SANCTUARY SCOTLAND HOUSING ASSOCIATION LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 March 2023

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

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

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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)
Nigel Wilcock	

Corporate Director
Sanctuary Housing Association

Secretary
Nicole Seymour

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Internal auditor
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Scottish registered charity number
SC024549

Chairperson's Statement

Our number one priority is to put our customers first and deliver a quality service across all our areas of operation. This drives Sanctuary Scotland to invest in our homes and to make them both affordable and sustainable.

The current high cost of living continues to impact our residents across Scotland, especially those who are vulnerable and live on lower incomes so we are committed to providing support wherever we can to help customers overcome the challenges they face. Our help includes ensuring all residents are aware of, and have access to, the financial support they qualify for. Our team of five Welfare Rights Officers more than showed their worth by securing more than £1.7 million of income for Sanctuary Scotland customers in 2022/2023. We also secured £200,000 through the Fuel Insecurity Fund, which provided fuel vouchers and cash payments for residents to use towards their energy bill.

As part of our commitment to customer wellbeing, we have expanded our Sustainable Communities team, thanks in part to a £245,000 grant award from Glasgow City Council. This will see our team continue to build relationships with partner organisations and help residents play an active role in their communities through a range of exciting projects.

We could not do all of this, of course, without our dedicated team. We pride ourselves on their wellbeing, their development, and their widespread commitment to doing their job well. Our commitment to colleagues is recognised by our recent Investors in People (IIP) gold award. The assessor's report praised the "remarkable" journey we have made during the pandemic and the subsequent, and very current, cost-of-living crisis.

The report highlighted the improvements to our management practices, levels of empowerment, internal communications, and collaboration and teamwork. We are now providing more learning opportunities than ever before, and staff feel supported by managers and colleagues to push themselves to achieve their potential. The "pride and passion" felt by our staff when they make a difference to our customers and their communities was very much another plus point.

Setting rents for the forthcoming year is always a difficult process as we strive to strike the right balance between affordability and necessary investment in our homes and our resources. This year it was particularly sensitive given high inflation and cost-of-living pressures and we opted for six percent, which is below inflation and lower than the seven percent we consulted on.

Through our development activity, we continue to provide new opportunities for communities across Scotland. Our values align with the Scottish Government's 'Housing to 2040' route map, which sets out an ambition for everyone to have a safe, good-quality, energy-efficient, affordable home that meets their needs.

Our Inverclyde housing project was awarded 'Best affordable housing development – less than £20m' at last year's Inside Housing Awards, a reflection of our ambitious standards. We will continue to maintain these standards by delivering quality homes, and reinvesting in our assets to ensure they are resilient and sustainable.

DocuSigned by:
Alan West
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Alan West
Chairperson

8 August 2023

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 2023.

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 objectives of Sanctuary Scotland are to:

- Provide good-quality, affordable housing for both rent and for sale for those least able to compete in other sectors of the housing market.
- Provide housing and associated services for those with more specific housing requirements, such as the elderly and those with long-term disabilities.
- Provide value-for-money services and advice to individuals and organisations working to provide social housing.
- Ensure that any investment made by Sanctuary Scotland provides sustainable benefits for local communities.

In pursuing these objectives, Sanctuary Scotland works to Sanctuary Group's values:

- Ambition
- Inclusion
- Integrity
- Quality
- Sustainability

The Board of Management's Report (continued)

Review of the Business and Future Developments

Performance

The Association's revenue grew to £45,976,000 (2022: £43,294,000), an increase of £2,682,000 (6%) from the prior year. This increase was driven by rent from new developments and rent indexation. The Association achieved a strong operating surplus for the year of £27,041,000 (2022: £20,772,000). The Association weathered the impacts of steeply rising cost inflation through careful cost management, including using fixed price contracts and an energy hedging strategy. The table below highlights the performance by income stream:

	Revenue		**Operating surplus**	
	2023	**2022**	**2023**	**2022**
	£'000	**£'000**	**£'000**	**£'000**
General needs	40,904	39,049	23,869	18,667
Sheltered and supported housing	2,167	2,152	1,129	1,007
Other activities	2,905	2,093	2,026	1,083
Other gains and losses	-	-	17	15
Totals	**45,976**	**43,294**	**27,041**	**20,772**

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:

	2023	**2022**
Number of relets	442	437
Average number of days to relet	39	30
Residential rent lost through voids %	0.66%	0.45%
Current tenant arrears as a % of gross annual rent	5.99%	4.70%
Emergency repairs	8,029	8,227
Non-emergency repairs	22,299	24,343
Average time to complete emergency repairs (hours)	5.5	5.8
Average time to complete non-emergency repairs (days)	11.6	17.7

The cost-of-living crisis has had a significant impact on the household budgets of many residents, and a knock-on effect on our rent arrears performance. We have a targeted action plan in place to ensure we can support customers who have a problem paying rent.

The increase in the time it took us to rent out our homes in 2022/2023 resulted in us losing a small percentage of rental income. This delay was in part due to staffing pressures, compounded by the need to move hundreds of Sanctuary residents into the new homes we built during the year.

Our levels of responsive repairs have remained steady year-on-year.

Responsive repairs completion times have improved from the previous reporting year. We were well within the 20-working day timeframe within which we aim to complete non-emergency repairs and our emergency repair performance was within our six hour target.

The Board of Management's Report (continued)

Review of the Business and Future Developments (continued)

Housing and Sustainable Communities

We continue to do what we can to support our residents throughout the country, in line with our focus on 'customer first'. Our team of five Welfare Rights Officers work across Aberdeen, Cumbernauld, Dundee and Glasgow to make sure our residents receive the benefits they are entitled to. Over 2022/2023, the team helped to secure over £1.7 million in welfare benefits for 486 residents. The impact of this money in the current financial climate cannot be overstated.

Our Housing Officers mostly work from the communities they cover, providing a more personal and often face-to-face service, enabled by the huge investment Sanctuary has made in mobile technology.

One of our proudest achievements during 2022/2023 was our Investors in People (IIP) gold award. The IIP assessment took an in-depth look at Sanctuary Scotland and in particular our employee engagement, communication, organisational culture and work practices. Having achieved silver in 2019, our gold award recognises the progress we have made as an organisation.

Our Sustainable Communities team has expanded to include a dedicated North East resource in Aberdeen and Aberdeenshire, on top of our now bigger teams in Glasgow (Priesthill and Toryglen) and Cumbernauld.

Each of the four areas has at least two Community Connectors who work with the local residents and support services. Our colleagues passionately put our customers first, proactively engaging with them to sort any areas of concern with their tenancy. This helps to keep a roof over their head and helps to reduce isolation by connecting our customers back into community life. This can involve one-to-one support, signposting to mental health services or other support, and working with social workers to make sure a resident is given access to the support that they need and are entitled to.

Our Community Connector Manager Anthony Morrow helped us win a £245,000 Scottish Government grant award for work in and around Priesthill in Glasgow. Our Community Connector Elaine Mclean, a local Priesthill resident, had her post extended thanks to this funding. The grant covers administrative support and makes £50,000 available for local projects both this year and next.

Anthony said: "This funding is spectacular and enables us to continue the journey we've been on for seven years. We will continue to support the creation of strong community relationships and tackle mental health and isolation, with a real emphasis on understanding the impact of trauma and why it's vital for housing associations to play an active role in addressing it."

Our Sustainable Communities team works closely with the Resilience Learning Partnership and the local Health and Social Care Partnership to deliver community-based trauma training in Cumbernauld, Priesthill and Toryglen, as well as trauma awareness and understanding for staff.

The team also secured £200,000 for tenants through the Fuel Insecurity Fund, money which covered more than 1,350 fuel vouchers and cash payments to customers struggling to pay their energy bill.

In Cumbernauld, our Community Connector Tim Daly co-ordinates the Sharing Time network. Local volunteers and charities discuss their work each month and plan how they can improve the town. One example of the group adding value is the equality and diversity awareness training it arranged for network members. Tim also helps at the weekly volunteer-led Community Breakfast at St Mungo's Church which fed more than 1,200 people in just eight months.

In Toryglen, our popular Blether café provides a free breakfast to more than 80 local residents every Thursday. Our Community Connector Kieran Renshaw worked with our Toryglen Housing team to transform the upstairs space in the Cornerstone Hall to create a 'Community Living Room' for residents to relax in.

Sanctuary Scotland 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

We delivered 347 new homes across Scotland through our nationwide development programme during 2022/2023. This continued investment supports the Scottish Government's 'Housing to 2040' vision and principles, which aims to tackle our country's recognised shortage of high-quality, energy-efficient, affordable homes.

In North Lanarkshire, our Burns Road project marked the successful completion of our £100 million regeneration of Cumbernauld's 12 tower blocks. The three tower blocks at Burns Road have been replaced with 121 homes for social rent, 10 for shared equity sale, and a brand-new office hub for our local Housing team. The full regeneration project created 588 new homes in the town, almost 100 homes more than the number demolished in the 12 high-rises. The regeneration project is an excellent example of the value of partnership working, with Sanctuary, the Scottish Government and North Lanarkshire Council coming together to transform four sites with housing fit for the future.

Our £20 million Hawick Street development in Glasgow now provides 56 homes for social rent, 36 at mid-market rent, and 36 sold through the Scottish Government's new supply shared equity scheme. Every dwelling has been designed in line with the Glasgow Standard, the minimum standard for partially grant-funded homes in the city which embraces best practice, encourages new technologies, is an exemplar of good design and most importantly delivers for our tenants. They also meet the Lifetime Homes Standard, sixteen design criteria intended to make homes more easily adaptable for lifetime use at minimal cost. Twelve Hawick Street homes have been designed for wheelchair-use as we look to cater to as many residents as possible.

Elsewhere, we successfully completed 21 new-build homes for social rent in Kirkintilloch, East Dunbartonshire. In Renfrewshire, our regeneration of Paisley's West End is gaining momentum, and work on the first phase of our new build began in May 2023. Our first new homes in Angus were handed over in Greenlaw Park, Carnoustie.

In the North East, the £8.8 million final phase of our Donside Village regeneration was completed this summer. Sixty-one flats across two blocks for social rent bring the total number of new homes built on the former Donside papermill site to 328. All of these homes on the banks of the River Don have our local housing office on their doorstep. We've been part of the community since our Aberdeen office moved to Donside Village and have enjoyed seeing it grow and thrive.

Our Inverclyde projects won 'Best affordable housing development – less than £20m' at the national Inside Housing Development Awards 2022. Across four sites in Port Glasgow and Greenock, we delivered 96 new homes, including some designed for customers aged 55-plus. These were our first homes in Inverclyde and a welcome addition to the area.

From a home improvement perspective, our 2022/2023 reinvestment programme helped us improve many houses and flats across Scotland. This work enables our customers to enjoy safe, secure, sustainable homes that meet the Scottish Housing Quality Standard (SHQS) and Energy Efficiency Standard for Social Housing (EESH). Residents are benefitting from new roofs, kitchens, bathrooms, windows, doors, central heating systems, boilers and door entry systems.

The Board of Management's Report (continued)

Review of the Business and Future Developments (continued)

Homes in management

	2023	2022
Social housing accommodation:		
General needs housing	8,113	7,821
Sheltered & supported housing accommodation	424	397
	8,537	**8,218**
Social housing leased outside Group tenancy agreements	-	42
Total social homes in management	**8,537**	**8,260**

The number of social homes managed by Sanctuary Scotland increased during the year as a result of homes created by our new-build programme.

24 (2022: 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 and up to 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
Nigel Wilcock	(Appointed 10 May 2023)
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.
- Information Security and availability – risk of cyber attack, breach of data protection and restriction of systems availability.
- Staffing – risk of a failure to recruit, train and retain a workforce with the appropriate knowledge, skills and experience at all levels.
- Climate Change - risk of not effectively transitioning to a low carbon economy and/or adapt to changes to climate.

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 2023, 81% of the Association's debt was on fixed rate terms (2022: 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, 7.99% (2022: 1.30%) of debt was payable within one year. The Association does not use derivative financial instruments to manage interest rate costs.

Liquidity risk

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

The Board of Management's Report (continued)

Risk Management (continued)

Interest rate risk

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

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 2023 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:
Nicole Seymour
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Nicole Seymour
Secretary
8 August 2023

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 2023 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 2023 and of its income and expenditure for the year then ended;
- comply with the requirements of the Co-operative and Community Benefit Societies Act 2014; and
- have been 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.

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, for our audit work, for this report, or for the opinions we have formed.

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

Date: 10 August 2023

Statement of Comprehensive Income for the year ended 31 March 2023

	Note	2023 £'000	2022 £'000
Revenue	2	45,976	43,294
Operating expenditure	3	(18,952)	(22,537)
Other gains and losses	8	17	15
Operating surplus	3,5	**27,041**	**20,772**
Finance income	9a	71	1
Finance costs	9b	(10,127)	(9,073)
Surplus for the year from continuing operations		**16,985**	**11,700**
Other comprehensive (loss)/income			
Items that will not be reclassified subsequently to income or expense:			
Re-measurement of defined benefit pension scheme	19	(899)	734
Other comprehensive (loss)/income for the year		**(899)**	**734**
Total comprehensive income for the year		**16,086**	**12,434**

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

The notes on pages 21 to 58 form part of these financial statements.

Statement of Financial Position as at 31 March 2023

	Note	2023 £'000	2022 £'000
Assets			
Non-current assets:			
Property, plant and equipment	10	434,315	396,760
Investment Property	11	585	561
Other Investments	12	1	1
Retirement benefit asset	19	40	710
		434,941	398,032
Current assets			
Trade and other receivables	13	22,904	17,748
Cash and cash equivalents	22	4,633	2,797
		27,537	20,545
Total Assets		**462,478**	**418,577**
Liabilities			
Current liabilities:			
Trade and other payables	14	17,390	15,008
Contract liabilities	2	2,453	2,350
Loans and borrowings	15	25,138	3,741
Provisions	16	2,068	4,192
		47,049	25,291
Non-current liabilities			
Loans and borrowings	15	289,560	283,686
Retirement benefit obligations	19	242	59
		289,802	283,745
Total liabilities		**336,851**	**309,036**
Equity			
Equity attributable to owners of the parent:			
Share capital	20	-	-
Retained earnings		125,627	109,541
Total Equity		**125,627**	**109,541**
Total Equity and liabilities		**462,478**	**418,577**

The notes on pages 21 to 58 form part of these financial statements.

The financial statements were approved by the Board of Management on 8 August 2023 and signed on its behalf by:

Alan West
Chairperson

DocuSigned by: Alan West
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Alexander Clark
Deputy Chairperson

DocuSigned by: Alex Clark
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Deputy Chairperson

DocuSigned by:
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Nicole Seymour
Secretary

DocuSigned by: Nicole Seymour
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Statement of Changes in Equity for the year ended 31 March 2023

	Share capital	Revenue reserve	Total equity
	£'000	£'000	£'000
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**
At 1 April 2022	-	109,541	109,541
Surplus for the year	-	16,985	16,985
Other comprehensive income	-	(899)	(899)
Total comprehensive income	**-**	**16,086**	**16,086**
At 31 March 2023	**-**	**125,627**	**125,627**

The notes on pages 21 to 58 form part of these financial statements.

Statement of Cash Flows for the year ended 31 March 2023

	Notes	2023 £'000	2022 £'000
Cash flows from operating activities			
Surplus for the year		16,985	11,700
Adjustments for:			
Depreciation	5	3,581	4,186
Gain on sale of property, plant and equipment	8	(17)	(15)
Net finance costs	9	10,056	9,072
		13,620	13,243
Cash generated before working capital movements		30,605	24,943
Changes in:			
Trade and other receivables		(882)	(179)
Trade and other payables		2,526	(1,335)
Provisions		(2,124)	(8)
Retirement benefit obligations		18	26
		(462)	(1,496)
Cash generated from operating activities		30,143	23,447
Interest paid		(11,239)	(9,934)
Net cash inflow from operating activities		**18,904**	**13,513**
Cash flows from investing activities			
Interest received		44	6
Proceeds from sale of property, plant and equipment	8	43	15
Acquisition and construction of property, plant and equipment and investment property		(71,342)	(62,219)
Capital grants received		26,982	21,292
Capital grants repaid		-	(669)
Net cash outflow from investing activities		**(44,273)**	**(41,575)**
Cash flows from financing activities			
Proceeds from loans and borrowings		44,566	30,220
Repayment of borrowings		(17,361)	(3,644)
Net cash flow from financing activities		**27,205**	**26,576**
Net movement in cash and cash equivalents		**1,836**	**(1,486)**
Cash and cash equivalents 1 April		2,797	4,283
Cash and cash equivalents 31 March		**4,633**	**2,797**

The notes on pages 21 to 58 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 - £7,798,000 at 31 March 2023 (2022: £3,709,000)), 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 Association's Financial Statements in future periods:

- Introduction of IFRS 17 Insurance Contracts (annual periods beginning on or after 1 January 2023).
- Amendments to IFRS 3 Business Combinations (annual periods beginning on or after 1 January 2023).
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements (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).

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.

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.

Provisions

A provision is recognised when the Association has a measurable present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions, by their nature, have a degree of uncertainty over the timing or amount of the future expenditure required in settlement. Management determines the level of an obligation by considering the range of possible outcomes and estimating the probable financial effect of settlement using judgement based on past experience and, where applicable, information provided by independent experts. Details of the provisions held within the Association are included in note 16.

Climate change

The Association has considered the impact of climate change in preparing these financial statements, in the context of its Environment and Climate Change Strategy.

During the year, the Association contracted external climate and sustainability specialists to produce a comprehensive register of the risks and opportunities generated by physical aspects of climate change. The register outlines in detail how these risks will impact the Association on a short, medium and long-term basis (2032, 2042 and 2052). No material impact on financial reporting judgements and estimates has been identified, as detailed below.

Climate change mitigation activities are already well underway by the Association, with a short-term target of halving operational carbon emissions by 2030. The Association continues to invest in environmental initiatives to drive decarbonisation, and the effect that these initiatives may have on existing asset component lives is kept under constant review. To date, works have been within existing life cycles or additive in nature and so have not been indicative of a shortening of component lives.

Notes to the financial statements (continued)

1. Principal accounting policies (continued)

Other Accounting Judgements, Estimates and Assumptions (continued)

Climate change (continued)

Climate risks are considered when assessing assets for impairment. The review of physical climate-related risks such as flooding, changes in temperature and extreme weather events, has not resulted in identification of indicators of impairment for the Association's assets. When determining cash flows for value in use calculations, climate change is deemed to have a negligible impact on the Association's income streams and maintenance requirements in the short or medium term and so no adjustments have been required.

The Association continues to improve sustainability standards in the construction of new homes in a range of ways to reduce carbon emissions and to minimise exposure to physical climate change risks in the future.

Whilst there is currently no material impact expected from climate change over the short to medium term, the Association will continue to assess the risks of climate change against judgements and estimates made in preparation of the Association's financial statements.

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 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.

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.

Notes to the financial statements (continued)

1. Principal accounting policies (continued)

Property, plant and equipment and depreciation (continued)

Land and buildings:

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

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

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

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

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

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

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

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

Notes to the financial statements (continued)

1. Principal accounting policies (continued)

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.

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.

Notes to the financial statements (continued)

1. Principal accounting policies (continued)

Impairment (continued)

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.

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.

Notes to the financial statements (continued)

1. Principal accounting policies (continued)

Financial instruments (continued)

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.

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. All 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 Association'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 2023	Rented housing	Supported housing	Other activities	Total
Revenue recognised over time	**£'000**	**£'000**	**£'000**	**£'000**
Income from social housing lettings	40,904	2,167	-	**43,071**
Managed schemes	-	-	390	**390**
Supporting people income	-	-	90	**90**
Other	-	-	2,425	**2,425**
Total revenue over time	**40,904**	**2,167**	**2,905**	**45,976**
Less lease income	**-**	**-**	(130)	(130)
Revenue from contracts with customers	**40,904**	**2,167**	**2,775**	**45,846**

Notes to the Financial Statements (continued)

2. Revenue (continued)

Disaggregation of revenue (continued)

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**

Contract balances

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

	2023	2022
	£'000	**£'000**
Contract receivables (included in trade and other receivables)		
Tenant rental receivables net of expected credit loss (note 13)	2,085	1,864
Other trade receivables (note 13)	947	897
Accrued income (note 13)	6,277	5,073
	9,309	**7,834**
Contract liabilities		
Payments received in advance	2,105	1,836
Deferred income	348	514
	2,453	**2,350**

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

	2023 Revenue £'000	2023 Operating costs £'000	2023 Other gains and losses £'000	2023 Operating Surplus £'000	2022 Operating Surplus £'000
Social housing lettings	43,071	(18,073)	-	24,998	19,674
Other activities	2,905	(879)	-	2,026	1,083
Other gains and losses	-	-	17	17	15
Total	**45,976**	**(18,952)**	**17**	**27,041**	**20,772**
Total for previous year	**43,294**	**(22,537)**	**15**	**20,772**	

4a. Income and Expenditure from Social Housing Lettings

	Rented housing £'000	Supported housing £'000	2023 Total £'000	2022 Total £'000
Income from lettings				
Rents receivable net of service charges	40,169	1,951	42,120	40,289
Service charges	1,183	234	1,417	1,319
Gross income from rents and service charges	41,352	2,185	43,537	41,608
Less voids	(497)	(26)	(523)	(414)
Net income from rents and service charges	**40,855**	**2,159**	**43,014**	**41,194**
Other income	49	8	57	7
Total income from social letting activities	**40,904**	**2,167**	**43,071**	**41,201**
Expenditure on lettings				
Management and maintenance administration costs	(4,684)	(19)	(4,703)	(5,101)
Services costs	(2,931)	(323)	(3,254)	(4,594)
Reactive maintenance	(4,437)	(340)	(4,777)	(5,665)
Planned and cyclical maintenance	(1,456)	(124)	(1,580)	(1,961)
Bad debts – rents and service charges	(445)	(4)	(449)	(302)
Depreciation of social housing	(3,082)	(228)	(3,310)	(3,904)
Operating costs from social letting activities	**(17,035)**	**(1,038)**	**(18,073)**	**(21,527)**
Operating surplus from social letting activities	**23,869**	**1,129**	**24,998**	**19,674**
Operating surplus from social letting activities for previous year	**18,667**	**1,007**	**19,674**	

Notes to the Financial Statements (continued)

4b. Income and Expenditure from Other Activities

	2023 Other income £'000	2023 Other operating costs £'000	2023 Operating surplus/ (deficit) £'000	2022 Operating surplus/ (deficit) £'000
Managed schemes	390	(226)	164	(48)
Development administration	-	(12)	(12)	(74)
Supporting People contract income	90	(90)	-	-
Other property income	2,404	(530)	1,874	1,205
Other	21	(21)	-	-
Total from other activities	**2,905**	**(879)**	**2,026**	**1,083**
Total from other activities for the previous year	**2,093**	**(1,010)**	**1,083**	

5. Operating Surplus

	2023 £'000	2022 £'000
The operating surplus is arrived at after charging:		
Depreciation of property, plant and equipment (note 10)	3,577	4,183
Depreciation of investment property (note 11)	4	3
Surplus on the sale of property, plant and equipment (note 8)	17	15
Auditor's remuneration – audit	32	30

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 £27,000 (2022: £25,000).

The Members of the Board of Management were reimbursed for expenses necessarily incurred in the conduct of their duties amounting to £1,490 (2022: £1,063).

Notes to the Financial Statements (continued)

7. Employee Information

	2023 £'000	2022 £'000
Employee costs charged during the period amounted to:		
Wages and salaries	1,040	733
Social security costs	108	80
Other pension costs	106	109
	1,254	**922**

	2023 Number	2022 Number
The average monthly number of persons employed during the period expressed in full-time equivalents was:		
Site based staff	2	-
Office based staff	29	17
	31	**17**

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

	2023 £'000	2022 £'000
Proceeds from sale of property, plant and equipment	43	15
Cost of disposals	(26)	-
	17	**15**

9. Finance income and costs

a) Finance income

	2023 £'000	2022 £'000
Interest receivable from:		
Short-term cash deposits	37	-
Other interest	34	1
	71	**1**

b) Finance costs

	2023 £000	2022 £000
Interest on loans from Group undertakings	9,674	7,858
Interest on external loans	2,070	1,977
Less: amounts transferred to housing properties in the course of construction	(1,561)	(770)
Net finance credit of defined benefit pension schemes	(64)	(2)
Interest in respect of right-of-use assets	8	10
	10,127	**9,073**

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 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
Balance at 1 April 2022	722,166	437	1,199	109,201	833,003
Additions	9,695	8	-	59,566	69,269
Transfers at completion	55,717	-	-	(55,717)	-
Disposals	(870)	-	-	-	(870)
Balance at 31 March 2023	786,708	445	1,199	113,050	901,402
Depreciation and impairment					
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
Balance at 1 April 2022	23,147	263	208	-	23,618
Depreciation charge for the year	3,518	49	10	-	3,577
Disposals	(822)	-	-	-	(822)
Balance at 31 March 2023	25,843	312	218	-	26,373
Housing association grant					
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
Balance at 1 April 2022	331,963	-	-	80,662	412,625
Additions	342	-	-	27,769	28,111
Transfers at completion	29,018	-	-	(29,018)	-
Disposals	(22)	-	-	-	(22)
Balance at 31 March 2023	361,301	-	-	79,413	440,714
Net book value					
31 March 2023	**399,564**	**133**	**981**	**33,637**	**434,315**
31 March 2022	**367,056**	**174**	**991**	**28,539**	**396,760**
1 April 2021	**354,698**	**153**	**719**	**11,833**	**367,403**

Notes to the Financial Statements (continued)

10. Property, plant and equipment (continued)

Annual impairment review

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

Social housing assets are considered to have indicators of impairment when they have been vacant for a period of ninety days or longer. In the current and prior year, the carrying value of social housing properties identified with indicators of potential impairment was not material to the Association (2022: not material) and so further impairment tests were not deemed necessary.

Assets pledged as security

Property with a pre-grant carrying amount of £391,100,000 (2022: £390,014,000) has been pledged to secure borrowings.

11. Investment property

	£'000
Cost	
Balance at 1 April 2021	1,030
Additions	-
Balance at 31 March/1 April 2022	1,030
Additions	37
Balance at 31 March 2023	1,067
Depreciation	
Balance at 1 April 2021	24
Charge for the year	3
Balance at 31 March/1 April 2022	27
Charge for the year	4
Balance at 31 March 2023	31
Other grant	
Balance at 1 April 2021	442
Additions	-
Balance at 31 March/1 April 2022	442
Additions	9
Balance at 31 March 2023	451
Net book value	
31 March 2023	**585**
31 March 2022	**561**
1 April 2021	**564**

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 2023 no commercial property (2022: none) was identified as having indicators of potential impairment.

Fair value of investment property

The estimated fair value of the investment property is £1,803,000 (2022: £1,385,000). 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

	2023 £'000	2022 £'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 (2022: 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

	2023 £'000	2022 £'000
Current:		
Tenant rental receivables (note 18)	2,085	1,864
Other trade receivables (note 18)	947	897
Amounts due from fellow Group undertakings	2,009	1,871
Prepayments	189	84
Accrued income	6,277	5,073
NSSE receivables	11,389	7,953
Other receivables	8	6
	22,904	**17,748**

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

	2023 £'000	2022 £'000
Current:		
Trade payables	1,878	539
Amount due to Group entities	7,798	3,709
Other payables	549	432
Accruals	6,787	9,646
Grants received in advance	378	682
	17,390	**15,008**

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

	2023 £'000	2022 £'000
Current:		
Amounts owed to Group entities	16,671	2,032
Bank loans and mortgages	8,421	1,653
Lease liability (Note 17)	46	56
	25,138	3,741
Non-current:		
Amounts owed to fellow Group entities	260,802	245,903
Senior notes and debenture stock	10,000	10,000
Bank loans and mortgages	18,707	27,669
Lease liability (Note 17)	51	114
	289,560	283,686
Total loans and borrowings	**314,698**	**287,427**

As part of the Thistle Housing Association transfer in 2021 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:

	2023 £'000	2022 £'000
In one year or less	25,138	3,741
Between one and two years	2,869	25,650
Between two and five years	29,085	13,130
In five years or more	257,606	244,906
	314,698	**287,427**

Notes to the Financial Statements (continued)

16. Provisions

	Property related £'000	Other provisions £'000	Total £'000
At 1 April 2022	3,716	476	4,192
Utilised during the year	(1,748)	-	(1,748)
Released during the year	-	(376)	(376)
At 31 March 2023	1,968	100	2,068
Ageing of provisions – expected utilisation			
At 31 March 2023			
Under one year	1,968	100	2,068
Over one year	-	-	-

Property related provisions relate to foreseeable major works on 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 3 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 2022	429
Additions	-
Balance as at 31 March 2023	**429**
Depreciation and impairment	
Balance as at 1 April 2022	257
Depreciation charge for the year	57
Balance as at 31 March 2023	**314**
Net book value	
31 March 2023	**115**
31 March 2022	**172**

Amounts recognised in the Statement of Comprehensive Income

	2023 £'000	2022 £'000
Interest on lease liabilities	8	10
Depreciation charge for right-of-use assets	57	97
	65	**107**

Amounts recognised in the Statement of Cash Flows

	2023 £'000	2022 £'000
Total cash outflow for leases	82	103
	82	**103**

Lease liabilities

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

	2023 £'000	2022 £'000
Land and buildings:		
Under one year	63	77
In the second to fifth year inclusive	59	125
Total gross payments	122	202
Financing costs	(25)	(32)
Net lease liability	**97**	**170**

Notes to the Financial Statements (continued)

17. Leases (continued)

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

	2023 £'000	2022 £'000
Land and buildings:		
Under one year	46	56
In the second to fifth year inclusive	51	114
	97	**170**

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 2023, income from operating leases was £130,000 (2022: £118,000).

Amounts receivable under operating leases are due as follows:

	2023 £'000	2022 £'000
Under one year	69	107
Between one and two years	69	54
Between two and three years	69	54
Between three and five years	139	109
In more than five years	155	212
	501	**536**

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

	2023 £'000	2022 £'000
Rental receivables (note 13)	2,085	1,864
Other trade receivables (note 13)	947	897
NSSE receivables (note 13)	11,389	7,953
Other receivables (note 13)	8	6
Amounts due from Group entities (note 13)	2,009	1,871
Cash and cash equivalents	4,633	2,797
	21,071	**15,388**

Of the above loans and receivables balances, rental receivables, amounts due from parent undertaking, amounts due from Group entities and other receivables £16,438,000 (2022: £12,591,000) derive from current trade and other receivables balances on the Statement of Financial Position. Trade and other receivables totalled £22,904,000 at 31 March 2023 (2022: £17,748,000). The remaining balances of £6,466,000 (2022: £5,157,000) 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

	2023 £'000	2022 £'000
Debt finance excluding setup costs	25,287	3,827
Trade payables (note 14)	1,878	539
Amounts due to Group entities (note 14)	7,798	3,709
Other payables (note 14)	549	432
Lease liability (note 17)	46	56
	35,558	**8,563**

Current trade and other payables as disclosed in the Statement of Financial Position totalled £17,390,000 (2022: £15,008,000). The difference between the Statement of Financial Position and the amounts disclosed above is £7,165,000 (2022: £10,328,000) 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

	2023 £'000	2022 £'000
Debt finance excluding setup costs	290,904	284,622
Lease liability (note 17)	51	114
	290,955	**284,736**

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

Total current and non-current other financial liabilities at 31 March 2023 were £326,513,000 (2022: £293,299,000).

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 2023 was:

	£'000	%
Fixed rate financial liabilities	256,461	81
Variable rate financial liabilities	58,237	19
	314,698	**100**

The weighted average interest rate of the Association's total financial liabilities is 4.03% (2022: 3.42%). The weighted average life of fixed rate financial liabilities is 19.4 years (2022: 19.4 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 £648,000 (2022: £588,000).
- Variable rate financial instruments which are subject to rate changes – a 10% increase in interest costs would result in an additional charge of £299,000 (2022: £69,000).

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 2023 is set out below.

	2023 Book Value £'000	2023 Fair Value £'000
Bank loans and mortgages (note 15)	18,707	18,647
Amounts owed to Group entities (note 15)	260,802	244,973
Senior notes and debenture stock (note 15)	10,000	8,555
Lease Liability (notes 15 and 17)	51	51
	289,560	**272,226**

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 Chief Financial 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 2023	**Debt**	**Interest on debt**	**Lease liability**	**Other liabilities not in net debt**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Due less than one year	(25,168)	(14,251)	(63)	(10,225)	(49,707)
Between one and two years	(2,871)	(14,339)	(47)	-	(17,257)
Between two and three years	(4,354)	(13,590)	(12)	-	(17,956)
Between three and four years	(20,354)	(13,418)	-	-	(33,772)
Between four and five years	(4,354)	(11,759)	-	-	(16,113)
Greater than five years	(260,532)	(144,645)	-	-	(405,177)
Gross contractual cash flows	**(317,633)**	**(212,002)**	**(122)**	**(10,225)**	**(539,982)**

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)**

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 credcsh flow riskit 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 £14,625,000 as at 31 March 2023 (2022: £14,875,000).

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 2023 totalled £2,720,000 (2022: £2,452,000). 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:

	2023 £'000	2022 £'000
Less than 30 days	1,019	1,074
30 to 60 days	546	446
60 to 90 days	313	237
More than 90 days	842	695
Balance as at 31 March	**2,720**	**2,452**

There is an expected credit loss against £635,000 (2022: £588,000) of this balance leaving a net rental arrears balance of £2,085,000 (2022: £1,864,000) (see note 13).

Tenant rental receivable arrears expected credit loss

	2023 £'000	2022 £'000
Balance as at 1 April	588	387
Provided in the year	481	427
Amounts written off	(434)	(226)
Balance as at 31 March	**635**	**588**

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 2023 totalled £1,406,000 (2022: £1,432,000). Of this balance £1,335,000 (2022: £1,418,000) was deemed past due. Normal payment terms are 30 days. The age of gross other trade receivables balances was as follows:

	2023 £'000	2022 £'000
Less than 30 days	71	14
30 to 60 days	11	8
60 to 90 days	61	1
More than 90 days	1,263	1,409
Balance as at 31 March	**1,406**	**1,432**

There is an expected credit loss against £459,000 (2022: £535,000) of this balance leaving a net other trade receivables balance of £947,000 (2022: £897,000) (see note 13).

Other trade receivables expected credit loss

	2023 £'000	2022 £'000
Balance as at 1 April	535	690
(Released)/provided	(69)	(145)
Amounts written off	(7)	(10)
Balance as at 31 March	**459**	**535**

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 2023 and 2022 was as follows:

	2023 £'000	2022 £'000
Receivables	16,438	12,591
Cash and cash equivalents	4,633	2,797
	21,071	**15,388**

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 2023, £2,085,000 (2022: £1,864,000).

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 2023 totalled £nil (2022: £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 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 11.2% of pensionable salaries for the current year.

Scottish Housing Associations' Pension Scheme

The Association is an admitted body of the Scottish Housing Associations' Pension Scheme and contributed at a rate of between 7.7% and 13.2% 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

	2023	**2022**
	%	**%**
Inflation (RPI)	3.30	3.65
Rate of increase in salaries for the next two years	2.90	3.25
Rate of increase in salaries thereafter	2.90	3.25
Rate of increase for pensions in payment	2.90	3.40
Rate of increase for deferred pensions	3.30	3.65
Discount rate	4.70	2.70

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.

Recent changes in global and UK economic pressures and tightening of monetary policy have had a significant impact on asset markets and corporate bonds yields, which are key to the IAS 19 assessment of the net pension asset or liability. In particular, AA corporate bond yields, used to set the IAS 19 discount rate, have increased significantly, with corresponding falls in asset values. The markets have been exceptionally volatile and therefore both gross defined benefit obligations and assets have fallen.

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 (2022: CMI S3PA tables) with future improvements based on the CMI 2021 model (2022: CMI 2021 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	21.2 years	23.7 years
Future pensioners	22.5 years	25.2 years

Changes in mortality assumptions are reported as changes in demographic assumptions in the following tables.

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

	2023		2023		2022		2022	
	£'000	£'000	£'000	%	£'000	£'000	£'000	%
	Quoted	Unquoted	Total		Quoted	Unquoted	Total	
Equities	7,359	7,025	14,384	65.9	9,267	7,019	16,286	66.2
Bonds	596	1,191	1,787	8.2	1,063	1,093	2,156	8.8
Property	168	1,500	1,668	7.7	194	1,578	1,772	7.2
Other	2,341	1,640	3,981	18.2	2,869	1,494	4,363	17.8
Total value of assets	**10,464**	**11,356**	**21,820**	**100.0**	**13,393**	**11,184**	**24,577**	**100.0**

Reconciliation of the effect of the asset ceiling:

	2023 £'000	2022 £'000
Net asset ceiling at 1 April	(1,900)	(140)
Restriction of North East Scotland Pension Fund surplus	(1,372)	(714)
Restriction of Strathclyde Pension Fund surplus	(2,485)	(1,046)
Net asset ceiling at 31 March	(5,757)	(1,900)

The Strathclyde Pension Fund was valued at a net asset position in both the current and prior year. 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 valued at a net asset position in both the current and prior year. 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.

Notes to the Financial Statements (continued)

19. Retirement benefits (continued)

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

	2023 £'000	**2022 £'000**
Present value of employer assets	21,820	24,577
Present value of funded liabilities	(16,265)	(22,026)
Pension asset before restrictions	5,555	2,551
Effect of net asset ceiling	(5,757)	(1,900)
Net pension (liability)/asset	(202)	651
Net value of pension schemes in an asset position	40	710
Net value of pension schemes in a liability position	(242)	(59)
Net pension (liability)/asset	(202)	651

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

Amounts charged to operating surplus:	**2023 £'000**	**2022 £'000**
Current service cost	(166)	(235)
Past service cost	-	-
Expenses	(4)	(4)
Total service cost	(170)	(239)

Analysis of amount charged to finance cost:	**2023 £'000**	**2022 £'000**
Interest income on plan assets	649	471
Interest cost on defined benefit obligations	(585)	(469)
Total amount charged to finance cost	64	2

The total amount recognised in Other Comprehensive Income:	**2023 £'000**	**2022 £'000**
Change in demographic assumptions	112	254
Change in financial assumptions	6,778	1,442
Return on scheme assets excluding interest	(532)	576
Other experience	(2,385)	(63)
Other re-measurement gains and losses	(1,015)	285
Movement in net asset ceiling	(3,857)	(1,760)
Total re-measurement (losses)/gains	(899)	734

Notes to the Financial Statements (continued)

19. Retirement benefits (continued)

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

	2023 £'000	2022 £'000
Opening fair value of assets	24,577	23,720
Expenses	(1)	(1)
Interest income on plan assets	649	471
Return on plan assets excluding interest	(532)	576
Contributions by employer	152	213
Contributions by employees	42	56
Net benefits paid (including expenses)	(661)	(663)
Other experience	(1,391)	(80)
Other re-measurement gains and losses	(1,015)	285
Closing fair value of the assets	**21,820**	**24,577**

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

	2023 £'000	2022 £'000
Opening defined benefit obligation	22,026	23,639
Current service cost	166	235
Expenses	3	3
Interest cost	585	469
Contributions by employees	42	56
Change in demographic assumptions	(112)	(254)
Change in financial assumptions	(6,778)	(1,442)
Net benefits paid (including expenses)	(661)	(663)
Other experience	994	(17)
Closing defined benefit obligation	**16,265**	**22,026**

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

	2023 £'000	2022 £'000	2021 £'000	2020 £'000	2019 £'000
Defined benefit obligations	(16,265)	(22,026)	(23,639)	(16,033)	(17,679)
Scheme assets	21,820	24,577	23,720	15,898	16,785
Net surplus/(deficit) before restrictions	5,555	2,551	81	(135)	(894)

The Association expects to contribute the following amounts to the defined benefit schemes during the year ended 31 March 2024:

	£'000
North East Scotland	42
Strathclyde Pension Fund	-
Scottish Housing Association Pension Scheme	24
	66

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 2023 is set out below:

2023	Strathclyde Pension Fund Movement £'000	Scottish Housing Associations' Pension Scheme Movement £'000	North East Scotland Pension Fund Movement £'000
Discount rate +0.1%	(100)	(35)	(96)
Discount rate -0.1%	100	35	96
Rate of inflation +0.1%	95	37	4
Rate of inflation -0.1%	(95)	(37)	(4)
Salary changes +0.1%	7	-	102
Salary changes -0.1%	(7)	-	(102)
Life expectancy +1 year	270	39	149
Life expectancy -1 year	(270)	(39)	(149)

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 £1,091,000 (2022: £1,229,000).

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.

Notes to the Financial Statements (continued)

19. Retirement benefits (continued)

Defined benefit schemes – risk factors (continued)

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.

Climate change risk: When considering environmental and social issues, the Association's pension scheme administrators believe that climate change presents a material financial risk to the investment assets held, and therefore support the goals of the Paris Agreement and have signed the Global Investor Statements to Governments on Climate Change. They have developed an approach to ensure that climate change risk, including physical, regulatory and transition risks are more explicitly considered through the investment process, from portfolio construction through to asset allocation.

20. Called up share capital

	2023	**2022**
Each member holds one share of £1 in the Association	**£**	**£**
Allotted, issued and fully paid		
At 1 April	11	11
Cancelled	-	-
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

	2023 £'000	2022 £'000
Expenditure contracted	25,653	63,257
Authorised expenditure not contracted	126,786	82,071
	152,439	**145,328**

£70,864,000 (2022: £59,243,000) 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

	2023 £'000	2022 £'000
Cash and cash equivalents per Statement of Financial Position	4,633	2,797
Cash and cash equivalents per Statement of Cash Flows	4,633	2,797

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 2022 £'000	Cash flows £'000	Other non-cash changes £'000	At 31 March 2023 £'000
Short-term borrowings	(3,685)	17,287	(38,694)	(25,092)
Long-term borrowings	(283,572)	(44,566)	38,629	(289,509)
Lease liability	(170)	74	(1)	(97)
	(287,427)	**(27,205)**	**(66)**	**(314,698)**

	At 1 April 2021 £'000	Cash flows £'000	Other non-cash changes £'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)**

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 £8,667,000 (2022: £8,697,000) in costs including £3,731,000 in management charges (2022: £3,622,000). Sanctuary Housing Association was recharged by the Association a total of £6,758,000 (2022: £5,474,000). At the year end the Association owed Sanctuary Housing Association a sum of £371,000 (2022: £366,000).

During the year, Sanctuary Home Care Limited recharged the Association a total of £6,000 (2022: £7,000). There was nil balance owed at the year end (2022: £1,000).

During the year, Sanctuary Maintenance Contractors Limited recharged the Association a total of £17,926,000 (2022: 14,473,000). Sanctuary Maintenance Contractors Limited was recharged by the Association a total of £382,000 during the year (2022: £257,000). At the year end the Association owed Sanctuary Maintenance Contractors Limited a sum of £1,594,000 (2022: £1,290,000).

During the year, Sanctuary Treasury Limited recharged the Association a total of £1,000 (2022: £184,000). At the year end the Association owed Sanctuary Treasury Limited a sum of nil (2022: £181,000).

During the year, Sanctuary Homes (Scotland) Limited recharged the Association a total of £114,000 (2022: £96,000). Sanctuary Homes (Scotland) Limited was recharged by the Association a total of £2,013,000 during the year (2022: £1,862,000). At the year end Sanctuary Homes (Scotland) Limited owed the Association £2,009,000 (2022: £1,860,000).

During the year, Sanctuary Affordable Housing Limited was recharged by the Association a total of £19,000 (2022: £36,000). Sanctuary Affordable Housing Limited recharged the Association a total of £6,000 (2022: £9,000). At the year end Sanctuary Affordable Housing Limited owed the Association £1,000 (2022: £9,000).

During the year, Beech Grove Homes Limited recharged the Association a total of £4,040,000 (2022: £nil). Beech Grove Homes Limited was recharged by the Association a total of £511,000 (2022: £nil). At the year end the Association owed Beech Grove Homes Limited a sum of £3,529,000 (2022: £nil).

25. Events after the reporting period

There were no events after the reporting period.