, given the long term nature of the liabilities and the strength of the Association to withstand volatility.

Changes in bond yields: A decrease in bond yields will typically increase scheme liabilities (and vice-versa), although this will be offset partially by an increase in the value of bonds held in the asset portfolios of the various plans. The effect of changes in bond yields is more pronounced in less well funded schemes where there is less potential for offsetting movements in asset values.

Inflation risk: as the Association's pension obligations are linked to inflation, higher inflation expectations will lead to higher liabilities, although caps are in place to protect against unusually high levels of inflation. The asset portfolio includes some inflation linked bonds to provide an element of protection against this risk.

Member longevity: As the Association's post-employment obligations are generally to provide benefits for the life of the member, increases in life expectancy will result in an increase in scheme liabilities (and vice versa).

20. Called up share capital

	2020	**2019**
Each member holds one share of £1 in the Association	**£**	**£**
Allotted, issued and fully paid		
At 1 April	12	9
Issued	-	3
At 31 March	12	12

Each share carries voting rights but not rights to dividends, distributions on winding up or rights of redemption.

Notes to the Financial Statements (continued)

21. Capital commitments

	2020 £'000	2019 £'000
Expenditure contracted	15,367	12,521
Authorised expenditure not contracted	125,491	95,539
	140,858	108,060

£65,072,000 (2019: £52,395,000) of the capital commitments will be financed by grant and other public finances with the remainder being financed from existing funds, largely from the parent undertaking or Sanctuary Treasury Limited.

22. Notes to the Statement of Cash Flows

	2020 £'000	2019 £'000
Cash and cash equivalents per Statement of Financial Position	8,095	4,355
Cash and cash equivalents per Statement of Cash Flows	8,095	4,355

Cash and cash equivalents at the end of the reporting period can be reconciled to the related items in the Statement of Financial Position as shown above.

Reconciliation of liabilities arising from financial activities

	At 1 April 2019 £'000	Cash flows £'000	Other non-cash changes £'000	At 31 March 2020 £'000
Short-term borrowings	(14,541)	20,993	(9,619)	(3,167)
Long-term borrowings	(228,260)	(25,220)	9,603	(243,877)
Lease liability	-	80	(97)	(17)
	(242,801)	**(4,147)**	**(113)**	**(247,061)**

	At 1 April 2018 £'000	Cash flows £'000	Other non-cash changes £'000	At 31 March 2019 £'000
Short-term borrowings	(16,201)	16,201	(14,541)	(14,541)
Long-term borrowings	(205,952)	(36,824)	14,516	(228,260)
	(222,153)	**(20,623)**	**(25)**	**(242,801)**

Non-cash changes reflect progression in the ageing of debt due after more than one year to less than one year, along with the amortisation of capitalised set up costs.

Notes to the Financial Statements (continued)

23. Ultimate parent undertaking and controlling party

The ultimate parent undertaking and controlling party is Sanctuary Housing Association, registered in England as a Registered Society (Number 19059R) and with the Regulator of Social Housing (Number L0247). A copy of the Group financial statements can be obtained from Sanctuary Housing Association, Chamber Court, Castle Street, Worcester, WR1 3ZQ.

24. Related party transactions

Related party transactions between members of the Board of Management and the entities within Sanctuary Group are disclosed in note 6 – Board of Management members' emoluments.

During the year, Sanctuary Housing Association recharged the Association a total of £11,737,000 (2019: £7,769,000) in costs including £3,482,000 in management charges (2019: £3,413,000). Sanctuary Housing Association was recharged by the Association a total of £2,297,000 (2019: £2,794,000). At the year end the Association owed Sanctuary Housing Association a sum of £4,318,000 (2019: £508,000).

During the year, Sanctuary Maintenance Contractors Limited recharged the Association a total of £10,407,000 (2019: £12,399,000). Sanctuary Maintenance Contractors Limited was recharged by the Association a total of £314,000 during the year (2019: £1,311,000). At the year end the Association owed Sanctuary Maintenance Contractors Limited a sum of £798,000 (2019: £938,000).

During the year, Sanctuary Treasury Limited recharged the Association a total of £2,000 (2019: £175,000). There was no balance owed at the year end (2019: nil).

During the year, Donside Limited was recharged by the Association a total of £97,000 during the year (2019: £3,000). At the year end the Donside Limited owed the Association £1,653,000 (2019: £1,556,000).

During the year, Sanctuary Homes (Scotland) Limited recharged the Association a total of £135,000 (2019: £626,000). Sanctuary Homes (Scotland) Limited was recharged by the Association a total of £1,847,000 during the year (2019: £3,763,000). At the year end Sanctuary Homes (Scotland) Limited owed the Association £1,825,000 (2019: £62,000).

25. Events after the reporting period

The Association has been named as the preferred bidder for Thistle Housing Association in the transfer of engagement process. This process is still ongoing the approval process as of the date of these financial statements.

26. Initial Application of IFRS 16 Leases

The Association adopted IFRS 16 Leases on 1 April 2019. Accordingly, the Leases accounting policy set out in note 1 has been applied in preparing the Financial Statements for the year ended 31 March 2020. This change in accounting policy is made in accordance with IFRS 16's transitional provisions.

The change in accounting policy results in all lease arrangements (where the Association is the lessee) being recorded within assets as right-of-use assets and within liabilities as lease liabilities. The right-of-use assets are depreciated, and the lease liability is reduced by the lease payments while attracting an interest charge. This treatment applied to all arrangements that meet IFRS 16's definition of a lease, irrespective of whether they were previously classified as finance or operating leases under the previous standard, International Accounting Standard 17 Leases (IAS 17).

In the case of lease arrangements where the Association is lessor, the classifications of finance and operating leases continue to be used, with finance lease recognised on the Statement of Financial Position and the rents on operating leases being recognised as income in the Statement of Comprehensive Income.

Notes to the Financial Statements (continued)

26. Initial Application of IFRS 16 Leases (continued)

The transitional provisions adopted are as follows;

- the Association is applying the standard retrospectively with the cumulative effect of initially applying the standard recognised at the date of the initial application.
- the lease liabilities are based on the remaining terms of each lease and are calculated using the Association's incremental borrowing rate. This is calculated with reference to property investment yields and applied on a portfolio basis by location and property type.
- the right-of-use asset is measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments, and using the Association's incremental borrowing rate.
- an impairment review has been carried out on the resultant balances and this review will be performed annually in line with IAS 36 Impairment.
- where extension clauses exist in lease contracts, these have not been included in the calculation of the lease liabilities due to uncertainty over whether these extension options will be exercised.

The practical expedients that have been adopted are as follows:

- the standard has now been applied to contracts that were not previously identified as containing a lease when applying IAS 17 and IFRIC 4 Determining Whether an Arrangement Contains a Lease.
- a single discount rate has been applied to certain portfolios of leases with similar characteristics.
- initial direct costs have been excluded.
- the standard has not been applied to leases that are short-term or of low value.

These transitional arrangements and practical expedients are not expected to have any significant impacts on future periods.

The Association has taken the decision to apply the modified retrospective approach with the cumulative effect of initially applying the standard recognised at the date of initial application.

- implicit interest rates would require calculation for each lease;
- all historic rent changes would require identification;
- the direct costs of arranging every lease would be necessary.

Note 17 contains quantitative information showing how leases have been accounted for in the year ended 31 March 2020, along with comparative information where applicable.