# SANCTUARY SCOTLAND HOUSING ASSOCIATION LIMITED

## ANNUAL REPORT AND FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2022

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

## Annual Report and Financial Statements for the year ended 31 March 2022

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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 | |
| Alan West | (Chairperson) |

**Corporate Director**
Sanctuary Housing Association

**Secretary**
Nicole Seymour

**Independent statutory auditor**
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One Snowhill
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Birmingham
B4 6GH

**Internal auditor**
PricewaterhouseCoopers LLP
One Chamberlain Square
Birmingham
B3 3AX

**Bankers**

Bank of Scotland PLC
Bank of Scotland Commercial
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Edinburgh
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Barclays Bank plc
Barclays Corporate
Social Housing Team
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London
E14 5HP

**Legal advisors**

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Glasgow
G1 3PE

**Registered address**
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Glasgow
G53 6PG

**Scottish registered charity number**
SC024549

**Chairperson's Statement**

At Sanctuary Scotland we want to help make life better for those who live in our homes and access our services. This has never been more important than here and now.

Global events have had many consequences, not least for the social housing sector as everyone continues to be affected by the cost-of-living crisis following two years of Covid-19.

Like other housing providers, our services have evolved to meet the challenges of a post-pandemic world. I believe we are in a much better position than back in March 2020 when Scotland first locked down.

Thanks to a full roll-out of mobile devices our Housing Officers can now work more effectively within their communities and spend less time at a desk. This investment in our frontline teams coincided with lockdown rules which prevented members of the public from accessing our offices.

Our Housing and Welfare Rights Officers are now more likely to visit residents at home, saving them a journey. We believe our Housing team's move to an 'Us to You' model was exactly the right thing to do.

During lockdown, Government guidance designed to protect public health rightly stopped our Repairs and Maintenance teams from carrying out non-essential work in people's homes. This meant that for a period of time our list of outstanding 'non-essential' repair jobs grew, with many minor issues only getting worse.

Both our own and our contractors' staff were similarly affected by Covid, reducing the resource available to tackle this list.

The UK-wide shortage of materials still being experienced created further delay. The outcome of these delays was significant and saw the number of non-emergency repairs carried out by us during the year almost double. Thanks to this amazing effort by our staff and our planned reinvestment budget increasing by well over one third this year, we are now getting closer to where our residents want us to be.

Despite Covid-related site closures and other construction industry issues, our Development team continues to build hundreds of affordable homes across Scotland. These energy-efficient properties are handed over to residents as soon as they are completed, improving lives and reducing fuel poverty.

The Scottish Housing Regulator asks landlords to formally measure tenant satisfaction at least every three years. Last year's survey told us what our residents' priorities are and what they would like us to do better, information which can be found on page 6. We have created an action plan and will keep our residents updated through our website and this year's Annual Report to Tenants.

It goes without saying that the resilience and commitment of our staff in doing their best to improve the lives of our residents in tough times has been exemplary.

DocuSigned by:
[redacted]

Alan West
Chairperson

9 August 2022

## 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 2022.

### 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***

The Association's revenue grew to £43,294,000 (2021: £37,497,000), an increase of £5,797,000 (15%) from the prior year. This increase was driven by rent indexation, rent from new developments and a full year of income from housing accommodation that transferred from Thistle Housing Association towards the end of the prior year. The Association achieved a strong operating surplus for the year of £20,772,000 (2021: £21,362,000). The modest decrease from the prior year resulted from higher maintenance costs, driven by an increase in the volume of repairs after lifting of restrictions that had been in place due to Covid-19. The table below highlights the performance by income stream:

| | Revenue | | Operating surplus | |
|---|---|---|---|---|
| | **2022** | **2021** | **2022** | **2021** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| General needs | 39,049 | 33,087 | 18,667 | 18,859 |
| Sheltered and supported housing | 2,152 | 2,128 | 1,007 | 1,311 |
| Other activities | 2,093 | 2,282 | 1,083 | 1,155 |
| Other gains and losses | - | - | 15 | 37 |
| **Totals** | **43,294** | **37,497** | **20,772** | **21,362** |

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:

| | **2022** | **2021** |
|---|---|---|
| Number of relets | 437 | 358 |
| Average number of days to relet | 30 | 41 |
| Residential rent lost through voids % | 0.45% | 0.62% |
| Current tenant arrears as a % of gross annual rent | 4.70% | 5.40% |
| Emergency repairs | 8,227 | 6,799 |
| Non-emergency repairs | 24,343 | 12,877 |
| Average time to complete emergency repairs (hours) | 5.8 | 4.5 |
| Average time to complete non-emergency repairs (days) | 17.7 | 13.2 |

The easing of lockdown restrictions both encouraged more people to move home and enabled our Housing teams to support viewings and sign ups. This was instrumental in us reducing our relet timeframe by 11 days, and reducing the rent lost through voids.

The pandemic and cost of living crisis have had a significant impact on the household budgets of many residents. In response we are making a special effort to support residents who have fallen behind with their rent. Our Housing teams help to identify problems, find solutions and involve our in-house welfare specialists at an early stage. We are delighted this evidence-based action led to a drop in our current tenant arrears percentage.

The increase in the number of emergency repairs mainly resulted from the Thistle Housing Association transfer towards the end of the prior year, increasing our managed property numbers for the full year to 31 March 2022. The unprecedented rise in non-emergency repairs stemmed from the Government ending the Covid-related ban on carrying out non-urgent repairs within people's homes, plus a related surge in people reporting non-urgent repairs after these working restrictions ended. In the year to 31 March 2022 our Maintenance teams carried out 12,894 more repairs than in the previous 12 months (an increase of 66%). The slight increases in the times taken to carry out repairs are explained by the unusual challenges our Maintenance teams faced; this included issues with the supply of materials and Covid-19 related absences. Despite the challenges we did not exceed the 20-working day timeframe within which we aim to complete non-emergency repairs.

**The Board of Management's Report (continued)**

**Review of the Business and Future Developments (continued)**

***Housing Operations and Community Investment***

How we manage our homes continued to be affected by the pandemic during 2021/2022. We worked through Covid-19 to serve our residents as best we could, mindful the guidance could change at any time. While our offices were sometimes shut for health and safety reasons, it did not stop us from getting out and about. Thanks to our 'Us to You' way of working, staff have mobile devices to access the information they need, even when away from the office. Our Welfare Rights Officers helped 379 residents secure more than £875,000 in welfare benefits.

We carried out our most recent tenant satisfaction survey in late 2021. The survey is carried out every three years, in line with Scottish Housing Regulator guidance, so it was unsurprising to find satisfaction slightly lower than our pre-pandemic figure. Residents told us they want us to continue to focus on:

- An effective repair service.
- Modernising our homes to keep them to a reasonable standard.
- Keeping our rents and service charges affordable.

We used tenant feedback to shape an action plan to target these priorities and hope customer satisfaction will increase as a result.

Our Community Development team supported thousands of residents by providing 21 projects with almost £90,000 of funding. Our team, however, does so much more than give out grants. In Cumbernauld and across Glasgow's Toryglen and Priesthill neighbourhoods, our dedicated staff have helped more than 500 people build relationships and develop their skills, strengthening these communities as a whole.

A targeted approach to eviction prevention has seen us work with dozens of residents to help them overcome problems and keep their safe, secure and stable Sanctuary home.

The team also brought in more than £180,000 of external funding for our communities. This money makes a real difference, paying for meals, tenancy support and antisocial behaviour work within schools, among other things.

We also work with our development partners to benefit local communities. This can include in-kind support, plus job and training opportunities.

In Paisley, where we built 131 homes in Glenburn, we donated £10,000 to Bushes Primary for play equipment the pupils could enjoy. St Brigid's Primary in Glasgow received the same sum for the same purpose from our Community Investment Fund, making breaktimes much more fun.

In Cumbernauld, our construction partner at our Burns Road development not only created five new jobs and two apprenticeships but also put £26,500 into a new trauma-informed community builder role, hosted by our partner organisation Resilience Learning Partnership. This investment has enabled us to deliver trauma-informed training and workshops to help community members understand the impact trauma may have had on them and their neighbourhood.

Another construction partner installed two cabins in wooded grounds at the town's St Mary's Primary School.

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

**The Board of Management's Report (continued)**

**Review of the Business and Future Developments (continued)**

***Development and reinvestment***

Our development programme continues to create hundreds of homes to help tackle Scotland's acute shortage of affordable housing. This work is most obvious in Aberdeen where we are currently building 329 new homes across three projects. During 2021/2022 we began building 118 homes for social rent in North Anderson Drive on the site of a former fire station. This £23 million investment in apartments and houses includes one, two and three-bedroom homes, due for completion in 2024.

Elsewhere in the city another 150 homes for social rent are progressing in Persley Den Drive. We will own and manage these properties which cover the affordable housing element of the village-style development being created by CALA Homes (North). Our third work-in-progress in Aberdeen is the £8.8 million final phase of Donside Village. We will deliver another 61 homes for social rent, eight years after phase 1 was completed. Like all of Sanctuary Scotland's affordable new-build projects, this development was made possible thanks to a substantial Scottish Government grant and support from the local authority.

In North Lanarkshire our £75 million regeneration of Cumbernauld's high-rise blocks nears completion, with 131 homes and our new office in the town's Burns Road. The council's wider plans to improve the town centre will be complemented by our visually striking concave-shaped flatted block. By the end of this year the area where Stuart House, Elliot House and Morison House once stood will once again be a thriving community. Burns Road, itself a £23 million project, includes communal gardens and traditional Scottish gables.

In Renfrewshire we completed 131 homes at our Gleniffer Reach development in Paisley's Glenburn. Most of the homes were handed over to residents before the end of March 2022, including 22 for affordable ownership sold through the Scottish Government's shared equity scheme. We manage 79 of the 109 social rent properties, with Paisley Housing Association managing the other 30.

We also completed our first programme of homes in Inverclyde during 2021/2022. Residents were thrilled to receive keys to 44 high-quality flats in Mount Pleasant Street, Greenock. Our £13.8 million investment in Inverclyde included 52 homes across three sites in Port Glasgow. Within this mix of houses, flats and cottage flats are 16 amenity flats with walk-in showers to help people live independently. We work with local authorities to make sure our developments meet the local community's needs.

Our planned improvements also see us reinvest millions of pounds each year to keep our existing homes warm, secure and watertight. During 2021/2022 a country-wide programme delivered new kitchens, bathrooms, windows, doors, central heating systems, replacement boilers and door entry systems. The environment is a key driver of our home improvement plans as we look to reduce energy consumption, fuel poverty and the emission of greenhouse gases. As one of Scotland's largest social landlords we are aware we have a part to play in helping to tackle the climate emergency. We are confident our reinvestment proposals will make sure all of our properties meet the Energy Efficiency Standard for Social Housing (EESSH) as required by the Scottish Housing Regulator.

Our reinvestment budget of £10.8 million for 2022/2023 is a year-on-year increase of 37%. This significant sum of money is evidence of our determination to give every Sanctuary Scotland resident the best possible home. Our list of planned improvements is long and includes new kitchens in Aberdeen and Kemnay, new bathrooms in Inverurie, new doors in Peterhead, new windows in Glasgow, new boilers in Dundee and new roofing on some of our flatted blocks in Cumbernauld. The 3-year kitchen, bathroom and heating replacement programme in Glasgow's Toryglen will also continue, a transfer promise to Thistle Housing Association's former tenants.

**The Board of Management's Report (continued)**

**Review of the Business and Future Developments (continued)**

***Homes in management***

| | 2022 | 2021 |
|---|---|---|
| **Social housing accommodation:** | | |
| General needs housing | 7,821 | 7,700 |
| Sheltered & supported housing accommodation | 397 | 397 |
| | **8,218** | **8,097** |
| Social housing leased outside Group tenancy agreements | 42 | 41 |
| **Total social homes in management** | **8,260** | **8,138** |

The number of social homes managed by the Association increased by 122 during the year as a result of homes created by our new-build programme, including developments in Paisley, Greenock and Port Glasgow.

24 (2021: 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 McCallum (previously Phee) | Resigned 16 March 2022 |
| Alan West | Chairperson |
| 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 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 2022, 84% of the Association's debt was on fixed rate terms (2021: 84%). 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, 1.30% (2021: 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 2022 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 UK-adopted international accounting standards (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

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

By order of the Board of Management.

DocuSigned by:

[redacted]

Nicole Seymour
Secretary
9 August 2022

## 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 2022 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 UK-adopted international accounting standards (IFRS), of the state of affairs of the Association as at 31 March 2022 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.

[redacted]

**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: 11 August 2022

## Statement of Comprehensive Income for the year ended 31 March 2022

| | Note | 2022<br>£'000 | 2021 restated*<br>£'000 |
|---|---|---|---|
| Revenue | 2 | 43,294 | 37,497 |
| Operating expenditure | 3 | (22,537) | (16,172) |
| Other gains and losses | 8 | 15 | 37 |
| **Operating surplus** | 3,5 | **20,772** | **21,362** |
| Gain on acquisition* | 25 | - | 9,160 |
| Finance income | 9a | 1 | 30 |
| Finance costs | 9b | (9,073) | (9,481) |
| **Surplus for the year from continuing operations** | | **11,700** | **21,071** |
| **Other comprehensive income** | | | |
| **Items that will not be reclassified subsequently to income or expense:** | | | |
| Re-measurement of defined benefit pension scheme gains | 19 | 734 | 497 |
| **Other comprehensive income for the year** | | **734** | **497** |
| **Total comprehensive income for the year** | | **12,434** | **21,568** |

*Provisional fair values of assets acquired and liabilities assumed on transfer of Thistle Housing Association in the prior year have been reassessed and comparative information restated (note 25).

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 2022

| | Note | 2022 £'000 | 2021 restated* £'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets:** | | | |
| Property, plant and equipment* | 10 | 396,760 | 367,403 |
| Investment Property | 11 | 561 | 564 |
| Other Investments | 12 | 1 | 1 |
| Retirement benefit asset | 19 | 710 | 430 |
| | | 398,032 | 368,398 |
| **Current assets** | | | |
| Trade and other receivables | 13 | 17,748 | 12,995 |
| Cash and cash equivalents | 22 | 2,797 | 4,283 |
| | | 20,545 | 17,278 |
| **Total Assets** | | **418,577** | **385,676** |
| **Liabilities** | | | |
| **Current liabilities:** | | | |
| Trade and other payables | 14 | 15,008 | 18,617 |
| Contract liabilities | 2 | 2,350 | 4,469 |
| Loans and borrowings | 15 | 3,741 | 3,355 |
| Provisions* | 16 | 4,192 | 4,200 |
| | | 25,291 | 30,641 |
| **Non-current liabilities** | | | |
| Loans and borrowings | 15 | 283,686 | 257,439 |
| Retirement benefit obligations | 19 | 59 | 489 |
| | | 283,745 | 257,928 |
| **Total liabilities** | | **309,036** | **288,569** |
| **Equity** | | | |
| **Equity attributable to owners of the parent:** | | | |
| Share capital | 20 | - | - |
| Retained earnings* | | 109,541 | 97,107 |
| **Total Equity** | | **109,541** | **97,107** |
| **Total Equity and liabilities** | | **418,577** | **385,676** |

*Provisional fair values of assets acquired and liabilities assumed on transfer of Thistle Housing Association in the prior year have been reassessed and comparative information restated (note 25).

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

The financial statements were approved by the Board of Management on 9 August 2022 and signed on its behalf by:

Alan West
Chairperson
[redacted]

Alexander Clark
Deputy Chairperson
DocuSigned by:
[redacted]

James Docherty
Board Member
[redacted]

Nicole Seymour
Secretary
DocuSigned by:
[redacted]

## Statement of Changes in Equity for the year ended 31 March 2022

| | Share capital £'000 | Revenue reserve £'000 | Total equity £'000 |
|---|---|---|---|
| At 1 April 2020 | - | 75,539 | 75,539 |
| Surplus for the year* | - | 21,071 | 21,071 |
| Other comprehensive income | - | 497 | 497 |
| **Total comprehensive income** | **-** | **21,568** | **21,568** |
| **At 31 March 2021*** | **-** | **97,107** | **97,107** |
| At 1 April 2021* | - | 97,107 | 97,107 |
| Surplus for the year | - | 11,700 | 11,700 |
| Other comprehensive income | - | 734 | 734 |
| **Total comprehensive income** | **-** | **12,434** | **12,434** |
| **At 31 March 2022** | **-** | **109,541** | **109,541** |

*Provisional fair values of assets acquired and liabilities assumed on transfer of Thistle Housing Association in the prior year have been reassessed and comparative information restated (note 25).

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

## Statement of Cash Flows for the year ended 31 March 2022

| | Notes | 2022 | 2021 restated* |
|---|---|---|---|
| **Cash flows from operating activities** | | **£'000** | **£'000** |
| Surplus for the year* | | 11,700 | 21,071 |
| Adjustments for: | | | |
| Depreciation | 5 | 4,186 | 3,181 |
| Gain on business acquisition* | 25 | - | (9,160) |
| Gain on sale of property, plant and equipment | 8 | (15) | (37) |
| Net finance costs | 9 | 9,072 | 9,451 |
| | | 13,243 | 3,435 |
| Cash generated before working capital movements | | 24,943 | 24,506 |
| Changes in: | | | |
| Trade and other receivables | | (179) | (1,847) |
| Trade and other payables | | (1,335) | 2,111 |
| Provisions | | (8) | (155) |
| Retirement benefit obligations | | 26 | 37 |
| | | (1,496) | 146 |
| Cash generated from operating activities | | 23,447 | 24,652 |
| Interest paid | | (9,934) | (9,487) |
| **Net cash inflow from operating activities** | | **13,513** | **15,165** |
| **Cash flows from investing activities** | | | |
| Interest received | | 6 | 22 |
| Proceeds from sale of property, plant and equipment | 8 | 15 | 337 |
| Acquisition and construction of property, plant and equipment and investment property | | (62,219) | (52,849) |
| Acquisition of Thistle Housing Association | 25 | - | 2,410 |
| Capital grants received | | 21,292 | 27,510 |
| Capital grants repaid | | (669) | - |
| **Net cash outflow from investing activities** | | **(41,575)** | **(22,570)** |
| **Cash flows from financing activities** | | | |
| Proceeds from loans and borrowings | | 30,220 | 40,220 |
| Repayment of borrowings | | (3,644) | (36,627) |
| **Net cash flow from financing activities** | | **26,576** | **3,593** |
| **Net movement in cash and cash equivalents** | | **(1,486)** | **(3,812)** |
| Cash and cash equivalents 1 April | | 4,283 | 8,095 |
| **Cash and cash equivalents 31 March** | | **2,797** | **4,283** |

*Provisional fair values of assets acquired and liabilities assumed on transfer of Thistle Housing Association in the prior year have been reassessed and comparative information restated (note 25).

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 UK-adopted International Accounting Standards (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's assessment of the Association's ability to continue as a going concern is based on consideration of cash flow forecasts for a period of at least 12 months from the date of approval of these financial statements, which show that the Association will have sufficient funds to continue to meet its liabilities as they fall due. 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 - £3,709,000 at 31 March 2022 (2021: £3,290,000)), for the period covered by the forecasts.

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.

**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)**

Impairment Testing - Property

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

- Fair value less selling costs, or
- Value in use.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

A valuation technique that may be used to determine fair value is the cost approach, which reflects the amount that would be required currently to replace the service capacity of the asset (current replacement cost). For social housing properties this is depreciated replacement cost (DRC) of the property. To determine the DRC, the Association 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.

Value in Use (VIU) is the present value of the future cash flows expected to be derived from the CGU, established by estimating future cash inflows and outflows from the use of the asset and applying an appropriate discount rate to those 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 2022** | **Rented housing** | **Supported housing** | **Other activities** | **Total** |
|---|---|---|---|---|
| **Revenue recognised over time** | **£'000** | **£'000** | **£'000** | **£'000** |
| Income from social housing lettings | 39,049 | 2,152 | - | **41,201** |
| Managed schemes | - | - | 237 | **237** |
| Supporting people income | - | - | 83 | **83** |
| Other | - | - | 1,773 | **1,773** |
| **Total revenue over time** | **39,049** | **2,152** | **2,093** | **43,294** |
| Less lease income | **-** | **-** | (118) | (118) |
| **Revenue from contracts with customers** | **39,049** | **2,152** | **1,975** | **43,176** |

## Notes to the Financial Statements (continued)

### 2. Revenue (continued)

### Disaggregation of revenue (continued)

| 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** |

### Contract balances

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

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| **Contract receivables (included in trade and other receivables)** | | |
| Tenant rental receivables net of expected credit loss (note 13) | 1,864 | 1,638 |
| Other trade receivables (note 13) | 897 | 849 |
| Accrued income (note 13) | 5,073 | 4,650 |
| | **7,834** | **7,137** |
| **Contract liabilities** | | |
| Payments received in advance | 1,836 | 4,228 |
| Deferred income | 514 | 241 |
| | **2,350** | **4,469** |

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

| | 2022 Revenue £'000 | 2022 Operating costs £'000 | 2022 Other gains and losses £'000 | 2022 Operating Surplus £'000 | 2021 Operating Surplus £'000 |
|---|---|---|---|---|---|
| Social housing lettings | 41,201 | (21,527) | - | 19,674 | 20,170 |
| Other activities | 2,093 | (1,010) | - | 1,083 | 1,155 |
| Other gains and losses | - | - | 15 | 15 | 37 |
| **Total** | **43,294** | **(22,537)** | **15** | **20,772** | **21,362** |
| **Total for previous year** | **37,497** | **(16,172)** | **37** | **21,362** | |

### 4a. Income and Expenditure from Social Housing Lettings

| | Rented housing £'000 | Supported housing £'000 | 2022 Total £'000 | 2021 Total £'000 |
|---|---|---|---|---|
| **Income from lettings** | | | | |
| Rents receivable net of service charges | 38,356 | 1,933 | 40,289 | 34,504 |
| Service charges | 1,079 | 240 | 1,319 | 1,125 |
| **Gross income from rents and service charges** | 39,435 | 2,173 | 41,608 | 35,629 |
| Less voids | (387) | (27) | (414) | (422) |
| **Net income from rents and service charges** | **39,048** | **2,146** | **41,194** | **35,207** |
| Other income | 1 | 6 | 7 | 8 |
| **Total income from social letting activities** | **39,049** | **2,152** | **41,201** | **35,215** |
| **Expenditure on lettings** | | | | |
| Management and maintenance administration costs | (5,070) | (31) | (5,101) | (4,464) |
| Services costs | (4,155) | (439) | (4,594) | (2,446) |
| Reactive maintenance | (5,313) | (352) | (5,665) | (3,824) |
| Planned and cyclical maintenance | (1,832) | (129) | (1,961) | (926) |
| Bad debts – rents and service charges | (293) | (9) | (302) | (326) |
| Depreciation of social housing | (3,719) | (185) | (3,904) | (3,059) |
| **Operating costs from social letting activities** | **(20,382)** | **(1,145)** | **(21,527)** | **(15,045)** |
| **Operating surplus from social letting activities** | **18,667** | **1,007** | **19,674** | **20,170** |
| **Operating surplus from social letting activities for previous year** | **18,859** | **1,311** | **20,170** | |

## Notes to the Financial Statements (continued)

### 4b. Income and Expenditure from Other Activities

| | 2022 Other income £'000 | 2022 Other operating costs £'000 | 2022 Operating surplus/ (deficit) £'000 | 2021 Operating Surplus/ (deficit) £'000 |
|---|---|---|---|---|
| Managed schemes | 237 | (285) | (48) | 181 |
| Development administration | - | (74) | (74) | (438) |
| Supporting People contract income | 83 | (83) | - | - |
| Other property income | 1,751 | (546) | 1,205 | 1,412 |
| Other | 22 | (22) | - | - |
| **Total from other activities** | **2,093** | **(1,010)** | **1,083** | **1,155** |
| Total from other activities for the previous year | **2,282** | **(1,127)** | **1,155** | |

### 5. Operating Surplus

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| **The operating surplus is arrived at after charging:** | | |
| Depreciation of property, plant and equipment (note 10) | 4,183 | 3,180 |
| Depreciation of investment property (note 11) | 3 | 1 |
| Surplus on the sale of property, plant and equipment (note 8) | 15 | 37 |
| Auditor's remuneration – audit | 30 | 29 |

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 (2021: £25,000). All other 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 £1,063 (2021: £nil).

## Notes to the Financial Statements (continued)

### 7. Employee Information

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Employee costs charged during the period amounted to: | | |
| Wages and salaries | 733 | 578 |
| Social security costs | 80 | 50 |
| Other pension costs | 109 | 94 |
| | **922** | **722** |

| | 2022 Number | 2021 Number |
|---|---|---|
| The average monthly number of persons employed during the period expressed in full-time equivalents was: | | |
| Office based staff | 17 | 12 |
| | **17** | **12** |

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

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Proceeds from sale of property, plant and equipment | 15 | 337 |
| Cost of disposals | - | (300) |
| | **15** | **37** |

### 9. Finance income and costs

#### a) Finance income

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Interest receivable from: | | |
| Short-term cash deposits | - | 8 |
| Other interest | 1 | 22 |
| | **1** | **30** |

#### b) Finance costs

| | 2022 £000 | 2021 £000 |
|---|---|---|
| Interest on loans from Group undertakings | 7,858 | 8,107 |
| Interest on external loans | 1,977 | 1,759 |
| Less: amounts transferred to housing properties in the course of construction | (770) | (399) |
| Net finance (credit)/charge of defined benefit pension schemes | (2) | 5 |
| Interest in respect of right-of-use assets | 10 | 9 |
| | **9,073** | **9,481** |

## 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 2020 | 628,005 | 336 | 725 | 66,401 | 695,467 |
| Additions | 5,073 | 27 | - | 50,602 | 55,702 |
| Acquisitions (restated*) | 26,703 | 15 | 716 | - | 27,434 |
| Transfers at completion | 30,000 | - | - | (30,000) | - |
| Transfer from investment property | 209 | - | - | - | 209 |
| Other transfers | 5,325 | - | - | (6,383) | (1,058) |
| Disposals | (472) | - | (524) | - | (996) |
| Balance at 31 March 2021 | 694,843 | 378 | 917 | 80,620 | 776,758 |
| | | | | | |
| Balance at 1 April 2021 | 694,843 | 378 | 917 | 80,620 | 776,758 |
| Additions | 9,131 | 79 | 282 | 47,052 | 56,544 |
| Transfers at completion | 18,471 | - | - | (18,471) | - |
| Disposals | (279) | (20) | - | - | (299) |
| Balance at 31 March 2022 | 722,166 | 437 | 1,199 | 109,201 | 833,003 |
| | | | | | |
| **Depreciation and impairment** | | | | | |
| 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 |
| | | | | | |
| Balance at 1 April 2021 | 19,300 | 225 | 198 | - | 19,723 |
| Depreciation charge for the year | 4,114 | 59 | 10 | - | 4,183 |
| Disposals | (267) | (21) | - | - | (288) |
| Balance at 31 March 2022 | 23,147 | 263 | 208 | - | 23,618 |
| | | | | | |
| **Housing association grant** | | | | | |
| Balance at 1 April 2020 | 300,812 | - | - | 52,877 | 353,689 |
| Additions | - | - | - | 34,965 | 34,965 |
| Acquisitions (note 25) | 4,987 | - | - | - | 4,987 |
| 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 |
| | | | | | |
| Balance at 1 April 2021 | 320,845 | - | - | 68,787 | 389,632 |
| Additions | - | - | - | 22,993 | 22,993 |
| Transfers at completion | 11,118 | - | - | (11,118) | - |
| Balance at 31 March 2022 | 331,963 | - | - | 80,662 | 412,625 |
| | | | | | |
| **Net book value** | | | | | |
| 31 March 2022 | **367,056** | **174** | **991** | **28,539** | **396,760** |
| 31 March 2021 | **354,698** | **153** | **719** | **11,833** | **367,403** |
| 1 April 2020 | **310,566** | **166** | **292** | **13,524** | **324,548** |

## Notes to the Financial Statements (continued)

### 10. Property, plant and equipment (continued)

*Provisional fair values of assets acquired and liabilities assumed on transfer of Thistle Housing Association in the prior year have been reassessed and comparative information restated (note 25).

**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 (2021: not material) and so further impairment tests were not deemed necessary.

**Assets pledged as security**

Property with a pre-grant carrying amount of £390,014,000 (2021: £391,987,000) has been pledged to secure borrowings.

### 11. Investment property

| | £'000 |
|---|---|
| **Cost** | |
| Balance at 1 April 2020 | 1,239 |
| Transfer to property, plant and equipment | (209) |
| Balance at 31 March/1 April 2021 | 1,030 |
| Additions | - |
| Balance at 31 March 2022 | 1,030 |
| | |
| **Depreciation** | |
| Balance at 1 April 2020 | 23 |
| Charge for the year | 1 |
| Balance at 31 March/1 April 2021 | 24 |
| Charge for the year | 3 |
| Balance at 31 March 2022 | 27 |
| | |
| **Other grant** | |
| Balance at 1 April 2020 | 609 |
| Transfer to property, plant and equipment | (167) |
| Balance at 31 March/1 April 2021 | 442 |
| Additions | - |
| Balance at 31 March 2022 | 442 |
| | |
| **Net book value** | |
| 31 March 2022 | **561** |
| 31 March 2021 | **564** |
| 1 April 2020 | **607** |

**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 2022 no commercial property (2021: none) was identified as having indicators of potential impairment.

**Fair value of investment property**

The estimated fair value of the investment property is £1,385,000 (2021: £1,366,000). The fair value has been determined by Directors' valuations. In accordance with the fair value measurement hierarchy discussed in note 18, these are deemed to be Level 3 valuations.

## 12. Other Investments

| | 2022<br>£'000 | 2021<br>£'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 (2021: 1,073 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

| | 2022<br>£'000 | 2021<br>£'000 |
|---|---|---|
| **Current:** | | |
| Tenant rental receivables (note 18) | 1,864 | 1,638 |
| Other trade receivables (note 18) | 897 | 849 |
| Amounts due from fellow Group undertakings | 1,871 | 1,812 |
| Prepayments | 84 | 107 |
| Accrued income | 5,073 | 4,650 |
| NSSE receivables | 7,953 | 3,854 |
| Other receivables | 6 | 85 |
| | **17,748** | **12,995** |

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

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| **Current:** | | |
| Trade payables | 539 | 5,922 |
| Amount due to Group entities | 3,709 | 3,290 |
| Other payables | 432 | 501 |
| Accruals | 9,646 | 6,331 |
| Grants received in advance | 682 | 2,573 |
| | **15,008** | **18,617** |

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

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| **Current:** | | |
| Amounts owed to Group entities | 2,032 | 1,784 |
| Bank loans and mortgages | 1,653 | 1,534 |
| Lease liability (Note 17) | 56 | 37 |
| | 3,741 | 3,355 |
| **Non-current:** | | |
| Amounts owed to fellow Group entities | 245,903 | 217,934 |
| Senior notes and debenture stock (note 25) | 10,000 | 10,000 |
| Bank loans and mortgages | 27,669 | 29,418 |
| Lease liability (Note 17) | 114 | 87 |
| | 283,686 | 257,439 |
| **Total loans and borrowings** | **287,427** | **260,794** |

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

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

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| In one year or less | 3,741 | 3,355 |
| Between one and two years | 25,650 | 3,520 |
| Between two and five years | 13,130 | 33,004 |
| In five years or more | 244,906 | 220,915 |
| | **287,427** | **260,794** |

## Notes to the Financial Statements (continued)

### 16. Provisions

| | Property related £'000 | Other provisions £'000 | Total £'000 |
|---|---|---|---|
| At 1 April 2021 (as previously reported) | 1,530 | 484 | 2,014 |
| Measurement period adjustments* | 2,186 | - | 2,186 |
| At 1 April 2021 restated* | 3,716 | 484 | 4,200 |
| Utilised during the year | - | (8) | (8) |
| At 31 March 2022 | 3,716 | 476 | 4,192 |
| Ageing of provisions – expected utilisation | | | |
| At 31 March 2022 | | | |
| Under one year | 3,716 | 476 | 4,192 |
| Over one year | - | - | - |

*Provisional fair values of assets acquired and liabilities assumed on transfer of Thistle Housing Association in the prior year have been reassessed and comparative information restated (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 related 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 2021 | 290 |
| Additions | 139 |
| Balance as at 31 March 2022 | **429** |
| **Depreciation and impairment** | |
| Balance as at 1 April 2021 | 160 |
| Depreciation charge for the year | 97 |
| Balance as at 31 March 2022 | **257** |
| **Net book value** | |
| 31 March 2022 | **172** |
| 31 March 2021 | **130** |

**Amounts recognised in the Statement of Comprehensive Income**

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Interest on lease liabilities | 10 | 9 |
| Depreciation charge for right-of-use assets | 97 | 160 |
| | **107** | **169** |

**Amounts recognised in the Statement of Cash Flows**

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Total cash outflow for leases | 103 | 99 |
| | **103** | **99** |

**Lease liabilities**

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

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| **Land and buildings:** | | |
| Under one year | 77 | 57 |
| In the second to fifth year inclusive | 125 | 151 |
| Total gross payments | 202 | 208 |
| Financing costs | (32) | (84) |
| Net lease liability | **170** | **124** |

## Notes to the Financial Statements (continued)

### 17. Leases (continued)

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

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| **Land and buildings:** | | |
| Under one year | 56 | 37 |
| In the second to fifth year inclusive | 114 | 87 |
| | **170** | **124** |

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 2022, income from operating leases was £118,000 (2021: £117,000).

Amounts receivable under operating leases are due as follows:

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Under one year | 107 | 242 |
| Between one and two years | 54 | 140 |
| Between two and three years | 54 | 72 |
| Between three and five years | 109 | 145 |
| In more than five years | 212 | 289 |
| | **536** | **888** |

### 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.

## Notes to the Financial Statements (continued)

### 18. Financial instruments and risk management (continued)

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**

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Rental receivables (note 13) | 1,864 | 1,638 |
| Other trade receivables (note 13) | 897 | 849 |
| NSSE receivables (note 13) | 7,953 | 3,854 |
| Other receivables (note 13) | 6 | 85 |
| Amounts due from Group entities (note 13) | 1,871 | 1,812 |
| Cash and cash equivalents | 2,797 | 4,283 |
| | **15,388** | **12,521** |

Of the above loans and receivables balances, rental receivables, amounts due from parent undertaking, amounts due from Group entities and other receivables £12,591,000 (2021: £8,238,000) derive from current trade and other receivables balances on the Statement of Financial Position. Trade and other receivables totalled £17,748,000 at 31 March 2022 (2021: £12,995,000). The remaining balances of £5,157,000 (2021: £4,757,000) 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**

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Debt finance excluding setup costs | 3,827 | 3,454 |
| Trade payables (note 14) | 539 | 5,922 |
| Amounts due to Group entities (note 14) | 3,709 | 3,290 |
| Other payables (note 14) | 432 | 501 |
| Lease liability (note 17) | 56 | 37 |
| | **8,563** | **13,204** |

Current trade and other payables as disclosed in the Statement of Financial Position totalled £15,008,000 (2021: £18,617,000). The difference between the Statement of Financial Position and the amounts disclosed above is £10,328,000 (2021: £8,904,000) 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**

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Debt finance excluding setup costs | 284,622 | 258,449 |
| Lease liability (note 17) | 114 | 87 |
| | **284,736** | **258,536** |

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

Total current and non-current other financial liabilities at 31 March 2022 were £293,299,000 (2021: £271,740,000).

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 2022 was:

| | £'000 | % |
|---|---|---|
| Fixed rate financial liabilities | 240,929 | 84 |
| Variable rate financial liabilities | 46,498 | 16 |
| | **287,427** | **100** |

The weighted average interest rate of the Association's total financial liabilities is 3.42% (2021: 3.47%). The weighted average life of fixed rate financial liabilities is 19.4 years (2021: 19.3 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 £588,000 (2021: £536,000).
- Variable rate financial instruments which are subject to rate changes – a 10% increase in interest costs would result in an additional charge of £69,000 (2021: £27,000).

**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 2022 is set out below.

| | 2022 Book Value £'000 | 2022 Fair Value £'000 |
|---|---|---|
| Bank loans and mortgages (note 15) | 27,669 | 28,759 |
| Amounts owed to Group entities (note 15) | 245,903 | 267,940 |
| Senior notes and debenture stock (note 15) | 10,000 | 11,604 |
| Lease Liability (notes 15 and 17) | 114 | 114 |
| | **283,686** | **308,417** |

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 2022** | **Debt** | **Interest on debt** | **Lease liability** | **Other liabilities not in net debt** | **Total** |
|---|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Due less than one year | (3,591) | (10,992) | (56) | (4,680) | (19,319) |
| Between one and two years | (25,469) | (10,199) | (46) | - | (35,714) |
| Between two and three years | (3,171) | (10,603) | (40) | - | (13,814) |
| Between three and four years | (4,654) | (10,044) | (19) | - | (14,717) |
| Between four and five years | (4,654) | (9,806) | (9) | - | (14,469) |
| Greater than five years | (240,461) | (126,726) | - | - | (367,187) |
| **Gross contractual cash flows** | **(282,000)** | **(178,370)** | **(170)** | **(4,680)** | **(465,220)** |

| **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)** |

**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 £14,875,000 as at 31 March 2022 (2021: £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 2022 totalled £2,452,000 (2021: £2,025,000). 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:

| | **2022 £'000** | **2021 £'000** |
|---|---|---|
| Less than 30 days | 1,074 | 902 |
| 30 to 60 days | 446 | 367 |
| 60 to 90 days | 237 | 216 |
| More than 90 days | 695 | 540 |
| Balance as at 31 March | **2,452** | **2,025** |

There is an expected credit loss against £588,000 (2021: £387,000) of this balance leaving a net rental arrears balance of £1,864,000 (2021: £1,638,000) (see note 13).

**Tenant rental receivable arrears expected credit loss**

| | **2022 £'000** | **2021 £'000** |
|---|---|---|
| Balance as at 1 April | 387 | 288 |
| Provided in the year | 427 | 270 |
| Amounts written off | (226) | (171) |
| Balance as at 31 March | **588** | **387** |

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 2022 totalled £1,432,000 (2021: £1,539,000). Of this balance £1,418,000 (2021: £1,025,000) was deemed past due. Normal payment terms are 30 days. The age of gross other trade receivables balances was as follows:

| | 2022<br>£'000 | 2021<br>£'000 |
|---|---:|---:|
| Less than 30 days | 14 | 514 |
| 30 to 60 days | 8 | 11 |
| 60 to 90 days | 1 | 83 |
| More than 90 days | 1,409 | 931 |
| Balance as at 31 March | **1,432** | **1,539** |

There is an expected credit loss against £535,000 (2021: £690,000) of this balance leaving a net other trade receivables balance of £897,000 (2021: £849,000) (see note 13).

**Other trade receivables expected credit loss**

| | 2022<br>£'000 | 2021<br>£'000 |
|---|---:|---:|
| Balance as at 1 April | 690 | 124 |
| (Released)/provided | (145) | 579 |
| Amounts written off | (10) | (13) |
| Balance as at 31 March | **535** | **690** |

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 2022 and 2021 was as follows:

| | 2022<br>£'000 | 2021<br>£'000 |
|---|---:|---:|
| Receivables | 12,591 | 8,238 |
| Cash and cash equivalents | 2,797 | 4,283 |
| | **15,388** | **12,521** |

**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 2022, £1,864,000 (2021: £1,638,000).

**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 2022 totalled £nil (2021: £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 between 7.7% and 13.3% of pensionable salaries for the current year. Members have contributed at a rate of between 7.7% and 13.2% 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

| | 2022<br>% | 2021<br>% |
|---|---|---|
| Inflation (RPI) | 3.65 | 3.30 |
| Rate of increase in salaries for the next two years | 3.25 | 2.90 |
| Rate of increase in salaries thereafter | 3.25 | 2.90 |
| Rate of increase for pensions in payment | 3.40 | 2.90 |
| Rate of increase for deferred pensions | 3.65 | 3.30 |
| Discount rate | 2.70 | 2.00 |

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 (2021: CMI S3PA tables) with future improvements based on the CMI 2021 model (2021: CMI 2020 model) 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 | 21.4 years | 23.9 years |
| Future pensioners | 22.7 years | 25.3 years |

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

| | **2022** | | **2022** | | **2021** | | **2021** | |
|---|---|---|---|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **%** | **£'000** | **£'000** | **£'000** | **%** |
| | Quoted | Unquoted | Total | | Quoted | Unquoted | Total | |
| Equities | 9,267 | 7,019 | 16,286 | 66.2 | 8,852 | 6,282 | 15,134 | 63.9 |
| Bonds | 1,063 | 1,093 | 2,156 | 8.8 | 862 | 1,331 | 2,193 | 9.2 |
| Property | 194 | 1,578 | 1,772 | 7.2 | 145 | 1,400 | 1,545 | 6.5 |
| Other | 2,869 | 1,494 | 4,363 | 17.8 | 2,931 | 1,917 | 4,848 | 20.4 |
| **Total value of assets** | **13,393** | **11,184** | **24,577** | **100.0** | **12,790** | **10,930** | **23,720** | **100.0** |

Reconciliation of the effect of the asset ceiling:

| | **2022**<br>**£'000** | **2021**<br>**£'000** |
|---|---|---|
| Net asset ceiling at 1 April | (140) | - |
| Restriction of North East Scotland Pension Fund surplus | (714) | (140) |
| Restriction of Strathclyde Pension Fund surplus | (1,046) | - |
| **Net asset ceiling at 31 March** | (1,900) | (140) |

The Strathclyde Pension Fund has been valued at a net asset position. Recognition of the pension surplus has been restricted to the economic benefit available to the Association in the form of a reduction in future contributions to the pension scheme. In restricting this surplus, the Association has applied the asset ceiling in accordance with IAS 19. The Strathclyde Pension Fund was also valued in a net asset position in 2020/2021, at which point restriction of the reported surplus was not required.

The North East Scotland Pension Fund has been valued at a net asset position. Recognition of the pension surplus has been restricted to the economic benefit available to the Association in the form of a reduction in future contributions to the pension scheme. In restricting this surplus, the Association has applied the asset ceiling in accordance with IAS 19. The North East Scotland Pension Fund was also valued in a net asset position in 2020/2021. Based on the information available at the time, the asset ceiling was 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 Statement of Financial Position:

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Present value of employer assets | 24,577 | 23,720 |
| Present value of funded liabilities | (22,026) | (23,639) |
| Pension asset before restrictions | 2,551 | 81 |
| Effect of net asset ceiling | (1,900) | (140) |
| **Net pension asset/(liability)** | 651 | (59) |
| | | |
| Net value of pension schemes in an asset position | 710 | 430 |
| Net value of pension schemes in a liability position | (59) | (489) |
| **Net pension asset/(liability)** | 651 | (59) |

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

| **Amounts charged to operating surplus:** | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Current service cost | (235) | (144) |
| Past service cost | - | - |
| Expenses | (4) | (1) |
| Total service cost | (239) | (145) |

| **Analysis of amount charged to finance cost:** | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Interest income on plan assets | 471 | 375 |
| Interest cost on defined benefit obligations | (469) | (380) |
| Total amount charged to finance cost | 2 | (5) |

| **The total amount recognised in Other Comprehensive Income:** | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Change in demographic assumptions | 254 | 340 |
| Change in financial assumptions | 1,442 | (4,479) |
| Return on scheme assets excluding interest | 576 | 1,879 |
| Other experience | (63) | 474 |
| Other re-measurement gains and losses | 285 | 2,423 |
| Movement in net asset ceiling | (1,760) | (140) |
| Total re-measurement gains | 734 | 497 |

**Notes to the Financial Statements (continued)**

**19. Retirement benefits (continued)**

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

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Opening fair value of assets | 23,720 | 15,898 |
| Acquisitions (note 25) | - | 3,283 |
| Revised opening fair value of assets | 23,720 | 19,181 |
| Expenses | (1) | (1) |
| Interest income on plan assets | 471 | 375 |
| Return on plan assets excluding interest | 576 | 1,879 |
| Contributions by employer | 213 | 108 |
| Contributions by employees | 56 | 30 |
| Net benefits paid (including expenses) | (663) | (498) |
| Other experience | (80) | 223 |
| Other re-measurement gains and losses | 285 | 2,423 |
| **Closing fair value of the assets** | **24,577** | **23,720** |

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

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Opening defined benefit obligation | 23,639 | 16,033 |
| Acquisitions (note 25) | - | 3,662 |
| Revised opening defined benefit obligation | 23,639 | 19,695 |
| Current service cost | 235 | 144 |
| Expenses | 3 | - |
| Interest cost | 469 | 380 |
| Contributions by employees | 56 | 30 |
| Change in demographic assumptions | (254) | (340) |
| Change in financial assumptions | (1,442) | 4,479 |
| Net benefits paid (including expenses) | (663) | (498) |
| Other experience | (17) | (251) |
| **Closing defined benefit obligation** | **22,026** | **23,639** |

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

| | 2022 £'000 | 2021 £'000 | 2020 £'000 | 2019 £'000 | 2018 £'000 |
|---|---|---|---|---|---|
| Defined benefit obligations | (22,026) | (23,639) | (16,033) | (17,679) | (17,056) |
| Scheme assets | 24,577 | 23,720 | 15,898 | 16,785 | 16,090 |
| Net surplus/(deficit) before restrictions | 2,551 | 81 | (135) | (894) | (966) |

The Association expects to contribute the following amounts to the defined benefit schemes during the year ended 31 March 2023:

| | £'000 |
|---|---|
| North East Scotland | 46 |
| Strathclyde Pension Fund | 53 |
| Scottish Housing Association Pension Scheme | 117 |
| | 216 |

## 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 2022 is set out below:

| 2022 | Strathclyde Pension Fund Movement £'000 | Scottish Housing Associations' Pension Scheme Movement £'000 | North East Scotland Pension Fund Movement £'000 |
|---|---|---|---|
| Discount rate +0.1% | (143) | (68) | (152) |
| Discount rate -0.1% | 143 | 68 | 152 |
| Rate of inflation +0.1% | 132 | 72 | 155 |
| Rate of inflation -0.1% | (132) | (72) | (155) |
| Salary changes +0.1% | 10 | - | 7 |
| Salary changes -0.1% | (10) | - | (7) |
| Life expectancy +1 year | 371 | 90 | 282 |
| Life expectancy -1 year | (371) | (90) | (282) |

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 defined benefit pension schemes equates to plus or minus £1,229,000 (2021: £1,186,000).

**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. In consideration of the potential impacts of Covid-19, the Group has allowed, in the mortality assumptions used, for 5 years of suppressed improvements in mortality rate before rates return to previously expected levels.

## 20. Called up share capital

| | 2022 | 2021 |
|---|---|---|
| Each member holds one share of £1 in the Association | £ | £ |
| Allotted, issued and fully paid | | |
| At 1 April | 11 | 12 |
| Cancelled | - | (1) |
| At 31 March | **11** | **11** |

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

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Expenditure contracted | 63,257 | 61,048 |
| Authorised expenditure not contracted | 82,071 | 73,183 |
| | **145,328** | **134,231** |

£59,243,000 (2021: £49,331,000) 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

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Cash and cash equivalents per Statement of Financial Position | 2,797 | 4,283 |
| Cash and cash equivalents per Statement of Cash Flows | 2,797 | 4,283 |

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 2021 £'000 | Cash flows £'000 | Other non-cash changes £'000 | Acquisitions £'000 | At 31 March 2022 £'000 |
|---|---|---|---|---|---|
| Short-term borrowings | (3,318) | 3,551 | (3,918) | - | (3,685) |
| Long-term borrowings | (257,352) | (30,220) | 4,000 | - | (283,572) |
| Lease liability | (124) | 93 | (139) | - | (170) |
| | **(260,794)** | **(26,576)** | **(57)** | **-** | **(287,427)** |

| | 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)** |

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 £8,697,000 (2021: £12,293,000) in costs including £3,622,000 in management charges (2021: £3,551,000). Sanctuary Housing Association was recharged by the Association a total of £5,474,000 (2021: £6,380,000). At the year end the Association owed Sanctuary Housing Association a sum of £366,000 (2021: £534,000), this includes £159,000 that was previously owed to Donside Limited but has been transferred to Sanctuary Housing Association as part of the dissolution process of Donside Limited.

During the year, Sanctuary Home Care Limited recharged the Association a total of £7,000 (2021: £6,000). There was £1,000 balance owed at the year end (2021: nil).

During the year, Sanctuary Maintenance Contractors Limited recharged the Association a total of £14,473,000 (2021: £8,848,000). Sanctuary Maintenance Contractors Limited was recharged by the Association a total of £257,000 during the year (2021: £189,000). At the year end the Association owed Sanctuary Maintenance Contractors Limited a sum of £1,290,000 (2021: £694,000).

During the year, Sanctuary Treasury Limited recharged the Association a total of £184,000 (2021: £263,000). At the year end the Association owed Sanctuary Treasury Limited a sum of £181,000 (2021: £1,000).

During the year, Sanctuary Homes (Scotland) Limited recharged the Association a total of £96,000 (2021: £78,000). Sanctuary Homes (Scotland) Limited was recharged by the Association a total of £1,862,000 during the year (2021: £1,819,000). At the year end Sanctuary Homes (Scotland) Limited owed the Association £1,860,000 (2021: £1,812,000).

During the year, Sanctuary Affordable Housing Limited was recharged by the Association a total of £36,000 (2021: nil). Sanctuary Affordable Housing Limited recharged the Association a total of £9,000 (2021: £nil).

## 25. Acquisitions

In the prior year, on 1 March 2021 the assets and liabilities of Thistle Housing Association Limited (Thistle) transferred to Sanctuary Scotland Housing Association Limited (Sanctuary Scotland), a wholly owned subsidiary of the Association.

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

Post-acquisition there followed a measurement period that ran until 28 February 2022. During this time, the provisional fair values were reassessed based on new information obtained about facts and circumstances that existed at the acquisition date that if known at the time would have affected measurement amounts recognised at that date.

## Notes to the Financial Statements (continued)

### 25. Acquisitions (continued)

Adjustments of £5,782,000 to property fair values arose as a result of greater clarity being obtained over the scope and timing of required capital works, as well as through gaining a better understanding of the extent to which future capital works had been factored into initial valuations. This was achieved through gaining access to more properties as the year progressed and Covid-19 restrictions eased, along with the Group obtaining additional information from third party valuers on the condition of the properties acquired.

Provisions for making-good non-capital defects, as agreed in the transfer agreement, increased by £2,186,000. The revised estimate of the costs to complete these works is based on detailed third party tenders obtained during the measurement period.

The table below shows the impact of these adjustments.

| | **Provisional fair value** | **Measurement period adjustments** | **Fair value restated*** |
|---|---|---|---|
| | **£'000** | **£'000** | **£'000** |
| **Assets** | | | |
| Property, plant and equipment | 16,665 | 5,782 | 22,447 |
| Trade and other receivables | 335 | - | 335 |
| Cash and cash equivalents | 2,410 | - | 2,410 |
| **Liabilities** | | | |
| Trade and other payables | (1,298) | - | (1,298) |
| Loans and borrowings | (10,000) | - | (10,000) |
| Retirement benefit obligations | (379) | - | (379) |
| Provisions | (2,169) | (2,186) | (4,355) |
| **Net assets** | **5,564** | **3,596** | **9,160** |
| Consideration | - | - | - |
| **Gain on acquisition** | **5,564** | **3,596** | **9,160** |

*Adjustments to provisional fair values made during the measurement period have resulted in a restatement of comparative information throughout the Annual Report and Financial Statements in accordance with IFRS 3.

### 26. Events after the reporting period

There were no events after the reporting period.