

SANCTUARY SCOTLAND HOUSING ASSOCIATION LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2019

**Scottish Registered Charity:
Scottish Housing Regulator:
Registered Society Number:**

**SC024549
HEP302
2508RS**

Annual Report and Financial Statements for the year ended 31 March 2019

Contents	Page
Board of Management and Advisors	2
The Board of Management's Report	3
Statement of Board of Management's responsibilities in respect of the Board of Management's report and financial statements	8
Independent Auditor's Report to the Members of Sanctuary Scotland Housing Association Limited	10
Statement of Comprehensive Income	13
Statement of Financial Position	14
Statement of Changes in Equity	15
Statement of Cash Flows	16
Notes to the Financial Statements	17

Sanctuary Scotland Housing Association Limited

Board of Management and Advisors

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

John Arthur
Arthur Bruce
Alexander Clark (Deputy Chairperson)
Peter Cowe
Kenneth Gibb (Chairperson)
J' (Deputy Chairperson)
Michael McGrane
Suzanne Phee
Alan West

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
Cornwall Court
19 Cornwall Street
Birmingham
B3 2DT

Bankers

Bank of Scotland PLC	Barclays Bank plc
Bank of Scotland Commercial	Barclays Corporate
New Uberior House	Social Housing Team
11 Earl Grey Street	Level 27
Edinburgh	1 Churchill Place
EH3 9BN	London
	E14 5HP

Legal advisors

TC Young
7 West George Street
Glasgow
G2 1AB

Registered address

Sanctuary House
7 Freeland Drive
Glasgow
G53 6PG

Scottish registered charity number

SC024549

Sanctuary Scotland Housing Association Limited

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 2019.

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 £8,803,000 (2018: £6,086,000). The Association has £65,253,000 (2018: £56,271,000) of revenue reserves and support via £1,120,000 (2018: £1,289,000) of loan funding from the Association's parent undertaking, Sanctuary Housing Association and £206,511,000 (2018: £184,831,000) 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	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
General needs	28,866	26,411	14,576	12,050
Sheltered and supported housing	1,999	1,963	1,056	613
Other activities	2,026	939	1,056	(90)
Other gains and losses	-	-	(6)	151
Totals	32,891	29,313	16,682	12,724

Sanctuary Scotland Housing Association Limited

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 2019	Actual for year 2018
Current tenant arrears as a % of gross annual rent	5.11%	5.67%
Void loss as a % of gross annual rent	0.39%	0.42%

Accommodation in management

	2019	2018
Social housing accommodation:		
General needs housing	6,473	6,226
Sheltered & supported housing accommodation	397	421
Total units in management	6,870	6,647
Not available for letting	(116)	(115)
Total stock available for letting	6,754	6,532

116 (2018: 115) units are being held vacant pending demolition as part of the Cumbernauld high rise project.

24 (2018: 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 continue the improvement seen over the last two years. Void loss for available to let properties was 0.39% (2018: 0.42%). The level of current tenant rent arrears at the year end is 5.11% (2017: 5.67%) 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 £48,000 (2018: £50,000) 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 2019/2020 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 2019 saw a continued high level of development activity with the completion of 541 new homes (2018: 419). 344 homes for social rent, 134 homes for mid market rent and 63 for affordable home ownership (through the New Supply Shared Equity (NSSE) model) were completed on projects in Cumbernauld, Glasgow and Aberdeen.

In 2019/2020, the Association expects to complete almost four hundred homes at sites across Scotland, the majority of which will be for social rent. There will also be new homes developed for sale through NSSE and for mid market rental through the Association's subsidiary, Sanctuary Homes (Scotland) Limited.

Going concern

Based on the continued support of its ultimate parent, Sanctuary Housing Association, the Board confirms it has a reasonable expectation that the Association has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Association continues to adopt the going concern basis in preparing its financial statements. Further details are given in note 1

Board of Management Members

John Arthur	(appointed 1 February 2019)
Arthur Bruce	
Alexander Clark	Deputy Chairperson
Peter Cowe	
Kenneth Gibb	Chairperson
J'	Deputy Chairperson
Michael McGrane	
Suzanne Phee	
Alexandra Tate	(resigned 1 May 2018)
Alan West	
Sanctuary Housing Association	

Secretary

Nicole Seymour	(appointed 23 May 2018)
Craig Moule	(resigned 23 May 2018)

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.

Sanctuary Scotland Housing Association Limited

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 (April 2019) 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;
- Realising the promises made ahead of the 2016/2017 transfer of engagements of Tenants First and Cumbernauld to the Association; and
- Embedding and maximising the benefits of the Association's information technology platform, OneSanctuary.

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 2019, 75% of the Association's debt was on fixed rate terms (2018: 89%). 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, 5.99% (2018: 7.30%) 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.

Sanctuary Scotland Housing Association Limited

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 2019 and is not aware of any material changes at the date of signing the financial statements.

Sanctuary Scotland Housing Association Limited

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.

Sanctuary Scotland Housing Association Limited

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.

Nicole Seymour
Secretary
13 August 2019

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 2019 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 2019 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.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

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, including the impact of Brexit, 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.

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

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.

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 6, 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.

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

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.

Gordon Docherty
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Date:

Sanctuary Scotland Housing Association Limited
Statement of Comprehensive Income for the year ended 31 March 2019

	Note	2019 £'000	2018 £'000
Revenue	2	32,891	29,313
Operating expenditure	3	(16,203)	(16,740)
Other gains and losses	8	(6)	151
Operating surplus	3,5	<u>16,682</u>	<u>12,724</u>
Finance Income	9a	51	19
Finance costs	9b	(8,703)	(7,920)
Surplus for the year from continuing operations		<u>8,030</u>	<u>4,823</u>
Other comprehensive income			
Items that will not be reclassified subsequently to income or expense:			
Re-measurement of defined benefit pension scheme liability	18	773	1,263
Other comprehensive income for the year		<u>773</u>	<u>1,263</u>
Total comprehensive income for the year		<u>8,803</u>	<u>6,086</u>

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

The notes on pages 17 to 53 form part of these financial statements.

Sanctuary Scotland Housing Association Limited
Statement of Financial Position as at 31 March 2019

	Note	2019 £'000	2018 £'000
Assets			
Non-current assets:			
Property, plant and equipment	10	306,640	286,372
Investment Property	11	612	573
Other Investments	12	1	1
		307,253	286,946
Current assets			
Inventory	13	6,947	9,171
Trade and other receivables	14	7,159	5,403
Cash and cash equivalents	21	4,355	-
		18,461	14,574
Total Assets		325,714	301,520
Liabilities			
Current liabilities:			
Trade and other payables	15	16,766	20,645
Cash and cash equivalents	21	-	1,049
Loans and borrowings	16	14,541	16,201
		31,307	37,895
Non-current liabilities			
Loans and borrowings	16	228,260	205,952
Retirement benefit obligations	18	894	1,402
		229,154	207,354
Total liabilities		260,461	245,249
Equity			
Equity attributable to owners of the parent:			
Share capital	19	-	-
Retained earnings		65,253	56,271
Total Equity		65,253	56,271
Total Equity and liabilities		325,714	301,520

The notes on pages 17 to 53 form part of these financial statements.

The financial statements were approved by the Board of Management on 13 August 2019 and signed on its behalf by:

Kenneth Gibb
Chairperson

Alexander Clark
Deputy Chairperson

J'
Deputy Chairperson

Nicole Seymour
Secretary

Sanctuary Scotland Housing Association Limited
Statement of Changes in Equity for the year ended 31 March 2019

	Share capital £'000	Revenue reserve £'000	Total equity £'000
At 1 April 2017	-	50,185	50,185
Surplus for the year	-	4,823	4,823
Other comprehensive income	-	1,263	1,263
Total comprehensive income	-	6,086	6,086
At 31 March 2018	-	56,271	56,271
At 1 April 2018	-	56,271	56,271
Adjustment on initial application of IFRS 9 (note 25)	-	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

The notes on pages 17 to 53 form part of these financial statements.

Sanctuary Scotland Housing Association Limited
Statement of Cash Flows for the year ended 31 March 2019

	Notes	2019 £'000	2018 £'000
Cash flows from operating activities			
Surplus for the year		8,030	4,823
Adjustments for:			
Depreciation	5	2,791	2,295
Loss/(gain) on sale of property, plant and equipment	8	6	(151)
Net finance costs	9	8,651	7,901
		<u>11,448</u>	<u>10,045</u>
Cash generated before working capital movements		<u>19,478</u>	<u>14,868</u>
Changes in:			
Trade and other receivables		(418)	(379)
Trade and other payables		(1,730)	(472)
Retirement benefit obligations		243	-
		<u>(1,905)</u>	<u>(851)</u>
Cash generated from operating activities		<u>17,573</u>	<u>14,017</u>
Interest paid		(9,527)	(9,111)
Net cash inflow from operating activities		<u>8,046</u>	<u>4,906</u>
Cash flows from investing activities			
Interest received		43	19
Proceeds from sale of property, plant and equipment		25	463
Acquisition and construction of property, plant and equipment and investment property		(41,238)	(62,573)
Capital grants received		17,905	30,080
Net cash outflow from investing activities		<u>(23,265)</u>	<u>(32,011)</u>
Cash flows from financing activities			
Proceeds from loans and borrowings		47,000	46,550
Repayment of borrowings		(26,377)	(18,994)
Net cash flow from financing activities		<u>20,623</u>	<u>27,556</u>
Net movement in cash and cash equivalents		<u>5,404</u>	<u>451</u>
Cash and cash equivalents 1 April		(1,049)	(1,500)
Cash and cash equivalents 31 March		<u>4,355</u>	<u>(1,049)</u>

The notes on pages 17 to 53 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 15 and IFRS 9 from 1 April 2018, when they became effective; adoption of IFRS 15 has not had a significant impact on the Association. 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 these standards, comparative information throughout these Financial Statements has not been restated to reflect the requirements of the new standards. Additionally, the disclosure requirements have not generally been applied to comparative information.

An explanation of how the transition has affected the Group's financial position and financial performance is set out in note 25.

Going Concern

The Association's business activities, together with the factors likely to affect its future development and position, are set out in the Board of Management's report on page 3.

Notwithstanding net current liabilities of £12,846,000 as at 31 March 2019, the financial statements have been prepared on a going concern basis which the Board of Management consider to be appropriate for the following reasons.

The Board of Management have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the Association will have sufficient funds, through funding from its fellow subsidiary, Sanctuary Treasury Limited, to meet its liabilities as they fall due for that period.

Sanctuary Housing Association has indicated its intention to continue to make available such funds as are needed by the Association, via its subsidiary Sanctuary Treasury Limited. As with any entity placing reliance on other group entities for financial support, the Board of Management acknowledges 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 of Management 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 therefore have 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 below 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 2015 - 2017 Cycle
- IFRIC 23 (1 January 2019)
- Amendments to IFRS 9 (1 January 2019)
- Amendments to IAS 19 Employee Benefits
- Amendments to IAS 1 Presentation of Financial Statements
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- Amendments to references to the conceptual framework in IFRS.

IFRS 16 'Leases' will be applicable to the Association in the year ending 31 March 2020. The Association's preparations for the introduction of IFRS 16 are at an advanced stage and a summary of the currently expected impact is set out below.

The International Accounting Standards Board issued IFRS 16 in January 2016 to replace IAS 17 and its related interpretations. The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. IFRS 16 removes the current classification of leases between operating and finance leases for lessees, bringing all leases within the scope of IFRS 16 other than those for which short-term or low-value exemptions can be taken.

Lessees are required to initially recognise a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the duration of the lease term. This will result in additional assets and liabilities in the Statement of Financial Position in relation to the Association's operating leases which meet the criteria for recognition. Within the Income Statement, operating lease expenses will be replaced with a depreciation charge on the right-of-use asset and an interest expense on the lease liabilities. For lessors, IFRS 16 substantially carries forward the accounting treatment under IAS17 and is not therefore expected to have a material impact on the Association's contracts in which it is a lessor.

The Association's non-cancellable operating lease commitments on an undiscounted basis at 31 March 2019 are few in number and low in value. For this reason, the actual impact of applying IFRS 16, which will result in an additional asset and liability of less than £13,000, is considered to be immaterial to the Association.

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.

Sanctuary Scotland Housing Association Limited

Notes to the Financial Statements (continued)
1. Principal Accounting Policies (continued)
Critical accounting judgements (continued)

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).

Critical accounting estimates and assumptions

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)

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. The effect of initial application is described in note 25.

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.

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.

Notes to the financial statements (continued)

1. Principal accounting policies (continued)

Property, plant and equipment and depreciation (continued)

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 property level and compared against its recoverable amount, which is defined as the higher of:

- the fair value less selling costs of the property, or
- its value in use (VIU).

Should the net book value of the property 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 over a period of up to 30 years.

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.

Sanctuary Scotland Housing Association Limited

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.

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. Adoption of the new standard has not resulted in any changes to the timing of revenue recognition for the Association.

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.

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.

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 2019	Rented housing	Supported housing	Other	Total
	£'000	£'000	£'000	£'000
Revenue recognised over time				
Income from social housing lettings	28,866	1,999	-	30,865
Managed schemes	-	-	385	385
Supporting people income	-	-	83	83
Other	-	-	85	85
Revenue from contracts with customers	28,866	1,999	553	31,418

Sanctuary Scotland Housing Association Limited
Notes to the Financial Statements (continued)
3. Revenue, Operating Costs and Operating Surplus

	2019 Revenue £'000	2019 Operating costs £'000	2019 Other gains and losses £'000	2019 Operating Surplus/ (deficit) £'000	2018 Operating Surplus/ (deficit) £'000
Social housing lettings	30,865	(15,233)	-	15,632	12,663
Other activities	2,026	(970)	-	1,056	(90)
Other gains and losses	-	-	(6)	(6)	151
Total	32,891	(16,203)	(6)	16,682	12,724
Total for previous year	29,313	(16,740)	151	12,724	

4a. Income and Expenditure from Social Housing Lettings

	Rented housing £'000	Supported housing £'000	2019 Total £'000	2018 Total £'000
Income from lettings				
Rents receivable net of service charges	28,798	1,754	30,552	28,088
Service charges	375	255	630	612
Gross income from rents and service charges	29,173	2,009	31,182	28,700
Less voids	(307)	(10)	(317)	(326)
Net income from rents and service charges	28,866	1,999	30,865	28,374
Expenditure on lettings				
Management and maintenance administration costs	(4,574)	(24)	(4,598)	(4,735)
Services costs	(1,429)	(285)	(1,714)	(1,789)
Reactive maintenance	(5,157)	(308)	(5,465)	(5,099)
Planned and cyclical maintenance	(1,187)	(181)	(1,368)	(1,720)
Bad debts – rents and service charges	(106)	22	(84)	(180)
Depreciation of social housing	(1,837)	(167)	(2,004)	(2,188)
Operating costs from social letting activities	(14,290)	(943)	(15,233)	(15,711)
Operating surplus from social letting activities	14,576	1,056	15,632	12,663
Operating surplus from social letting activities for previous year	12,050	613	12,663	

Sanctuary Scotland Housing Association Limited
Notes to the Financial Statements (continued)
4b. Income and Expenditure from Other Activities

	2019 Other income	2019 Other operating costs	2019 Operating surplus/ (deficit)	2018 Operating Surplus/ (deficit) £'000
Managed schemes	385	(74)	311	(298)
Supporting People contract income	83	(83)	-	-
Other property income	1,473	(728)	745	-
Other	85	(85)	-	208
Total from other activities	2,026	(970)	1,056	(90)
Total from other activities for the previous year	939	(1,029)	(90)	

5. Operating Surplus

2019 £'000	2018 £'000
---------------	---------------

The operating surplus is arrived at after charging/(crediting):

Depreciation of property, plant and equipment and investment property	2,791	2,295
Loss/(surplus) on the sale of property, plant and equipment	6	(151)
Auditor's remuneration – audit	28	27

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, amounting to £25,000 (2018: £25,000).

The Members of the Board of Management were reimbursed for expenses necessarily incurred in the conduct of their duties amounting to £3,000 (2018: £2,000).

Sanctuary Scotland Housing Association Limited
Notes to the Financial Statements (continued)
7. Employee Information

	2019 £'000	2018 £'000
Employee costs charged during the period amounted to:		
Wages and salaries	500	932
Social security costs	53	59
Other pension costs	121	138
	<u>674</u>	<u>1,129</u>

	2019 Number	2018 Number
The average monthly number of persons employed during the period expressed in full-time equivalents was:		
Office based staff	<u>15</u>	<u>18</u>
	<u>15</u>	<u>18</u>

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.

8. Other gains and losses

	2019 £'000	2018 £'000
Proceeds from sale of property plant and equipment	25	463
Cost of disposals	(31)	(312)
	<u>(6)</u>	<u>151</u>

9. Finance income and costs
a) Finance income

	2019 £'000	2018 £'000
Interest receivable from:		
Short-term cash deposits	11	19
Other interest	40	-
	<u>51</u>	<u>19</u>

b) Finance costs

	2019 £000	2018 £000
Interest on loans from Group undertakings	7,496	7,501
Interest on external loans	2,059	1,976
Less: amounts transferred to housing properties in the course of construction	(875)	(1,622)
Finance costs of defined benefit pension schemes	23	65
	<u>8,703</u>	<u>7,920</u>

Sanctuary Scotland Housing Association Limited
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 2017	455,948	229	724	95,854	552,755
Additions	3,268	16	-	62,733	66,017
Transfers at completion	44,864	-	-	(44,864)	-
Transfer from/(to) inventory	2,312	-	-	(7,227)	(4,915)
Disposals	(903)	-	-	-	(903)
Balance at 31 March 2018	<u>505,489</u>	<u>245</u>	<u>724</u>	<u>106,496</u>	<u>612,954</u>
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	<u>592,167</u>	<u>301</u>	<u>724</u>	<u>62,202</u>	<u>655,394</u>
Depreciation and impairment					
Balance at 1 April 2017	10,006	34	315	-	10,355
Depreciation charge for the year	2,193	35	53	-	2,281
Disposals	(591)	-	-	-	(591)
Balance at 31 March 2018	<u>11,608</u>	<u>69</u>	<u>368</u>	<u>-</u>	<u>12,045</u>
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	<u>14,029</u>	<u>116</u>	<u>407</u>	<u>-</u>	<u>14,552</u>
Housing association grant					
Balance at 1 April 2017	217,997	-	-	75,239	293,236
Additions	32	-	-	21,485	21,517
Net transfers at completion	22,644	-	-	(22,644)	-
Disposals	(216)	-	-	-	(216)
Balance at 31 March 2018	<u>240,457</u>	<u>-</u>	<u>-</u>	<u>74,080</u>	<u>314,537</u>
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	<u>286,095</u>	<u>-</u>	<u>-</u>	<u>48,107</u>	<u>334,202</u>
Net book value					
31 March 2019	<u>292,043</u>	<u>185</u>	<u>317</u>	<u>14,095</u>	<u>306,640</u>
31 March 2018	<u>253,424</u>	<u>176</u>	<u>356</u>	<u>32,416</u>	<u>286,372</u>
1 April 2017	<u>227,945</u>	<u>195</u>	<u>409</u>	<u>20,615</u>	<u>249,164</u>

Sanctuary Scotland Housing Association Limited
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 £187,884,000 (2018: £210,368,000) has been pledged to secure borrowings.

Land and buildings and offices

Of the total net book value of land and buildings, £221,842,000 is freehold (2018: £252,370,000). Of the total net book value for offices, £317,000 is freehold (2018: £356,000).

11. Investment property

	£'000
Cost	
Balance at 1 April 2017	209
Additions	821
Balance at 31 March/1 April 2018	<u>1,030</u>
Transfers from property, plant and equipment	209
Balance at 31 March 2019	<u><u>1,239</u></u>
Depreciation	
Balance at 1 April 2017	-
Charge for the year	14
Balance at 31 March/1 April 2018	<u>14</u>
Charge for the year	3
Transfers from property, plant and equipment	1
Balance at 31 March 2019	<u><u>18</u></u>
Other grant	
Balance at 1 April 2017	167
Additions	276
Balance at 31 March/1 April 2018	<u>443</u>
Additions	166
Balance at 31 March 2019	<u><u>609</u></u>
Net book value	
31 March 2019	<u><u>612</u></u>
31 March 2018	<u><u>573</u></u>
31 March 2017	<u><u>42</u></u>

Sanctuary Scotland Housing Association Limited

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 2019 no commercial property (2018: 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 (2018: £1,386,000). This fair value has been determined by net present value calculations based on current rent levels and expected increases. In accordance with the fair value measurement hierarchy discussed in note 17, these are deemed to be Level 3 valuations.

12. Other Investments

	2019	2018
	£'000	£'000
Shared Equity		
- Investment	1,545	1,545
- Grant	(1,545)	(1,545)
	<u>-</u>	<u>-</u>
Investment in shares – Energy Prospects Co-operative Limited	1	1
Subsidiary company – Sanctuary Homes (Scotland) Limited	<u>-</u>	<u>-</u>
Total other investments	<u><u>1</u></u>	<u><u>1</u></u>

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 2018	9,171
Additions	7,226
NSSE handovers	(9,450)
Total properties held for sale as at 31 March 2019	<u><u>6,947</u></u>
Total properties held for sale as at 31 March 2018	<u>9,171</u>

Sanctuary Scotland Housing Association Limited
Notes to the Financial Statements (continued)
13. Inventory (continued)

The Association's homes in Scotland are developed and sold through the Scottish Government's New Supply Shared Equity Scheme (NSSE). Buyers purchase 60 to 80 per cent of the homes value, with the Scottish Government retaining the remaining stake in the form of a loan to the home buyer. Additions represent the cost of properties developed. Upon sale, the initial purchase price of homes, along with grant income, bring the Association's residual interest in sold properties to nil.

14. Trade and other receivables

	2019	2018
	£'000	£'000
Current:		
Tenant rental receivables (note 17)	1,768	1,740
Tenant rental impairment loss allowance (note 17)	(314)	(822)
Other trade receivables (note 17)	740	704
Amounts owed from fellow Group undertakings	1,873	1,972
Prepayments	117	97
Accrued income	2,749	1,382
Other receivables	226	330
	<u>7,159</u>	<u>5,403</u>

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

	2019	2018
	£'000	£'000
Current:		
Trade payables	3,256	1,208
Amount due to Group entities	3,363	2,911
Other payables	615	548
Accruals	4,202	10,057
Grants received in advance	5,234	5,831
Deferred income	96	90
	<u>16,766</u>	<u>20,645</u>

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

	2019	2018
	£'000	£'000
Current:		
Amounts owed to Group entities	13,260	15,338
Bank loans and mortgages	1,281	863
	<u>14,541</u>	<u>16,201</u>
Non-current:		
Amounts owed to fellow Group entities	194,371	170,782
Bank loans and mortgages	33,889	35,170
	<u>228,260</u>	<u>205,952</u>
Total loans and borrowings	<u>242,801</u>	<u>222,153</u>

Sanctuary Scotland Housing Association Limited
Notes to the Financial Statements (continued)
16. Loans and borrowings (continued)

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

	2019	2018
	£'000	£'000
In one year or less	14,541	16,201
Between one and two years	8,229	12,610
Between two and five years	21,333	10,257
In five years or more	198,698	183,085
	<u>242,801</u>	<u>222,153</u>

17. 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

	2019	2018
	£'000	£'000
Rental receivables (note 14)	1,454	918
Other trade receivables (note 14)	740	704
Other receivables (note 14)	226	330
Amounts due from Group entities (note 14)	1,873	1,972
Cash and cash equivalents	4,355	-
	<u>8,648</u>	<u>3,924</u>

Of the above loans and receivables balances, rental receivables, amounts due from parent undertaking, amounts due from Group entities and other receivables £4,293,000 (2018: £3,924,000) derive from current trade and other receivables balances on the Statement of Financial Position. Trade and other receivables totalled £7,159,000 at 31 March 2019 (2018: £5,403,000). The remaining balances of £2,866,000 (2018: £1,479,000) are not considered to fall within the definition of a financial asset.

Sanctuary Scotland Housing Association Limited

Notes to the Financial Statements (continued)

17. 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

	2019	2018
	£'000	£'000
Debt finance excluding setup costs	14,805	16,413
Trade payables (note 15)	3,256	1,208
Amounts due to Group entities (note 15)	3,363	2,911
Other payables (note 15)	615	548
Cash and cash equivalents	-	1,049
	<u>22,039</u>	<u>22,129</u>

Current trade and other payables as disclosed in the Statement of Financial Position totalled £16,766,000 (2018: £20,645,000). The difference between the Statement of Financial Position and the amounts disclosed above is £9,532,000 (2018: £15,978,000) 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

	2019	2018
	£'000	£'000
Debt finance excluding setup costs	<u>229,057</u>	<u>206,863</u>
	<u>229,057</u>	<u>206,863</u>

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

Total current and non-current other financial liabilities at 31 March 2019 were £251,096,000 (2018: £228,992,000).

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 17a.

Sanctuary Scotland Housing Association Limited

Notes to the Financial Statements (continued)

17. 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 2019 was:

	£'000	%
Fixed rate financial liabilities	181,856	74.9
Variable rate financial liabilities	60,945	25.1
	242,801	100.0

The weighted average interest rate of the Association's total financial liabilities is 3.71% (2018: 4.22%). The weighted average life of fixed rate financial liabilities is 19.6 years (2018: 18.9 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 £436,000 (2018: £477,000).
- Variable rate financial instruments which are subject to rate changes – a 10% increase in interest costs would result in an additional charge of £100,000 (2018: £33,000).

A comparison of the book value to fair value of Association's long-term borrowings at 31 March 2019 is set out below.

	2019 Book Value £'000	2019 Fair Value £'000
Bank loans and mortgages (note 16)	34,204	38,660
Amounts owed to Group entities (notes 16)	208,597	246,798
	242,801	285,458

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.
- (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)

17. 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.

Sanctuary Scotland Housing Association Limited
Notes to the Financial Statements (continued)
17. 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 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)

At 31 March 2018	Debt	Interest on debt	Other liabilities not in net debt	Total
	£'000	£'000	£'000	£'000
Due less than one year	(16,201)	(9,943)	(4,667)	(30,811)
Between one and two years	(12,584)	(9,596)	-	(22,180)
Between two and three years	(3,094)	(9,372)	-	(12,466)
Between three and four years	(3,230)	(9,359)	-	(12,589)
Between four and five years	(3,366)	(9,166)	-	(12,532)
Greater than five years	(176,633)	(125,464)	-	(302,097)
Gross contractual cash flows	(215,108)	(172,900)	(4,667)	(392,675)

Sanctuary Scotland Housing Association Limited

Notes to the Financial Statements (continued)

17. 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 2019 (2018: £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 2019 totalled £1,768,000 (2018: £1,740,000). 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:

	2019	2018
	£'000	£'000
Less than 30 days	250	568
30 to 60 days	247	434
60 to 90 days	195	161
More than 90 days	1,076	577
Balance as at 31 March	<u>1,768</u>	<u>1,740</u>

There is an impairment loss allowance against £314,000 (2018: £822,000) of this balance leaving a net rental arrears balance of £1,454,000 (2018: £918,000) (see note 14).

Tenant rental receivable arrears loss allowance

	2019	2018
	£'000	£'000
Balance as at 1 April	822	922
Adjustment on initial application of IFRS 9 (note 25)	(179)	-
Provided in the year	28	262
Amounts written off	(357)	(362)
Balance as at 31 March	<u>314</u>	<u>822</u>

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.

Sanctuary Scotland Housing Association Limited

Notes to the Financial Statements (continued)
17. Financial instruments and risk management (continued)
Analysis of risks (continued)
c) Credit risk (continued)

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.

Other trade receivables

Gross other trade receivables balances as at 31 March 2019 totalled £1,212,000 (2018: £1,245,000). Of this balance £645,000 (2018: £985,000) was deemed past due. Normal payment terms are 30 days. The age of gross other trade receivables balances was as follows:

	2019 £'000	2018 £'000
Less than 30 days	567	260
30 to 60 days	59	294
60 to 90 days	13	128
More than 90 days	573	563
Balance as at 31 March	<u>1,212</u>	<u>1,245</u>

There is an impairment loss allowance against £472,000 (2018: £541,000) of this balance leaving a net other trade receivables balance of £740,000 (2018: £704,000) (see note 14).

Other trade receivables loss allowance

	2019 £'000	2018 £'000
Balance as at 1 April	541	259
(Released)/provided in the year	(64)	284
Amounts written off	(5)	(2)
Balance as at 31 March	<u>472</u>	<u>541</u>

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.

Sanctuary Scotland Housing Association Limited

Notes to the Financial Statements (continued)

17. Financial instruments and risk management (continued)

Analysis of risks (continued)

c) Credit risk (continued)

The maximum credit risk at 31 March 2019 and 2018 was as follows:

	2019	2018
	£'000	£'000
Receivables	4,293	3,924
Cash and cash equivalents	4,355	-
	8,648	3,924

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
- Shared ownership
- Home ownership.

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

The maximum exposure to this risk is equal to the tenant arrears balance (net of provision) at 31 March 2019, £1,454,000 (2018: £918,000).

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 2019 totalled £nil (2018: £nil).

f) Capital

The Association considers its capital balances to be share capital (note 19) and reserves (Statement of Changes in Equity).

Notes to the Financial Statements (continued)**18. 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% of pensionable salaries for the current year.

In October 2018, the High Court published its judgement on the case of Lloyds Banking Group and the equalisation of Guaranteed Minimum Pensions (GMP). This has consequently been assessed against the Association's defined benefit schemes.

The Association has identified that a range of approaches has been adopted by the two scheme actuaries for the schemes. These approaches range from a detailed assessment of the impact of the requirements, through to limited recognition of the impact, as the scheme actuaries wait for guidance from the Government on the methodology to be applied in calculating the full liability. No further adjustments have been made to the present value of obligations as the effect is not considered material.

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 2019. 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 2019.

Sanctuary Scotland Housing Association Limited
Notes to the Financial Statements (continued)
18. 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

	2019	2018
	%	%
Inflation (RPI)	3.30	3.35
Rate of increase in salaries for the next two years	2.30	3.35
Rate of increase in salaries thereafter	2.30	3.35
Rate of increase for pensions in payment	2.30	2.35
Rate of increase for deferred pensions	3.30	3.35
Discount rate	2.30	2.50

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% pa minimum improvements for males and 1.00% for females. Based on these assumptions, the average future life expectancies at age 65 are:

	Males	Females
Current pensioners	22.1 years	24.0 years
Future pensioners	23.4 years	25.5 years

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

	2019		2019		2018		2018	
	£'000	£'000	£'000	%	£'000	£'000	£'000	%
	Quoted	Unquoted	Total		Quoted	Unquoted	Total	
Equities	9,349	1,844	11,193	66.7	9,818	1,291	11,109	69.1
Bonds	1,371	642	2,013	12.0	1,037	529	1,566	9.7
Property	-	1,380	1,380	8.2	-	1,565	1,565	9.7
Other	1,040	1,159	2,199	13.1	308	1,542	1,850	11.5
Total value of assets	<u>11,760</u>	<u>5,025</u>	<u>16,785</u>	<u>100.0</u>	<u>11,163</u>	<u>4,927</u>	<u>16,090</u>	<u>100.0</u>

Reconciliation of the effect of the asset ceiling:

	2019	2018
	£'000	£'000
Net asset ceiling at 1 April	(436)	-
Restriction of 2017/2018 Strathclyde Pension Fund surplus	436	(436)
Net asset ceiling at 31 March	<u>-</u>	<u>(436)</u>

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 2017/2018. As there was no right to reduced future contributions to the scheme in 2017/2018, the asset ceiling was applied to reduce the value of the scheme to £nil.

Sanctuary Scotland Housing Association Limited
Notes to the Financial Statements (continued)
18. Retirement benefits (continued)

Scheme liabilities are reflected in the Statements of Financial Position:

	2019 £'000	2018 £'000
Present value of employer assets	16,785	16,090
Present value of funded liabilities	(17,679)	(17,056)
Pension liability before restrictions	<u>(894)</u>	<u>(966)</u>
Effect of net asset ceiling	-	(436)
Net pension liability	<u>(894)</u>	<u>(1,402)</u>

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

Amounts charged to operating surplus:	2019 £'000	2018 £'000
Current service cost	(202)	(256)
Past service cost	(178)	-
Expenses	(1)	(2)
Total service cost	<u>(381)</u>	<u>(258)</u>

Analysis of amount charged to finance cost:	2019 £'000	2018 £'000
Interest income on plan assets	399	400
Interest cost on defined benefit obligations	(422)	(465)
Total amount charged to finance cost	<u>(23)</u>	<u>(65)</u>

The total amount recognised in Other Comprehensive Income:	2019 £'000	2018 £'000
Change in demographic assumptions	124	442
Change in financial assumptions	(490)	690
Gains on scheme assets excluding interest	293	188
Other experience	-	563
Other remeasurement gains and losses	410	(184)
Effect of net asset ceiling	436	(436)
Total remeasurement gains	<u>773</u>	<u>1,263</u>

Sanctuary Scotland Housing Association Limited
Notes to the Financial Statements (continued)
18. Retirement benefits (continued)

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

	2019	2018
	£'000	£'000
Opening fair value of assets	16,090	15,901
Expenses	(1)	(2)
Interest income on plan assets	399	400
Return on plan assets excluding interest	293	188
Contributions by employer	139	155
Contributions by employees	34	42
Net benefits paid (including expenses)	(579)	(410)
Other remeasurement gains and losses	410	(184)
Closing fair value of the assets	16,785	16,090

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

	2019	2018
	£'000	£'000
Opening defined benefit obligation	17,056	18,398
Current service cost	202	256
Past service cost	178	-
Interest cost	422	465
Contributions by employees	34	42
Change in demographic assumptions	(124)	(442)
Change in financial assumptions	490	(690)
Net benefits paid (including expenses)	(579)	(410)
Other experience	-	(563)
Closing defined benefit obligation	17,679	17,056

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

	2019	2018	2017
	£'000	£'000	£'000
Defined benefit obligations	(17,679)	(17,056)	(18,398)
Scheme assets	16,785	16,090	15,901
Net deficit	<u>(894)</u>	<u>(966)</u>	<u>(2,497)</u>

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	75
Strathclyde Pension Fund	52
	<u>127</u>

Sanctuary Scotland Housing Association Limited

Notes to the Financial Statements (continued)

18. 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 2019 is set out below:

2019	Strathclyde Pension Fund Movement £'000	North East Scotland Pension Fund Movement £'000
Discount rate +0.1%	(145)	(627)
Discount rate -0.1%	145	627
Rate of inflation +0.1%	126	174
Rate of inflation -0.1%	(126)	(174)
Salary changes +0.1%	17	20
Salary changes -0.1%	(17)	(20)
Life expectancy +1 year	334	182
Life expectancy -1 year	(334)	(182)

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 £839,000.

Notes to the Financial Statements (continued)

18. 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).

19. Called up share capital

	2019	2018
Each member holds one share of £1 in the Association	£	£
Allotted, issued and fully paid		
At 1 April	9	9
Issued	3	-
At 31 March	12	9

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

Sanctuary Scotland Housing Association Limited
Notes to the Financial Statements (continued)
20. Capital commitments

	2019 £'000	2018 £'000
Expenditure contracted	12,521	46,879
Authorised expenditure not contracted	95,539	72,155
	<u>108,060</u>	<u>119,034</u>

£52,395,000 (2018: £62,461,000) 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.

21. Notes to the Statement of Cash Flows

	2019 £'000	2018 £'000
Cash and cash equivalents per Statement of Financial Position	4,355	(1,049)
Cash and cash equivalents per Statement of Cash Flows	<u>4,355</u>	<u>(1,049)</u>

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 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	<u>(205,952)</u>	<u>(36,824)</u>	14,516	<u>(228,260)</u>
	<u>(222,153)</u>	<u>(20,623)</u>	<u>(25)</u>	<u>(242,801)</u>
	At 1 April 2017 £'000	Cash flows £'000	Other non- cash changes £'000	At 31 March 2018 £'000
Short-term borrowings	(2,570)	2,570	(16,201)	(16,201)
Long-term borrowings	<u>(192,091)</u>	<u>(30,126)</u>	16,265	<u>(205,952)</u>
	<u>(194,661)</u>	<u>(27,556)</u>	<u>64</u>	<u>(222,153)</u>

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.

Sanctuary Scotland Housing Association Limited

Notes to the Financial Statements (continued)
22. 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 Homes and Communities Agency (Number L0247). A copy of the Group financial statements can be obtained from Sanctuary Housing Association, Chamber Court, Castle Street, Worcester, WR1 3ZQ.

23. 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 £7,769,000 (2018: £8,389,000) in costs including £3,413,000 in management charges (2018: £2,632,000). Sanctuary Housing Association was recharged by the Association a total of £2,794,000 (2018: £1,727,000). At the year end the Association owed Sanctuary Housing Association a sum of £508,000 (2018: £1,151,000).

During the year, Sanctuary Maintenance Contractors Limited recharged the Association a total of £12,399,000 (2018: £13,545,000). Sanctuary Maintenance Contractors Limited was recharged by the Association a total of £1,311,000 during the year (2018: £269,000). At the year end the Association owed Sanctuary Maintenance Contractors Limited a sum of £938,000 (2018: £1,760,000).

During the year, Sanctuary Treasury Limited recharged the Association a total of £175,000 (2018: £568,000). There was no balance owed at the year end (2018: nil).

During the year, Sanctuary Homes (Scotland) Limited recharged the Association a total of £626,000 (2018: £218,000). Sanctuary Homes (Scotland) Limited was recharged by the Association a total of £3,763,000 during the year (2018: £237,000). At the year end the Sanctuary Homes (Scotland) Limited owed the Association £62,000 (2018: £62,000).

24. Events after the reporting period

There were no events after the reporting period.

25. Initial Application of IFRS 15 and IFRS 9
IFRS 15 Revenue from Contracts with Customers

In the current year, the Association has applied IFRS 15 Revenue from Contracts with Customers, which is effective for annual periods that begin on or after 1 January 2018.

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of goods or services; determining the timing of the transfer of control, at a point in time or over time, requires judgement. IFRS 15 also introduces detailed disclosure requirements for revenue and related balances.

The Association has adopted IFRS 15 using the cumulative effect method, with the effect of initially applying this standard at the date of initial application, being 1 April 2018. Accordingly, the information presented for the comparative period has not been restated and so is presented, as previously reported, under IAS 18, IAS 11 and related interpretations. Additionally, the disclosure requirements of IFRS 15 have not generally been applied to comparative information.

Apart from requiring more extensive disclosures for the Association's revenue transactions, the application of IFRS 15 has not had a significant impact on the Association. Further details are given in the tables within the transition effects section.

Information about the Association's accounting policies relating to revenue is set out in note 2.

Notes to the Financial Statements (continued)**IFRS 9 *Financial Instruments***

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below. The Association has used an exemption not to restate comparative information for prior periods with respect to classification and measurement requirements.

Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings as at 1 April 2018. Accordingly, comparative information does not generally reflect the requirements of IFRS 9, but rather those of IAS 39.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

- The determination of the business model within which a financial asset is held.

As a result of the adoption of IFRS 9, the Association has adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures*, that are applied to disclosures for the current year but have not been generally applied to comparative information.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

For an explanation of how the Association classifies and measures financial instruments and accounts for related gains and losses under IFRS 9, see note 1 accounting policies.

Details of effects of the transition are illustrated in the tables within the transition effects section.

Sanctuary Scotland Housing Association Limited
Notes to the Financial Statements (continued)
25. Initial Application of IFRS 15 and IFRS 9 (continued)
IFRS 9 Financial Instruments (continued)
IFRS 9 and IFRS 15 transition effects

The following table summarises the impact of the transitions to IFRS 9 and IFRS 15 on reserves at 1 April 2018:

	£'000
Retained earnings	
Retained earnings brought forward 1 April 2018	56,271
Recognition of expected credit losses under IFRS 9 (a)	179
Impact of initial application of IFRS 15 (b)	-
Restated retained earnings at 1 April 2018	<u>56,450</u>

- (a) IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model; application of this new model resulted in a decrease of £179,000 to opening trade receivables provisions.
- (b) There has been no impact on the Association's reserves as a result of the initial application of IFRS 15 on 1 April 2018.

The following tables show original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Association's financial assets and financial liabilities as at 1 April 2018. The effects of applying IFRS 15 have also been included.

Financial assets	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
				£'000	£'000
Rental receivables	17	Loans and receivables	Amortised cost	918	1,097
Other trade receivables	17	Loans and receivables	Amortised cost	704	704
Amounts due from Group undertakings	17	Loans and receivables	Amortised cost	1,972	1,972
Financial liabilities	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
				£'000	£'000
Debt finance	17	Other financial liabilities	Amortised cost	223,276	223,276
Trade payables	17	Other financial liabilities	Amortised cost	1,208	1,208
Other payables	17	Other financial liabilities	Amortised cost	548	548
Amounts due to Group undertakings	17	Other financial liabilities	Amortised cost	2,911	2,911
Cash and cash equivalents	17	Loans and receivables	Amortised cost	1,049	1,049