SANCTUARY SCOTLAND HOUSING ASSOCIATION LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

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

Annual Report and Financial Statements for the year ended 31 March 2021

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Board of Management and Advisors

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

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

Corporate Director
Sanctuary Housing Association

Secretary
Nicole Seymour

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Scottish registered charity number
SC024549

Chairperson's Statement

This year was, of course, a year like no other but as a landlord I feel we can look back with pride. The Covid-19 pandemic's challenges were significant across the organisation but sheer hard work and perseverance helped us overcome them. Our tried and tested working practices were adapted to make sure tenants and residents continued to receive a service that met their immediate needs. Our focus was rightly on the most vulnerable residents in our homes and the communities we serve.

Our Housing Officers made more than 1,700 phone calls to check on the wellbeing of tenants aged 70 and over who live alone, plus others without local friend or family support. Our Community Investment team made the most of a £96,000 Scottish Government grant award to facilitate more than 8,000 food deliveries to those isolating or shielding. Our Welfare Rights Officers engaged with dozens of residents over the phone to reduce financial pressures exacerbated by the impact of lockdown. The feedback we've had from those we've been able to help shows how much these efforts have been appreciated across our communities. We continue to help where we can.

The successful transfer of Glasgow-based Thistle Housing Association to Sanctuary Scotland on 1 March 2021 was a great achievement, the culmination of a full year of intense work by Director Pat Cahill and her team. The transfer took our housing stock beyond 8,000 homes and has given more than 1,000 tenants the strong and stable landlord they deserve.

While our development programme was paused for a time during lockdown we still handed over a total of 204 new homes including our first Inverclyde properties in Port Glasgow and 44 new affordable homes in Portsoy, Aberdeenshire. We continue to work with local authorities and the Scottish Government to build much-needed homes for social rent, which includes the 133 flats being built at Burns Road in Cumbernauld. Significantly this development is the final phase of our 10-year regeneration of the town's high-rise blocks. Not to forget the continuing investment in improving our existing homes which during this last year included replacement doors, windows, kitchens, boilers and bathrooms despite the lockdown. For the forthcoming year, our planned reinvestment spend tops £7 million.

We will continue to listen to our residents, invest in our homes, build new housing, and deliver our mission as the country recovers from the pandemic. We rightly look ahead with optimism.

Alan West
Chairperson

10 August 2021

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 2021.

Strategic Context

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

In pursuing these aims, the Association works to Sanctuary Group's values:

- Ambition
- Diversity
- Integrity
- Quality
- Sustainability

The Board of Management's Report (continued)

Review of the Business and Future Developments

Performance

Despite the exceptional challenges presented by the Covid-19 pandemic, the Association's revenue grew to £37,497,000, an increase of £1,586,000 from the prior year. This increase was driven by rent indexation, new developments and the transfer of housing accommodation from Thistle Housing Association. The Association achieved an improved operating surplus for the year of £21,362,000 (2020: 18,644,000), driven by the revenue increase and operational efficiencies, but also acknowledging that maintenance spend decreased compared to the prior year due to restrictions arising from Covid-19. The table below highlights the performance by income stream:

	Revenue		**Operating surplus**	
	2021 £'000	**2020 £'000**	**2021 £'000**	**2020 £'000**
General needs	33,087	31,542	18,859	16,197
Sheltered and supported housing	2,128	2,098	1,311	1,173
Other activities	2,282	2,271	1,155	1,274
Other gains and losses	-	-	37	-
Totals	**37,497**	**35,911**	**21,362**	**18,644**

Surplus for the year after acquisition gains and finance costs was £17,475,000 (2020: £9,415,000).

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:

	2021	**2020**
Number of relets	358	408
Average number of days to relet	41	22
Residential rent lost through voids %	0.62%	0.46%
Current tenant arrears as a % of gross annual rent	5.40%	4.91%
Emergency repairs	6,799	6,551
Non-emergency repairs	12,877	23,223
Average time to complete emergency repairs (hours)	4.5	5.2
Average time to complete non-emergency repairs (days)	13.2	6.6

The reduction in the number of relets was due to Covid-19 lockdown restrictions impacting people's ability and willingness to move home. The average number of days to relet figure effectively doubled, an outcome again linked to the pandemic. Although 'virtual viewings' were introduced to enable prospective tenants to inspect our homes remotely, it still took people longer to move into our properties.

The increase in current rent arrears was expected during a full year impacted by the pandemic. Our Housing Officers and Welfare Rights Officers did their best to mitigate these increases but understandably could not fully overcome the impact of Covid-19 on many people's incomes. New legislation to protect tenancies during the pandemic prevented us from carrying out any evictions during 2020/2021, regardless of the level of rent arrears accrued.

The number of emergency repairs carried out during 2020/2021 increased slightly, a small rise in line with the higher number of homes under our management year on year. The number of non-emergency repairs was 45% lower as a result of the pandemic. For much of the year lockdown restrictions meant our Maintenance teams were not allowed to enter homes to carry out work not considered urgent. The pandemic also affected local staffing levels and caused delays in the supply of materials. The average time to complete an emergency repair was faster during 2020/2021, this was the result of lockdown restrictions sometimes making emergency repairs the only focus of our Maintenance team. The doubling of our non-emergency response time can be attributed to the pandemic's effect on our staffing levels and the availability of the materials needed.

The Board of Management's Report (continued)

Review of the Business and Future Developments (continued)

Housing Operations and Community Investment

One of our biggest challenges in 2020/2021 was not being able to get out and about in communities across Scotland.

Spending time with people face-to-face is important for our staff and the many residents and groups we work with across Aberdeen, Aberdeenshire, Dundee, Glasgow, North Lanarkshire, Renfrewshire, and Inverclyde.

The way we engage has changed considerably due to the pandemic. We have, however, been able to adapt how we work so that people get the support they need.

Over the past 12 months, more than 8,000 residents have received food deliveries, and wellbeing calls have been made to 1,700 people. To provide these essential services to vulnerable people and those isolating or shielding, we were awarded £96,000 by the Scottish Government. Our activities included getting medication to those in need and providing activity packs to children who could not attend school due to the restrictions. In Cumbernauld, for example, we helped Carbrain and Hillcrest Community Council prepare and deliver around 10,000 meals and food parcels for children, adults and pensioners. The Kirkton Community Larder in Dundee also distributed 100 Christmas hampers.

More widely, we supported The Pyramid at Anderston in Glasgow successfully gain around £1.2 million from the National Lottery and Robertson Trust. These funds will pay for the regeneration of their building, a hugely popular community hub, plus the salaries of their staff for three years. Our development programme funded the renovation of a new playground in Portsoy, Aberdeenshire, a community benefit linked to the creation of 44 new affordable homes.

We have also been given a £136,000 grant from the Scottish Government's Homelessness Prevention Fund to employ a Housing and Communities Connector over the next three years. Appointed in early 2021, Kevin Carr brings great personal and professional experience to the team. Kevin's focus will be working with us to prevent people from losing their home.

Alongside our work in the community, our staff's wellbeing was at the forefront of our minds. Part of this was a focus on raising awareness of the impact of Adverse Childhood Experiences (ACEs) and trauma throughout people's life. Training sessions have been delivered to more than 100 employees to show how such issues affect staff and residents. The better understanding of ACEs that results from this training helps our Housing and Welfare Rights Officers empathise with, and deliver a better service to, residents whose lives continue to be disrupted.

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

Acquisitions

On 1 March 2021 the assets and liabilities of Thistle Housing Association Limited (Thistle) transferred to the Association. Thistle owned and operated 947 general needs homes and managed 786 factored properties in Glasgow and had been placed under "high engagement" by the Scottish Housing Regulator (SHR) in August 2018 after a period of public and regulatory scrutiny due to poorly managed asset reinvestment contracts. The transfer was formally directed by the SHR following a competitive bidding process, a successful ballot, and a period of due diligence. As part of the transfer, the Association has made commitments to residents, homeowners and the regulator to improve the condition of properties, increase community investment and provide better Value for Money services. This transfer gave rise to an accounting gain on acquisition of £5,564,000; further details are given within note 25.

The Board of Management's Report (continued)

Review of the Business and Future Developments (continued)

Development and reinvestment

In the three years to April 2020, Sanctuary built 1,220 homes in Scotland. We created a further 204 much-needed homes for social rent during 2020/2021 despite the pandemic's challenges.

Our 2020/2021 development programme included Sanctuary's first homes in Inverclyde. We were proud to hand over 52 homes across three sites in Port Glasgow, a mix of houses, flats and cottage flats. Sixteen of these properties are amenity flats with walk-in showers so older people can live independently. We speak with local authorities across the country to make sure our projects best serve the housing needs of the communities we build in.

In Aberdeenshire, we completed 44 homes in Park Crescent, Portsoy. 23 houses, 20 cottage flats and one bungalow have brought life back to a site where the town's community hospital once stood. Like all of Sanctuary's affordable housing projects, this development was supported by a substantial Scottish Government grant. Park Crescent has been a welcome addition to the 18 homes we already managed in Portsoy.

In North Lanarkshire, tenants received keys to 66 homes for social rent handed over in Hume Road, Cumbernauld. Hume Road's completion coincided with work beginning on 133 flats in Burns Road, the last phase of our decade long regeneration of Cumbernauld's 12 tower blocks. Sanctuary will have helped create a total of 598 replacement homes when Burns Road is completed, more than those lost from the high-rise demolitions.

In Glasgow, construction started at the site of Glasgow's former Victoria Infirmary hospital. The first phase will see 135 much-needed affordable homes built plus 11 retail units. In Paisley, 131 homes in Glenburn will be completed during 2021/2022, most of which will be managed by Sanctuary Scotland for social rent. We continue to work with our contractors to maximise the benefits our projects can provide to the local community. This includes employment and training opportunities, plus inkind support to groups within the area.

Over £5 million was set aside to improve our housing stock during 2020/2021. In the North East we upgraded boilers and replaced kitchens, bathrooms, windows and doors. Windows and doors were replaced in the Central region, while homes in the West received new bathrooms and boundary fencing. We installed new fire and smoke alarms at more than 5,800 homes, a statutory requirement designed to improve resident safety. All 58 tenants who responded to a customer survey were 'very satisfied' or 'fairly satisfied'.

In 2021/2022 our projected reinvestment spend is over £7 million. Almost £3 million will be used to further improve our housing stock in the North East. The remaining money will be invested in Glasgow's Toryglen, relating to the recent transfer from Thistle Housing Association.

The Board of Management’s Report (continued)

Review of the Business and Future Developments (continued)

Homes in management

	2021	2020
Social housing accommodation:		
General needs housing	7,700	6,549
Sheltered & supported housing accommodation	397	397
	8,097	**6,946**
Social housing leased outside Group tenancy agreements	41	35
Total social homes in management	**8,138**	**6,981**

The number of social homes managed by the Association increased by 1,157 during the year, this was the result of the 204 homes created by our development programme, 947 homes transferred from Thistle Housing Association and a small number of properties purchased on the open market.

24 (2020: 24) units owned by the Association were being managed by a third party, external to the Group, at the reporting date. These units of accommodation are managed on behalf of the Association by Margaret Blackwood Housing Association in Edinburgh. No Supported Housing Management Grant was payable during the year in respect of these properties.

Going Concern

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

Governance

Board of Management Members who served during the year

John Arthur	
Alexander Clark	Deputy Chairperson
Peter Cowe	
James Docherty	
J’	Deputy Chairperson
Gillian MacPhie	
Michael McGrane	
Suzanne Phee	
Alan West	Chair
Sanctuary Housing Association	

Secretary

Nicole Seymour

Area Committees

The Association has two Area Committees (North East and Central) who scrutinise service delivery and drive forward improvements in the delivery of local services in their geographic areas. Each Area Committee includes at least one member of the Board of Management and up to six other persons appointed by the Board of Management, which may include tenants or other service users from the area served. During the year the Area Committees met regularly to consider matters within their approved remits.

The Board of Management's Report (continued)

Risk Management

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.

The principal risks identified in the most recent (June 2021) risk map are:

- Rental income and collection – risk of reduction in income collected;
- Maintenance service and long term investment – risk of lack of investment in housing properties;
- Cost and income pressures – risk of reduction in cash flows and surpluses;
- Governance – risk of regulatory intervention due to failure to meet high governance standards;
- Management and operational overstretch – risk of loss of operational or financial control or regulatory breach;
- Private finance – risk of restriction of growth ambitions and inability to preserve asset base;
- Technology platform – risk of failing to realise benefits of OneSanctuary platform and modern working opportunities;
- Legislative/Regulatory/Political – risk of breach of legislation, regulatory intervention or deterioration of relationships with third party partners;
- Health and Safety – risk of regulatory intervention due to failure to meet required health and safety standards;
- Fraud – risk that a material fraud arises from an internal or external source;
- Development – risk that the development programme is not built to schedule, quality or budget;
- Pandemic (Covid-19) – risk that a pandemic adversely impacts service delivery.

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.

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 2021, 84% of the Association's debt was on fixed rate terms (2020: 75%). Further to this, the Association seeks to minimise the risk of uncertain funding in its operations by borrowing within a spread of maturity periods. At the year end, 1.29% (2020: 1.29%) of debt was payable within one year. The Association does not use derivative financial instruments to manage interest rate costs.

Liquidity risk

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

Interest rate risk

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

The Board of Management's Report (continued)

Statement of Internal Financial Control

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

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

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

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

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

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

On behalf of the Board, the Group Audit and Risk Committee has reviewed the effectiveness of the systems of internal control in existence in the Group for the year ended 31 March 2021 and is not aware of any material changes at the date of signing the financial statements.

The Board of Management's Report (continued)

Statement of Board of Management's Responsibilities in Respect of the Board of Management's Report and the Financial Statements

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

Co-operative and Community Benefit Society and charity law require the Board of Management to prepare financial statements for each financial year. Under those regulations the Board of Management has elected to prepare the financial statements in accordance with international accounting standards in conformity with the requirements of applicable law (IFRS).

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

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

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

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

Disclosure of information to Auditor

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

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

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

The Board of Management's Report (continued)

Independent Auditor

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
10 August 2021

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 2021 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 2021 and of its income and expenditure the year then ended;
- comply with the requirements of the Co-operative and Community Benefit Societies Act 2014; and
- have been properly prepared in accordance with the Housing (Scotland) Act 2010 and the Registered Social Landlords Determination of Accounting Requirements 2019.

Basis for opinion

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

Going concern

The association's Board of Management has prepared the financial statements on the going concern basis as they do not intend to liquidate the association or to cease its operations, and as they have concluded that the association'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").

In our evaluation of the Board's conclusions, we considered the inherent risks to the association's business model and analysed how those risks might affect the association's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the Board's use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Board's assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the association's ability to continue as a going concern for the going concern period.

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 above conclusions are not a guarantee that the association will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of the Board of Management, internal audit and inspection of policy documentation as to the association's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the association's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

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

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as the determination of retirement benefit obligations and impairment of property assets. On this audit we do not believe there is a fraud risk related to revenue recognition because the association does not operate in an industry that would create an inherent revenue risk, the revenue transactions do not contain estimates, there is no history of significant or a high number of audit misstatements in relation to revenue and management is not incentivised on revenue directly.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual accounts.
- Assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the committee (as required by auditing standards) and discussed with the committee the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the association is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation, and pensions legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the association is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery and employment law. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the committee and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.
In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulation.

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 10 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 explained more fully in their statement set out on page 11, 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.

Sarah Tannock-Kitchen (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Date:

Statement of Comprehensive Income for the year ended 31 March 2021

	Note	2021 £'000	2020 £'000
Revenue	2	37,497	35,911
Operating expenditure	3	(16,172)	(17,267)
Other gains and losses	8	37	-
Operating surplus	3,5	**21,362**	**18,644**
Gain on acquisition	25	5,564	-
Finance income	9a	30	73
Finance costs	9b	(9,481)	(9,302)
Surplus for the year from continuing operations		**17,475**	**9,415**
Other comprehensive income			
Items that will not be reclassified subsequently to income or expense:			
Re-measurement of defined benefit pension scheme liability	19	497	871
Other comprehensive income for the year		**497**	**871**
Total comprehensive income for the year		**17,972**	**10,286**

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

The notes on pages 21 to 59 form part of these financial statements.

Statement of Financial Position as at 31 March 2021

	Note	2021 £'000	2020 £'000
Assets			
Non-current assets:			
Property, plant and equipment	10	361,621	324,548
Investment Property	11	564	607
Other Investments	12	1	1
Retirement benefit asset	19	430	-
		362,616	325,156
Current assets			
Trade and other receivables	13	12,995	7,708
Cash and cash equivalents	22	4,283	8,095
		17,278	15,803
Total Assets		**379,894**	**340,959**
Liabilities			
Current liabilities:			
Trade and other payables	14	18,617	16,862
Contract liabilities	2	4,469	1,362
Loans and borrowings	15	3,355	3,177
Provisions	16	2,014	-
		28,455	21,401
Non-current liabilities			
Loans and borrowings	15	257,439	243,884
Retirement benefit obligations	19	489	135
		257,928	244,019
Total liabilities		**286,383**	**265,420**
Equity			
Equity attributable to owners of the parent:			
Share capital	20	-	-
Retained earnings		93,511	75,539
Total Equity		**93,511**	**75,539**
Total Equity and liabilities		**379,894**	**340,959**

The notes on pages 21 to 59 form part of these financial statements.

The financial statements were approved by the Board of Management on 10 August 2021 and signed on its behalf by:

Alan West
Chairperson

Alexander Clark
Deputy Chairperson

J'
Deputy Chairperson

Nicole Seymour
Secretary

Statement of Changes in Equity for the year ended 31 March 2021

	Share capital £'000	Revenue reserve £'000	Total equity £'000
At 1 April 2019	-	65,253	65,253
Surplus for the year	-	9,415	9,415
Other comprehensive income	-	871	871
Total comprehensive income	**-**	**10,286**	**10,286**
At 31 March 2020	**-**	**75,539**	**75,539**
At 1 April 2020	-	75,539	75,539
Surplus for the year	-	17,475	16,922
Other comprehensive income	-	497	497
Total comprehensive income	**-**	**17,972**	**17,419**
At 31 March 2021	**-**	**93,511**	**93,511**

The notes on pages 21 to 59 form part of these financial statements.

Statement of Cash Flows for the year ended 31 March 2021

	Notes	2021 £'000	2020 £'000
Cash flows from operating activities			
Surplus for the year		17,475	9,415
Adjustments for:			
Depreciation	5	3,181	3,026
Gain on business acquisition	25	(5,564)	-
Gain on sale of property, plant and equipment	8	(37)	-
Net finance costs	9	9,451	9,229
		7,031	12,255
Cash generated before working capital movements		24,506	21,670
Changes in:			
Trade and other receivables		(1,847)	(2,119)
Trade and other payables		2,111	4,232
Provisions		(155)	-
Retirement benefit obligations		37	92
		146	2,205
Cash generated from operating activities		24,652	23,875
Interest paid		(9,487)	(9,954)
Net cash inflow from operating activities		**15,165**	**13,921**
Cash flows from investing activities			
Interest received		22	79
Proceeds from sale of property, plant and equipment	8	337	-
Acquisition and construction of property, plant and equipment and investment property		(52,849)	(32,989)
Acquisition of Thistle Housing Association	25	2,410	-
Capital grants received		27,510	18,582
Net cash outflow from investing activities		**(22,570)**	**(14,328)**
Cash flows from financing activities			
Proceeds from loans and borrowings		40,220	25,220
Repayment of borrowings		(36,627)	(21,073)
Net cash flow from financing activities		**3,593**	**4,147**
Net movement in cash and cash equivalents		**(3,812)**	**3,740**
Cash and cash equivalents 1 April		8,095	4,355
Cash and cash equivalents 31 March		**4,283**	**8,095**

The notes on pages 21 to 59 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 international accounting standards in conformity with the requirements of applicable law (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 2018 (the SORP) and the Determination of Accounting Requirements 2019 where these do not conflict with IFRS.

Going Concern

The Association's principal activities, together with factors likely to affect its future performance, are set out in the Board of Management's report on pages 4-12.

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

The Board has prepared a going concern assessment, based on consideration of cash flow forecasts, for a period of at least 12 months from the date of approval of these financial statements (the going concern assessment period), taking account of severe but plausible downside scenarios that take into consideration the current economic environment due to Covid-19. In forming their view the Board has taken into consideration that Sanctuary Housing Association, the Association's ultimate parent, has provided a letter of support to the Board of the Association to confirm that it intends, should the need arise, to provide financial and or other support to the Association, including, if required, not seeking repayment of amounts currently made available (note 14 - £3,290,000 at 31 March 2021), for the period covered by the forecasts. Based on these considerations it has been concluded that the Association will have sufficient funds to meet its liabilities as they fall due for the period of assessment.

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

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

Notes to the Financial Statements (continued)

1. Principal Accounting Policies (continued)

IFRSs not yet applied

The following list details new standards, amendments and interpretations which are not yet effective, which may have an impact on the accounting within the Group's Financial Statements in future periods:

- Amendments resulting from Annual Improvements 2018 - 2020 Cycle (annual period beginning on or after 1 January 2022).
- Onerous Contracts – Cost of Fulfilling a Contract, amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets (annual periods beginning on or after 1 January 2022).
- Amendments to IAS 1 Presentation of Financial Statements (annual periods beginning on or after 1 January 2023).
- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (annual periods beginning on or after 1 January 2023).

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

Critical accounting judgements

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

Classification of property

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

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

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

A greater degree of judgement is required over the classification of housing property held for social lettings. It is the Association's opinion that whilst rental income is received from the provision of social housing, the primary purpose is to provide social benefits. The provision of social housing is therefore akin to supplying a service and so property held for this purpose has been accounted for as property, plant and equipment. This treatment is consistent with housing associations that have chosen the alternative option of applying the revised UK GAAP (FRS 102), which contains explicit provisions for this scenario and arrives at a similar conclusion; it is also consistent with guidance contained in the Statement of Recommended Practice: Accounting by Registered Social Housing Providers 2018 (the SORP).

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)

1. Principal Accounting Policies (continued)

Critical accounting estimates and assumptions (continued)

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.

Fair Value of Acquired Assets and Liabilities Assumed in Business Combinations

In accordance with the measurement principles of IFRS 3 Business Combinations (IFRS 3), all identifiable assets acquired and liabilities assumed are measured at their fair values at the date of acquisition.

Property fair values are determined by reference to an independent valuation, conducted in accordance with RICS Valuation Professional Standards, while other acquired assets and liabilities assumed are valued in accordance with the principles of IFRS 13 Fair Value Measurement.

There is a degree of judgement involved in determining these values and, in line with IFRS 3, the fair value adjustments are considered provisional and may change during the measuring period, which will not exceed one year from the acquisition date.

Other Accounting Judgements, Estimates and Assumptions

Expected Credit Losses on Trade Receivables and Contract Assets

Under IFRS 9, as long as there is no significant financing component, loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime Expected Credit Losses (ECLs). Lifetime ECLs are a probability-weighted estimate of credit losses that result from all possible default events over the expected life of a financial instrument (see note 18). Due to the diverse activities of the Association a range of different methodologies are used to derive ECLs for the different operational areas, taking into account factors such as service type, customer type, customer status, age of debt, level of debt and legal status. Outcomes have been assessed by using both quantitative and qualitative information and analysis, based on the Association's historical experience and informed credit assessment.

Notes to the financial statements (continued)

1. Principal accounting policies (continued)

Other Accounting Judgements, Estimates and Assumptions (continued)

Revenue

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

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.

Property, plant and equipment and depreciation

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

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

Land and buildings:

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

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

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

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

Notes to the financial statements (continued)

1. Principal accounting policies (continued)

Property, plant and equipment and depreciation (continued)

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

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

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

Offices, plant and equipment:

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

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

Investment property

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

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

Investment property	As per property, plant and equipment

Borrowing costs and development administration costs

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

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

Notes to the financial statements (continued)

1. Principal accounting policies (continued)

Impairment

Financial assets

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

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

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

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

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

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

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

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

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

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

Notes to the financial statements (continued)

1. Principal accounting policies (continued)

Impairment (continued)

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

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

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

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

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

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

Financial instruments

Recognition and initial measurement

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

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

Notes to the financial statements (continued)

1. Principal accounting policies (continued)

Financial instruments (continued)

Classification and subsequent measurement

a) Financial assets

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

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

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

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

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

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

Business model assessment

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

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

Notes to the financial statements (continued)

1. Principal accounting policies (continued)

Financial instruments (continued)

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

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

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

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

b) Financial liabilities

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

Derecognition

a) Financial assets

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

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

b) Financial liabilities

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

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

Notes to the financial statements (continued)

1. Principal accounting policies (continued)

Provisions for liabilities and charges

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

Financing costs

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

Leasehold service charge sinking funds

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

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

Shared Equity Housing

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

New Supply Shared Equity (NSSE)

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

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

Housing Association Grant (HAG) and other public grant

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

Notes to the financial statements (continued)

1. Principal accounting policies (continued)

Retirement benefits

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

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

2. Revenue

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

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

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

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

Contract assets arise when the Association has rights to consideration in exchange for goods or services that have transferred to a customer, but those rights are conditional on something other than the passage of time.

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

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

Notes to the Financial Statements (continued)

2. Revenue (continued)

Nature of goods and services and revenue recognition

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

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

Disaggregation of revenue

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

Year ended 31 March 2021	**Rented housing**	**Supported housing**	**Other activities**	**Total**
Revenue recognised over time	**£'000**	**£'000**	**£'000**	**£'000**
Income from social housing lettings	33,087	2,128	-	**35,215**
Managed schemes	-	-	408	**408**
Supporting people income	-	-	83	**83**
Other	-	-	1,791	**1,791**
Total revenue over time	**33,087**	**2,128**	**2,282**	**37,497**
Less lease income	**-**	**-**	(117)	(117)
Revenue from contracts with customers	**33,087**	**2,128**	**2,165**	**37,380**

Notes to the Financial Statements (continued)

2. Revenue (continued)

Disaggregation of revenue (continued)

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

Contract balances

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

	2021	2020
	£'000	**£'000**
Contract receivables (included in trade and other receivables)		
Tenant rental receivables net of expected credit loss (note 13)	1,638	1,417
Other trade receivables (note 13)	849	999
Accrued income (note 13)	4,650	1,356
	7,137	**3,772**
Contract liabilities		
Payments received in advance	4,228	1,214
Deferred income	241	148
	4,469	**1,362**

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

Notes to the Financial Statements (continued)

3. Revenue, Operating Costs and Operating Surplus

	2021 Revenue £'000	2021 Operating costs £'000	2021 Other gains and losses £'000	2021 Operating Surplus £'000	2020 Operating Surplus £'000
Social housing lettings	35,215	(15,045)	-	20,170	17,370
Other activities	2,282	(1,127)	-	1,155	1,274
Other gains and losses	-	-	37	37	-
Total	**37,497**	**(16,172)**	**37**	**21,362**	**18,644**
Total for previous year	**35,911**	**(17,267)**	**-**	**18,644**	

4a. Income and Expenditure from Social Housing Lettings

	Rented housing £'000	Supported housing £'000	2021 Total £'000	2020 Total £'000
Income from lettings				
Rents receivable net of service charges	32,605	1,899	34,504	33,097
Service charges	882	243	1,125	830
Gross income from rents and service charges	33,487	2,142	35,629	33,927
Less voids	(400)	(22)	(422)	(331)
Net income from rents and service charges	**33,087**	**2,120**	**35,207**	**33,596**
Other income	-	8	8	44
Total income from social letting activities	**33,087**	**2,128**	**35,215**	**33,640**
Expenditure on lettings				
Management and maintenance administration costs	(4,449)	(15)	(4,464)	(4,600)
Services costs	(2,137)	(309)	(2,446)	(1,969)
Reactive maintenance	(3,589)	(235)	(3,824)	(5,419)
Planned and cyclical maintenance	(858)	(68)	(926)	(1,510)
Bad debts – rents and service charges	(327)	1	(326)	(85)
Depreciation of social housing	(2,868)	(191)	(3,059)	(2,687)
Operating costs from social letting activities	**(14,228)**	**(817)**	**(15,045)**	**(16,270)**
Operating surplus from social letting activities	**18,859**	**1,311**	**20,170**	**17,370**
Operating surplus from social letting activities for previous year	**16,197**	**1,173**	**17,370**	

Notes to the Financial Statements (continued)

4b. Income and Expenditure from Other Activities

	2021 Other income £'000	2021 Other operating costs £'000	2021 Operating surplus/ (deficit) £'000	2020 Operating Surplus/ (deficit) £'000
Managed schemes	408	(227)	181	144
Development administration	-	(438)	(438)	(155)
Supporting People contract income	83	(83)	-	-
Other property income	1,704	(292)	1,412	1,285
Other	87	(87)	-	-
Total from other activities	**2,282**	**(1,127)**	**1,155**	**1,274**
Total from other activities for the previous year	**2,271**	**(997)**	**1,274**	

5. Operating Surplus

	2021 £'000	2020 £'000
The operating surplus is arrived at after charging:		
Depreciation of property, plant and equipment and investment property	3,181	3,026
Surplus on the sale of property, plant and equipment	37	-
Auditor's remuneration – audit	29	28

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

6. Board of Management Members' Emoluments

Total remuneration paid to Members of the Board of Management by the parent undertaking, Sanctuary Housing Association, amounted to £25,000 (2020: £25,000). All remuneration costs were borne by the parent undertaking and not recharged.

The Members of the Board of Management were reimbursed for expenses necessarily incurred in the conduct of their duties amounting to £nil (2020: £1,000).

Notes to the Financial Statements (continued)

7. Employee Information

	2021 £'000	2020 £'000
Employee costs charged during the period amounted to:		
Wages and salaries	578	411
Social security costs	50	42
Other pension costs	94	91
	722	**544**

	2021 Number	2020 Number
The average monthly number of persons employed during the period expressed in full-time equivalents was:		
Office based staff	12	11
	12	**11**

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

	2021 £'000	2020 £'000
Proceeds from sale of property plant and equipment	337	-
Cost of disposals	(300)	-
	37	**-**

9. Finance income and costs

a) Finance income

	2021 £'000	2020 £'000
Interest receivable from:		
Short-term cash deposits	8	24
Other interest	22	49
	30	**73**

b) Finance costs

	2021 £000	2020 £000
Interest on loans from Group undertakings	8,107	7,521
Interest on external loans	1,759	1,972
Less: amounts transferred to housing properties in the course of construction	(399)	(214)
Net finance costs of defined benefit pension schemes	5	20
Interest in respect of right-of-use assets	9	3
	9,481	**9,302**

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 2019	592,264	301	724	62,202	655,491
Additions	5,379	35	1	34,904	40,319
Transfers at completion	30,705	-	-	(30,705)	-
Disposals	(343)	-	-	-	(343)
Balance at 31 March 2020	628,005	336	725	66,401	695,467
Balance at 1 April 2020	628,005	336	725	66,401	695,467
Additions	5,073	27	-	44,855	49,955
Acquisitions (note 25)	20,921	15	716	-	21,652
Transfers at completion	30,000	-	-	(30,000)	-
Transfer from investment property	209	-	-	-	209
Other transfers	5,325	-	-	(6,383)	(1,058)
Intra-group transfers	-	-	-	5,747	5,747
Disposals	(472)	-	(524)	-	(996)
Balance at 31 March 2021	689,061	378	917	80,620	770,976
Depreciation and impairment					
Balance at 1 April 2019	14,029	116	407	-	14,552
Depreciation charge for the year	2,941	54	26	-	3,021
Disposals	(343)	-	-	-	(343)
Balance at 31 March 2020	16,627	170	433	-	17,230
Balance at 1 April 2020	16,627	170	433	-	17,230
Depreciation charge for the year	3,125	55	-	-	3,180
Disposals	(452)	-	(235)	-	(687)
Balance at 31 March 2021	19,300	225	198	-	19,723
Housing association grant					
Balance at 1 April 2019	286,095	-	-	48,107	334,202
Additions	-	-	-	19,487	19,487
Net transfers at completion	14,717	-	-	(14,717)	-
Balance at 31 March 2020	300,812	-	-	52,877	353,689
Balance at 1 April 2020	300,812	-	-	52,877	353,689
Additions	-	-	-	34,965	34,965
Acquisitions (note 25)	4,987	-	-	-	4,987
Net transfers at completion	14,879	-	-	(14,879)	-
Transfer from investment property	167				167
Other transfers	-	-	-	(4,176)	(4,176)
Balance at 31 March 2021	320,845	-	-	68,787	389,632
Net book value					
31 March 2021	**348,916**	**153**	**719**	**11,833**	**361,621**
31 March 2020	**310,566**	**166**	**292**	**13,524**	**324,548**
1 April 2019	**292,140**	**185**	**317**	**14,095**	**306,737**

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 ninety 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 (2020: not material) and so further impairment tests were not deemed necessary.

Assets pledged as security

Property with a pre-grant carrying amount of £391,987,000 (2020: £429,093,000) has been pledged to secure borrowings.

11. Investment property

	£'000
Cost	
Balance at 1 April 2019	1,239
Additions	-
Balance at 31 March/1 April 2020	1,239
Transfer to property, plant and equipment	(209)
Balance at 31 March 2021	1,030
Depreciation	
Balance at 1 April 2019	18
Charge for the year	5
Balance at 31 March/1 April 2020	23
Charge for the year	1
Balance at 31 March 2021	24
Other grant	
Balance at 1 April 2019	609
Additions	-
Balance at 31 March/1 April 2020	609
Transfer to property, plant and equipment	(167)
Balance at 31 March 2021	442
Net book value	
31 March 2021	**564**
31 March 2020	**607**
1 April 2019	**612**

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 2021 no commercial property (2020: none) was identified as having indicators of potential impairment.

Fair value of investment property

The estimated fair value of the investment property is £1,366,000 (2020: £1,386,000). The fair value has been determined by Directors' valuations and may contain a material uncertainty regarding the impact that Covid-19 might have on the future real estate market. In accordance with the fair value measurement hierarchy discussed in note 18, these are deemed to be Level 3 valuations.

12. Other Investments

	2021 £'000	2020 £'000
Shared Equity		
- Investment	1,545	1,545
- Grant	(1,545)	(1,545)
	-	-
Investment in shares – Energy Prospects Co-operative Limited	1	1
Subsidiary company – Sanctuary Homes (Scotland) Limited	-	-
Total other investments	1	1

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

The Association owns 1,073 shares (2020: 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. Trade and other receivables

	2021 £'000	2020 £'000
Current:		
Tenant rental receivables (note 18)	2,025	1,705
Tenant rental expected credit loss (note 18)	(387)	(288)
Other trade receivables (note 18)	849	999
Amounts owed from fellow Group undertakings	1,812	3,479
Prepayments	107	100
Accrued income	4,650	1,356
Other receivables	3,939	357
	12,995	**7,708**

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

Notes to the Financial Statements (continued)

14. Trade and other payables

	2021 £'000	2020 £'000
Current:		
Trade payables	5,922	1,770
Amount due to Group entities	3,290	6,568
Other payables	501	434
Accruals	6,331	4,252
Grants received in advance	2,573	3,838
	18,617	**16,862**

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

15. Loans and borrowings

	2021 £'000	2020 £'000
Current:		
Amounts owed to Group entities	1,784	1,779
Bank loans and mortgages	1,534	1,388
Lease liability (Note 17)	37	10
	3,355	3,177
Non-current:		
Amounts owed to fellow Group entities	217,934	212,548
Senior notes and debenture stock (note 25)	10,000	-
Bank loans and mortgages	29,418	31,329
Lease liability (Note 17)	87	7
	257,439	243,884
Total loans and borrowings	**260,794**	**247,061**

As part of the acquisition of Thistle Housing Association (see note 25), the Association took on £10 million notes due to mature April 2047 at a rate of 3.814 per cent.

Notes to the Financial Statements (continued)

15. Loans and borrowings (continued)

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

	2021 £'000	2020 £'000
In one year or less	3,355	3,177
Between one and two years	3,520	9,377
Between two and five years	33,004	31,992
In five years or more	220,915	202,515
	260,794	**247,061**

16. Provisions

	Property related £'000	Other £'000	Total £'000
Cost			
Balance at 1 April 2020	-	-	-
Acquisitions (note 25)	1,530	639	2,169
Utilised during the year	-	(155)	(155)
Balance at 31 March 2021	**1,530**	**484**	**2,014**

Provisions recognised during the year relate to the acquisition of Thistle Housing Association Limited (deemed a business combination under IFRS 3) on 1 March 2021 (note 25).

Property related provisions relate to the running and maintenance of buildings. Other provisions relate to potential legal or contractual costs that will not be covered by the Association's insurance policies.

All provisions are short-term and are expected to be utilised within one year, they have therefore not been discounted.

17. Leases

Lessee arrangements

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

Right-of-use assets

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

Notes to the Financial Statements (continued)

17. Leases (continued)

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

	Land and buildings £'000
Cost	
Balance as at 1 April 2020	97
Additions	193
Balance as at 31 March 2021	**290**
Depreciation and impairment	
Balance as at 1 April 2020	75
Depreciation charge for the year	85
Balance as at 31 March 2021	**160**
Net book value	
31 March 2021	**130**
31 March 2020	**22**

Amounts recognised in the Statement of Comprehensive Income

	2021 £'000	2020 £'000
Interest on lease liabilities	9	3
Depreciation charge for right-of-use assets	160	75
	169	**78**

Amounts recognised in the Statement of Cash Flows

	2021 £'000	2020 £'000
Total cash outflow for leases	99	83
	99	**83**

Lease liabilities

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

	2021 £'000	2020 £'000
Land and buildings:		
Under one year	57	10
In the second to fifth year inclusive	151	8
Total gross payments	208	18
Financing costs	(84)	(1)
Net lease liability	**124**	**17**

Notes to the Financial Statements (continued)

17. Leases (continued)

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

	2021 £'000	2020 £'000
Land and buildings:		
Under one year	37	10
In the second to fifth year inclusive	87	7
	124	**17**

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

Lessor arrangements

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

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

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

During the year ended 31 March 2021, income from operating leases was £117,000 (2020: £119,000).

Amounts receivable under operating leases are due as follows:

	2021 £'000	2020 £'000
Under one year	242	271
Between one and two years	140	242
Between two and three years	72	139
Between three and five years	145	145
In more than five years	289	361
	888	**1,158**

Notes to the Financial Statements (continued)

18. Financial instruments and risk management

Financial risk management objectives and policies

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

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

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

The Association's financial instruments include:

Financial assets

Financial assets at amortised cost

	2021 £'000	2020 £'000
Rental receivables (note 13)	1,638	1,417
Other trade receivables (note 13)	849	999
Other receivables (note 13)	3,939	357
Amounts due from Group entities (note 13)	1,812	3,479
Cash and cash equivalents	4,283	8,095
	12,521	**14,347**

Of the above loans and receivables balances, rental receivables, amounts due from parent undertaking, amounts due from Group entities and other receivables £8,238,000 (2020: £6,252,000) derive from current trade and other receivables balances on the Statement of Financial Position. Trade and other receivables totalled £12,995,000 at 31 March 2021 (2020: £7,708,000). The remaining balances of £4,757,000 (2020: £1,456,000) are not considered to fall within the definition of a financial asset.

Financial liabilities

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

Financial liabilities at amortised cost - current

	2021 £'000	2020 £'000
Debt finance excluding setup costs	3,454	3,431
Trade payables (note 14)	5,922	1,770
Amounts due to Group entities (note 14)	3,290	6,568
Other payables (note 14)	501	434
Lease liability (note 17)	37	10
	13,204	**12,213**

Current trade and other payables as disclosed in the Statement of Financial Position totalled £18,617,000 (2020: £16,862,000). The difference between the Statement of Financial Position and the amounts disclosed above is £8,904,000 (2020: £8,090,000) 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.

Notes to the Financial Statements (continued)

18. Financial instruments and risk management (continued)

Financial liabilities (continued)

Financial liabilities at amortised cost – non-current

	2021 £'000	2020 £'000
Debt finance excluding setup costs	258,449	244,891
Lease liability (note 17)	87	7
	258,536	**244,898**

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

Total current and non-current other financial liabilities at 31 March 2021 were £271,740,000 (2020: £257,111,000).

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

Valuation

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

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

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

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 2021 was:

	£'000	%
Fixed rate financial liabilities	220,128	84.4
Variable rate financial liabilities	40,666	15.6
	260,794	**100.0**

The weighted average interest rate of the Association's total financial liabilities is 3.47% (2020: 3.56%). The weighted average life of fixed rate financial liabilities is 19.3 years (2020: 17.7 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 £536,000 (2020: £466,000).
- Variable rate financial instruments which are subject to rate changes – a 10% increase in interest costs would result in an additional charge of £27,000 (2020: £73,000).

Notes to the Financial Statements (continued)

18. Financial instruments and risk management (continued)

Analysis of risks (continued)

a) Interest rate risk and exposure (continued)

A comparison of the book value to fair value of Association's long-term borrowings at 31 March 2021 is set out below.

	2021 Book Value £'000	2021 Fair Value £'000
Bank loans and mortgages (note 15)	29,418	33,727
Amounts owed to Group entities (note 15)	217,934	280,515
Senior notes and debenture stock (note 15)	10,000	13,377
Lease Liability (notes 15 and 17)	87	87
	257,439	**327,706**

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

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

Interest rate risk applies to debt finance.

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 Group Finance Director on a fortnightly basis. The forecasts identify when draw-downs on existing facilities are required and when existing facilities expire. Further facilities are negotiated and secured well in advance of them being needed for draw-down.

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

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

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

Liquidity risk applies to cash and all payables balances.

Notes to the Financial Statements (continued)

18. Financial instruments and risk management (continued)

Analysis of risks (continued)

b) Liquidity risk (continued)

Contractual cash flows for all financial liabilities

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

At 31 March 2021	**Debt**	**Interest on debt**	**Lease liability**	**Other liabilities not in net debt**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Due less than one year	(3,230)	(10,193)	(37)	(9,713)	(23,173)
Between one and two years	(3,366)	(10,073)	(38)	-	(13,477)
Between two and three years	(25,169)	(9,239)	(19)	-	(34,427)
Between three and four years	(2,871)	(9,791)	(30)	-	(12,692)
Between four and five years	(4,354)	(9,383)	-	-	(13,737)
Greater than five years	(216,240)	(134,031)	-	-	(350,271)
Gross contractual cash flows	**(255,230)**	**(182,710)**	**(124)**	**(9,713)**	**(447,777)**

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

Notes to the Financial Statements (continued)

18. Financial instruments and risk management (continued)

Analysis of risks (continued)

c) Credit risk

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

Financial

The Association manages credit risk by carrying out monthly credit checks on all counterparties from which the Association either sources funds or places deposits. The financial credit risk is mitigated to some extent by the existence of borrowing facilities with such counterparties. It is the Association's policy not to take or place funds with any financial institution which is not accepted as a counterparty in the Association's Financial Regulations. Such counterparties are approved by the Board but only on the achievement of the desired credit agency rating. The maximum exposure with a single external funder is £15,000,000 as at 31 March 2021 (2020: £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 2021 totalled £2,025,000 (2020: £1,705,000). 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:

	2021 £'000	2020 £'000
Less than 30 days	902	504
30 to 60 days	367	251
60 to 90 days	216	174
More than 90 days	540	776
Balance as at 31 March	**2,025**	**1,705**

There is an expected credit loss against £387,000 (2020: £288,000) of this balance leaving a net rental arrears balance of £1,638,000 (2020: £1,417,000) (see note 13).

Tenant rental receivable arrears expected credit loss

	2021 £'000	2020 £'000
Balance as at 1 April	288	314
Provided in the year	270	420
Amounts written off	(171)	(446)
Balance as at 31 March	**387**	**288**

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

Notes to the Financial Statements (continued)

18. Financial instruments and risk management (continued)

Analysis of risks (continued)

c) Credit risk (continued)

Other trade receivables

Gross other trade receivables balances as at 31 March 2021 totalled £1,539,000 (2020: £1,123,000). Of this balance £1,025,000 (2020: £742,000) was deemed past due. Normal payment terms are 30 days. The age of gross other trade receivables balances was as follows:

	2021 £'000	2020 £'000
Less than 30 days	514	381
30 to 60 days	11	106
60 to 90 days	83	27
More than 90 days	931	609
Balance as at 31 March	**1,539**	**1,123**

There is an expected credit loss against £690,000 (2020: £124,000) of this balance leaving a net other trade receivables balance of £849,000 (2020: £999,000) (see note 13).

Other trade receivables expected credit loss

	2021 £'000	2020 £'000
Balance as at 1 April	124	472
Provided/(released) in the year	579	(304)
Amounts written off	(13)	(44)
Balance as at 31 March	**690**	**124**

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

The maximum credit risk at 31 March 2021 and 2020 was as follows:

	2021 £'000	2020 £'000
Receivables	8,238	6,252
Cash and cash equivalents	4,283	8,095
	12,521	**14,347**

Notes to the Financial Statements (continued)

18. Financial instruments and risk management (continued)

Analysis of risks (continued)

d) Concentration risk

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

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

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

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

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

The maximum exposure to this risk is equal to the tenant arrears balance (net of provision) at 31 March 2021, £1,638,000 (2020: £1,417,000).

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 2021 totalled £nil (2020: £nil).

f) Capital

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

Notes to the Financial Statements (continued)

19. Retirement benefits

The Association participated in three 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 22.5% of pensionable salaries for the current year. Members have contributed at a rate of between 5.5% and 11.2% 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 23.7% of pensionable salaries for the current year. Members have contributed at a rate of between 5.5% and 11.5% of pensionable salaries for the current year.

Scottish Housing Associations' Pension Scheme

Following the Acquisition of Thistle Housing Association (Thistle) on 1 March 2021, the pension obligations previously held by Thistle in the Scottish Housing Associations' Pension Scheme were transferred to the Association (see note 25). Following the transfer, the Association became an admitted body of the scheme and contributed at a rate of 22.8% of pensionable salaries for the period following acquisition. Members have contributed at a rate of between 5.5% and 11.4% of pensionable salaries for the current year.

The financial assumptions used to calculate scheme liabilities for all defined benefit pension schemes under IAS 19 Employee Benefits were as follows.

IAS 19 Employee Benefits

	2021	**2020**
	%	**%**
Inflation (RPI)	3.30	2.60
Rate of increase in salaries for the next two years	2.90	1.70
Rate of increase in salaries thereafter	2.90	1.70
Rate of increase for pensions in payment	2.90	1.70
Rate of increase for deferred pensions	3.30	2.60
Discount rate	2.00	2.35

On 25 November 2020, HM Treasury and the UK Statistics Authority released their joint response to the consultation on reform to retail price index (RPI) methodology. This confirmed that RPI will be aligned with CPIH (consumer price index including owner occupiers' housing costs) from February 2030. To reflect this, the Association has changed the approach to setting the CPI inflation assumption, resulting in a 1.0% per annum deduction to RPI inflation for the period up to 2030 and 0.0% per annum for the period from 2030. This leads to a single equivalent average deduction of 0.4% per annum from the RPI inflation assumption to derive the CPI inflation assumption. Changes in the approach to the setting of RPI and CPI assumptions are reported as a change in financial assumptions in the following tables.

Notes to the Financial Statements (continued)

19. Retirement benefits (continued)

IAS 19 Employee Benefits (continued)

The assumptions for mortality rates are based on 109% of the Continuous Mortality Investigation of the Institute and Faculty of Actuaries (CMI) S3PA tables (2020: 96% S2PA tables) with future improvements based on the CMI 2020 model (2020: CMI 2019) with a long-term improvement of 1.25% per annum for both males and females. Based on these assumptions, the average future life expectancies at age 65 are:

	Males	Females
Current pensioners	21.7 years	24.0 years
Future pensioners	23.0 years	25.5 years

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

	2021		2021		2020		2020	
	£'000	**£'000**	**£'000**	**%**	**£'000**	**£'000**	**£'000**	**%**
	Quoted	Unquoted	Total		Quoted	Unquoted	Total	
Equities	8,852	6,282	15,134	63.9	8,472	1,831	10,303	64.8
Bonds	862	1,331	2,193	9.2	1,267	603	1,870	11.8
Property	145	1,400	1,545	6.5	-	1,307	1,307	8.2
Other	2,931	1,917	4,848	20.4	940	1,478	2,418	15.2
Total value of assets	**12,790**	**10,930**	**23,720**	**100.0**	**10,679**	**5,219**	**15,898**	**100.0**

Reconciliation of the effect of the asset ceiling:

	2021 £'000	**2020 £'000**
Net asset ceiling at 1 April	-	-
Restriction of North East Scotland Pension Fund surplus	(140)	-
Net asset ceiling at 31 March	(140)	-

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 2019/2020.

The North East Scotland Pension Fund has been valued at a net asset position. As it is not clear that the Association will derive economic benefits in the form of reduced future contributions to the scheme, the asset ceiling has been applied to reduce the value of the scheme to £nil.

Notes to the Financial Statements (continued)

19. Retirement benefits (continued)

Scheme assets and liabilities are reflected in the Statements of Financial Position:

	2021 £'000	2020 £'000
Present value of employer assets	23,720	15,898
Present value of funded liabilities	(23,639)	(16,033)
Pension asset/(liability) before restrictions	81	(135)
Effect of net asset ceiling	(140)	-
Net pension liability	(59)	(135)
Net value of pension schemes in an asset position	430	-
Net value of pension schemes in a liability position	(489)	(135)
Net pension liability	(59)	(135)

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

Amounts charged to operating surplus:	2021 £'000	2020 £'000
Current service cost	(144)	(177)
Past service cost	-	(11)
Expenses	(1)	(1)
Total service cost	(145)	(189)

Analysis of amount charged to finance cost:	2021 £'000	2020 £'000
Interest income on plan assets	375	382
Interest cost on defined benefit obligations	(380)	(402)
Total amount charged to finance cost	(5)	(20)

The total amount recognised in Other Comprehensive Income:	2021 £'000	2020 £'000
Change in demographic assumptions	340	(213)
Change in financial assumptions	(4,479)	1,941
Return on scheme assets excluding interest	1,879	(577)
Other experience	474	37
Other re-measurement gains and losses	2,423	(317)
Effect of net asset ceiling	(140)	-
Total re-measurement gains	497	871

Notes to the Financial Statements (continued)

19. Retirement benefits (continued)

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

	2021 £'000	2020 £'000
Opening fair value of assets	15,898	16,785
Acquisitions (note 25)	3,283	-
Revised opening fair value of assets	19,181	16,785
Expenses	(1)	(1)
Interest income on plan assets	375	382
Return on plan assets excluding interest	1,879	(577)
Contributions by employer	108	97
Contributions by employees	30	28
Net benefits paid (including expenses)	(498)	(499)
Other experience	223	-
Other re-measurement gains and losses	2,423	(317)
Closing fair value of the assets	**23,720**	**15,898**

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

	2021 £'000	2020 £'000
Opening defined benefit obligation	16,033	17,679
Acquisitions (note 25)	3,662	-
Revised opening defined benefit obligation	19,695	17,679
Current service cost	144	177
Past service cost	-	11
Interest cost	380	402
Contributions by employees	30	28
Change in demographic assumptions	(340)	213
Change in financial assumptions	4,479	(1,941)
Net benefits paid (including expenses)	(498)	(499)
Other experience	(251)	(37)
Closing defined benefit obligation	**23,639**	**16,033**

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

	2021 £'000	2020 £'000	2019 £'000	2018 £'000	2017 £'000
Defined benefit obligations	(23,639)	(16,033)	(17,679)	(17,056)	(18,398)
Scheme assets	23,720	15,898	16,785	16,090	15,901
Net surplus/(deficit) before restrictions	81	(135)	(894)	(966)	(2,497)

The Association expects to contribute the following amounts to the defined benefit schemes during the year ended 31 March 2021:

	£'000
North East Scotland	48
Strathclyde Pension Fund	52
Scottish Housing Association Pension Scheme	145
	245

Notes to the Financial Statements (continued)

19. Retirement benefits (continued)

Assumption sensitivity analysis -

The impact of a 0.1 percentage point movement in the primary assumptions (longevity: 1 year) on the defined benefit obligations as at 31 March 2021 is set out below:

2021	Strathclyde Pension Fund Movement £'000	North East Scotland Pension Fund Movement £'000
Discount rate +0.1%	(156)	(164)
Discount rate -0.1%	156	164
Rate of inflation +0.1%	142	166
Rate of inflation -0.1%	(142)	(166)
Salary changes +0.1%	11	7
Salary changes -0.1%	(11)	(7)
Life expectancy +1 year	392	306
Life expectancy -1 year	(392)	(306)

The sensitivity analysis is not included for the Sanctuary Housing Association Pension Scheme, small movements in the primary assumptions for this scheme are not expected to result in a materially different obligation.

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.

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 £1,186,000 (2020: £795,000).

Notes to the Financial Statements (continued)

19. Retirement benefits (continued)

Defined benefit schemes – risk factors

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

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

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

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

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

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

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

The mortality rate is based on publicly available mortality tables for the specific country. Covid-19 has caused a short term increase in deaths in the UK but the excess deaths to date have not generally had a material impact on UK pension scheme liabilities. The future impact of Covid-19 on long term mortality improvements is currently uncertain with potential adverse implications of delayed medical interventions and "long Covid", along with potential positive implications if the surviving population is less "frail" or the pandemic causes improved healthcare initiatives and lifestyle changes. Overall, the Association believes there is insufficient evidence to require an explicit adjustment to the mortality assumption for Covid-19 at this time.

20. Called up share capital

	2021	**2020**
Each member holds one share of £1 in the Association	**£**	**£**
Allotted, issued and fully paid		
At 1 April	12	12
Cancelled	(1)	-
At 31 March	**11**	**12**

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

Notes to the Financial Statements (continued)

21. Capital commitments

	2021 £'000	2020 £'000
Expenditure contracted	61,048	15,367
Authorised expenditure not contracted	73,183	125,491
	134,231	**140,858**

£49,331,000 (2020: £65,072,000) of the capital commitments will be financed by grant and other public finances with the remainder being financed from existing funds, largely from the parent undertaking or Sanctuary Treasury Limited.

22. Notes to the Statement of Cash Flows

	2021 £'000	2020 £'000
Cash and cash equivalents per Statement of Financial Position	4,283	8,095
Cash and cash equivalents per Statement of Cash Flows	4,283	8,095

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 2020 £'000	Cash flows £'000	Other non-cash changes £'000	Acquisitions £'000	At 31 March 2021 £'000
Short-term borrowings	(3,167)	36,537	(36,688)	-	(3,318)
Long-term borrowings	(243,877)	(40,220)	36,745	(10,000)	(257,352)
Lease liability	(17)	90	(197)	-	(124)
	(247,061)	**(3,593)**	**(140)**	**(10,000)**	**(260,794)**

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

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

Notes to the Financial Statements (continued)

23. Ultimate parent undertaking and controlling party

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

24. Related party transactions

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

During the year, Sanctuary Housing Association recharged the Association a total of £12,293,000 (2020: £11,737,000) in costs including £3,551,000 in management charges (2020: £3,482,000). Sanctuary Housing Association was recharged by the Association a total of £6,380,000 (2020: £2,297,000). At the year end the Association owed Sanctuary Housing Association a sum of £534,000 (2020: £4,318,000).

During the year, Sanctuary Home Care Limited recharged the Association a total of £6,000 (2020: £6,000). There was no balance owed at the year end (2020: nil).

During the year, Sanctuary Maintenance Contractors Limited recharged the Association a total of £8,848,000 (2020: £10,407,000). Sanctuary Maintenance Contractors Limited was recharged by the Association a total of £189,000 during the year (2020: £314,000). At the year end the Association owed Sanctuary Maintenance Contractors Limited a sum of £694,000 (2020: £798,000).

During the year, Sanctuary Treasury Limited recharged the Association a total of £263,000 (2020: £2,000). At the year end the Association owed Sanctuary Treasury Limited a sum of £1,000 (2020: nil).

During the year, Donside Limited was recharged by the Association a total of £222,000 during the year (2020: £97,000). At the year end the Association owed Donside Limited a sum of £161,000 (2020: Donside owed the Association £1,653,000).

During the year, Sanctuary Homes (Scotland) Limited recharged the Association a total of £78,000 (2020: £135,000). Sanctuary Homes (Scotland) Limited was recharged by the Association a total of £1,819,000 during the year (2020: £1,847,000). At the year end Sanctuary Homes (Scotland) Limited owed the Association £1,812,000 (2020: £1,825,000).

25. Acquisitions

On 1 March 2021 the assets and liabilities of Thistle Housing Association Limited (Thistle) transferred to Sanctuary Scotland Housing Association Limited.

Thistle owned and operated 947 general needs homes and managed 786 factored properties in Glasgow and had been placed under "high engagement" by the Scottish Housing Regulator (SHR) in August 2018 after a period of public and regulatory scrutiny due to poorly managed asset reinvestment contracts. The transfer was formally directed by the SHR following a competitive bidding process, a successful ballot, and a period of due diligence. As part of the transfer, the Association has made commitments to residents, homeowners and the regulator to improve the condition of properties, increase community investment and provide better Value for Money services.

In the post-transfer period since 1 March 2021 the portfolio contributed revenue of £367,000 and a net surplus of £163,000 to the Association's results for the year. If the transfer had occurred on 1 April 2020, the Association's revenue would have been an estimated £41,856,000 and net surplus would have been an estimated £16,891,000.

In accordance with the measurement principles of IFRS 3 Business Combinations (IFRS 3), all identifiable assets acquired and liabilities assumed have been measured at their fair values at the date of acquisition.

Notes to the Financial Statements (continued)

25. Acquisitions (continued)

Property fair values have been determined by reference to an independent valuation on an EUV-SH basis, conducted in accordance with RICS Valuation Professional Standards, with additional adjustments to reflect obligated capital works under the terms of the transfer agreement.

Provisions include non-capital obligations for making good defective works, as agreed in the transfer agreement, in addition to recognition of contingent liabilities.

Inspection of only a small proportion of properties has been possible to date due to Covid-19 restrictions, which in Scotland have been especially limiting. In line with IFRS 3, the fair value adjustments are therefore provisional and may change during the measuring period, which will not exceed one year from the acquisition date.

	Book Value	**Fair Value Adjustments**	**Fair Value**
	£'000	**£'000**	**£'000**
Assets			
Property, plant and equipment	16,413	252	16,665
Trade and other receivables	656	(321)	335
Cash and cash equivalents	2,410	-	2,410
Liabilities			
Trade and other payables	(1,107)	(191)	(1,298)
Loans and borrowings	(10,000)	-	(10,000)
Retirement benefit obligations	(379)	-	(379)
Provisions	(220)	(1,949)	(2,169)
Net assets	**7,773**	**(2,774)**	**5,564**
Consideration			-
Gain on acquisition			**5,564**

26. Events after the reporting period

There were no events after the reporting period.