Annual Report

and Financial Statements

2019/2020

Sanctuary Group

Year at a Glance
2019/2020 Highlights

Resident engagement - Overall satisfaction with landlord: **England**
80.4%

Staff engagement - Your Say engagement score
75%

New homes built
816

Energy Performance Certificate ratings - **Average rating**
C **71**

99.9%
Compliance - Properties with valid gas safety certificate

Group revenue
£763m

Care Quality Commission ratings - **Sanctuary Care**
84% **Good or Outstanding**

Care Inspectorate ratings - **Scotland**
88% **Good, Very Good or Excellent**

Care Quality Commission ratings - **Sanctuary Supported Living**
100% **Good or Outstanding**

Housing regulator ratings
G1 V2

Operating surplus margin
24.4%
Underlying operating surplus margin **23.9%**

Management cost per home
£411

Capacity - Cash, undrawn facilities and available security
£1,409m

Credit ratings

Moody's
A2
Stable

Standard & Poor's
A+
Stable

The Group uses certain alternative performance measures throughout this report which, in the opinion of the Directors, aid the understanding of the business performance or provide comparison with our peer group. These measures are presented on a consistent basis over time to assist in comparison of performance and are defined and/or reconciled in Appendix 4 on page 174 and the Value for Money statement on page 50.

Contents

Icon key

Links to website

Please note all photographs included in this report were taken prior to the Covid-19 pandemic and before social distancing guidelines were introduced.

Group Chair and Group Chief Executive's Statement

As a result of the Covid-19 pandemic and the consequent Government-ordered lockdown of the UK from 23 March 2020, the unprecedented last few months have been the most challenging in our 50-year history. We are extremely proud to lead an organisation with a strong social purpose of providing housing and care to those who need it most, today more than ever.

Over the last year – our first as Chair and Chief Executive respectively – before lockdown we visited many of our communities, schemes and care homes across the length and breadth of England and Scotland. We have both been struck by the dedication and hard work of all our staff and the commitment and care with which they carry out their work. This has been illustrated even more clearly by recent events.

We are incredibly proud of the way the Sanctuary team has quickly adapted to new ways of working – many staying at home juggling work, childcare and home-schooling. Those on the frontline deserve our particular appreciation and we are deeply grateful for the way they have gone the extra mile in the most difficult of circumstances.

As an organisation we have long championed the important role of care workers, so often overlooked elsewhere, but who play a vital role and enrich the lives of the elderly and most vulnerable in society. The commitment and care shown to residents by staff in our homes and supported housing is as humbling as it is inspiring.

The communities we serve have also come together to help each other in the most extraordinary ways. The inevitable, temporary changes to our services were accepted with patience and resilience. We will be consulting with our residents to understand first-hand how we can ensure they remain at the heart of our organisation, and that our commitment to them does not waiver, while at the same time navigating the numerous challenges our society faces in the decade to come.

In the last year we have committed to a number of major regeneration projects, including the Talbot Gardens estate in Barne Barton – a multi-million pound redevelopment project which supports the wider regeneration of the area.

Ensuring everyone has a safe and affordable home has always been our purpose and, despite the impact of a global pandemic, we remain resolute in our determination to deliver on our strategic aims.

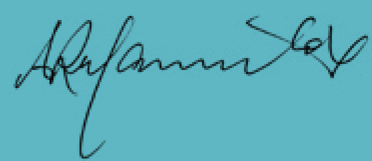
We made good progress with our Building a Safer Future programme. We are in the process of installing sprinklers in properties we have risk assessed. This will remain a priority.

We have also grown our reach over the last year, bringing our services to an increased number of tenants and residents. We expanded our care and supported living operations through the purchase of seven care homes in Scotland and, separately, the acquisition of 460 supported living homes, as part of a portfolio of over 800 properties, from Notting Hill Genesis in Suffolk, Norfolk and Essex.

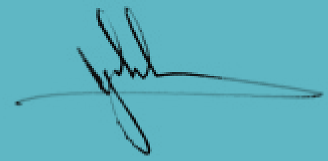
"We are **extremely proud** to lead an organisation with a **strong social purpose** of **providing housing and care to those who need it most**"

We launched our Corporate Strategy 2020-2023. We believe this is an important tool in ensuring we can continue to serve our tenants and residents, maintain our financial strength and tackle the future facing our communities, our sector and, indeed, our country. We are also pleased that our G1 status was confirmed by the Regulator of Social Housing in April, and that we continue to be compliant with a V2 rating. While our viability has been regraded from V1, this is in part due to our increased reinvestment programme in homes. We believe that increased expenditure to ensure our residents are safe and secure is the right thing to do.

As our country rebuilds and emerges from this extraordinary period there may be unique and unexpected challenges, and we are ready to play our part. Most of all, we are proud of how our 14,000 staff and 250,000 residents approached this challenging time as a team. That gives us renewed confidence for the future. Together we are Sanctuary. Together we will emerge from this stronger.



Andrew Manning-Cox
Group Chair



Craig Moule
Group Chief Executive

Housing Officer Katie Evans and resident Margaret Gardine, Shiregreen

Our Strategic Context

Sanctuary homeowner Decio Marchi

Our mission is to **build affordable homes** and **sustainable communities** where **people choose to live.**

We provide homes and care for more than 250,000 people in England and Scotland, employing nearly 14,000 people. We manage 102,686 homes, including: 85,134 social housing properties, 10,997 student and non-social key worker lets, and 5,453 places in 102 registered care homes. As a not-for-profit housing association, we use our surplus to reinvest in our homes and communities, and to build more affordable housing.

The housing and care sectors provide essential services in a complex and changing political, economic and social environment. Beyond the Covid-19 pandemic and the economic fallout, many people across the country were already facing a crisis of affordability, living in expensive, privately rented properties with unsecure tenancies, pushing increasing numbers of families into homelessness and forcing local authorities to spend millions of pounds on unsuitable temporary accommodation. Equally the number of people sleeping rough has continued to rise.

We must also adapt to an ageing population, with projections forecasting that one in four people in the UK will be aged 65 years and over by 2050, which will lead to increased demand for good quality, affordable care.

Our role as a social landlord, providing affordable housing and building new homes, alongside our high-quality care and supported living services, means we are well placed to work with the Government, local authorities, NHS trusts and other charitable organisations to find sustainable solutions to these challenges.

Our Strategy

Our Corporate Strategy 2020-2023 sets out four key priorities to deliver our mission to build affordable homes and sustainable communities where people choose to live:

- Engage with residents and stakeholders
- Invest in homes and communities
- Advance how we work
- Grow our contribution to society.

The successful delivery of our strategy is predicated on three enablers: our people, technology and innovation, and financial strength.

We measure our work through a balanced suite of key performance indicators, with a view to driving the behaviours and outcomes which residents, stakeholders and staff most value and help us achieve our mission.

Read our Corporate Strategy 2020-2023 at **https://www.sanctuary-group.co.uk/about-us/our-corporate-strategy**.

Our People

Central to the delivery of our mission is our people. We employ nearly 14,000 people, around half of whom are employed in our care operation.

The Covid-19 pandemic has put an even greater emphasis on the importance of the health and safety of our employees. Now, more than ever, championing the physical and mental wellbeing of our people is critical. We are starting from a great platform. We are a Time to Change employer, and we have already been investing in mental health and have hundreds of Mental Health First Aiders throughout the organisation.

We also comply with the provisions of the Health and Safety at Work Act 1974 and other relevant legislation to meet the objective of achieving the highest possible standards.

We want to ensure we provide the best environment for our people to thrive and do their jobs to the best of their ability. This is a critical factor for our success and the continued delivery of high-quality services. It is also the right thing to do and puts us in the best possible position to provide critical care and housing services at a time of extreme stress for the nation.

To do this we know we need to listen to the views of our employees. That's why in September 2019 we were pleased that 59 per cent of our workforce who we surveyed responded to our staff survey, Your Say. The survey revealed an overall engagement score of 75 per cent, this compares very well to other organisations using this survey. Most respondents said that knowing our customers and giving them a good service is something we do well.

Our Staff Council is another active route that our colleagues use to have a say about how our organisation is run. Through these regular meetings we encourage honest feedback and conversations. The Staff Council is also our forum for formal consultations over matters that affect our colleagues, where management consults with elected staff representatives. At an operational level, a team briefing system is in place to keep all employees updated on core Group business issues, and to enable and encourage feedback.

Members of our Executive team spend time each month with staff on the frontline, so they have a complete understanding of our operations. We encourage honest conversations between staff and managers at all levels, and through these conversations we work together even more effectively. We listen to our employees' successes and challenges and together work out how to make Sanctuary an even better organisation.

We are an Investors in People employer and four parts of our business had their 12-monthly reviews during the year. Sanctuary Housing, Sanctuary Scotland and Sanctuary Students had their silver status reconfirmed, while Sanctuary Supported Living achieved gold status.

Diversity and inclusion remain a priority for us, both internally with our employees and externally within the communities we serve. Over the last 12 months we have employed our first Diversity and Inclusion Manager, who will help us to further build inclusivity by design into our organisation. This will be an important enabler in our goal to be an employer of choice, recruiting the brightest and best.

There are a range of ways in which we recruit and develop talent within our organisation. We offer a wide range of learning and development opportunities to support our people to be the best they can be, while providing even better services to our customers. During the year, 294 employees completed qualifications through our in-house team. Over 140,000 (2019: 151,000) e-learning modules were completed and 53,000 (2019: 52,000) delegates attended training courses facilitated by our internal Learning Academy or through local training events.

Our award-winning apprenticeship scheme offers the chance to secure recognised qualifications while gaining a wealth of practical experience. We are currently supporting 185 (2019: 215) apprentices, with 81 completing their apprenticeships during the year (2019: 77).

We also recruit a small annual intake of graduates through our Graduate Development Programme. Three more graduates will join us in September 2020 (2019: four).

We are an accredited body for City and Guilds and the Institute of Leadership and Management, and we have a variety of programmes to support aspiring managers through to becoming experienced leaders.

All our colleagues are also offered the opportunity to take two days' paid leave each year to volunteer their time to a cause close to their hearts – many of whom choose to do this within the communities we serve, and with our partner organisations.

Case Study

Abi Bradley

Abi Bradley – Business and Administration Apprentice

As she neared the end of her time at high school, Abi knew she wanted to continue her studies but was also keen to start gaining experience in a real working environment.

After hearing about apprenticeships at a careers event, she started looking for more information online and successfully applied for a business and administration apprenticeship with Sanctuary.

She said: "I didn't really know what I wanted to do as a career, but I loved studying business at school.

"I wanted to start gaining work experience but still get a qualification and an apprenticeship with Sanctuary seemed a great opportunity to do both."

Abi's apprenticeship sees her work in the Community Investment team, which manages investment in community-led projects and activities across the country to help create thriving neighbourhoods and address the needs of local residents.

She said: "I enjoy the variety in my role, no two days are the same and there is always something different to do.

"I'm responsible for creating mechanisms for feedback, sending out contracts, processing payments and making sure evaluation reports are submitted on time so that we can monitor the impacts our projects are making for local people and communities.

"I enjoy being able to get out and visit our projects and one of the highlights of my apprenticeship so far has been the opportunity to manage my own project."

Abi's dedication to her apprenticeship was recognised when she won the prestigious Level Two Apprentice of the Year award at the 2019 Worcestershire Group Training Association Apprenticeship Awards.

> Apprenticeships are the best of both worlds. You get hands-on business experience, skills and qualifications and are earning money at the same time instead of getting into debt

Technology and Innovation

A Sanctuary operative using the latest technology

Our aim is to transform the customer experience to remain a provider of choice, by investing in operations to enable us to better deliver our services. We have a strong track record of using technology to improve our services and customer experience, drive efficiency and minimise risk, and we believe our continued investment in this area will be a key enabler to the delivery of our strategic objectives.

We have developed our own apps, including the kradle care planning app in our care operation. This bespoke app has replaced paper-based care plans, ensuring we can provide the best care for our residents.

We are now in the process of trialling acoustic monitoring in one of our care homes. Acoustic monitoring plays its role in keeping residents safe by relaying information to staff via a subtle noise detection system in their rooms. A sound detecting device non-obtrusively listens to residents during the night and triggers an alert for staff to respond as required, when sound exceeds or falls below a set noise level. The system means staff will no longer need to carry out room to room checks on residents, resulting in minimal disruption and improved sleep patterns.

We created a Direct Debit app which has revolutionised the way we manage the finances of residents. With a few taps on the screen of their tablet, staff can create, change or cancel Direct Debits. The app allows Income Officers to work more efficiently on the move, reducing the amount of paperwork and enabling them to spend more time with residents.

We also created a bespoke app for our operatives to provide real-time stock management of our personal protective equipment in response to the Covid-19 pandemic.

We will ensure our people have the tools and technology they need to do their job to the best of their ability and will invest in our systems to drive efficiencies in our back office and transactional processes. We will enable our priorities to be delivered by standardising and streamlining ways of working to deliver Value for Money and better working practices.

Case Study

Sanctuary Care Invests in New Technology

Sanctuary Care is continuing to invest in the latest technology with the introduction of electronic medication administration records (eMARs) across its care homes.

eMARs offer significant safety and efficiency advantages over traditional paper-based methods, reducing paperwork and administration for staff and freeing them to spend more time delivering high-quality care to residents.

eMARs have been proven to improve safety, accountability and efficiency for residents and staff, as well as enabling closer working with local GP and pharmacy services.

Dedicated training is being provided to staff through the implementation of the new technology to ensure a smooth transformation from the paper-based approach.

eMARs were initially introduced on a pilot basis at two of Sanctuary Care's homes – Brambles Residential Care Home in Redditch and Hastings Residential Care Home in Malvern – who have each worked with a local pharmacy to implement the system. Following the success of the pilot, the system is now being rolled out in around 100 Sanctuary Care homes across the country.

Sanctuary Care's Senior Programme Manager, Jemma Robinson, said: "Embracing advances in care home technology enables us to enhance the quality of care we provide and further enrich our residents' lives."

"The next **natural step** in our **digital journey** is the introduction of an **electronic medication management system**, simplifying the process and making it **more efficient** for all involved"

Team Leader Karen Turner with resident Eric Garner at Regent Care Home, Worcester

Financial Strength

The foundation of our organisation is our financial strength. Our financial strength means we have the resilience to withstand sharp shocks to the economy, ensuring we continue to deliver our services and serve our communities.

Sanctuary's financial decisions are made in the context of the Group's risk appetite. Risk appetite is the level of risk the Group is willing to take to achieve its strategic objectives. The Group refers to a set of Group-level Risk Appetite Statements and supportive metrics that address key risk areas and specific business operations. Each Risk Appetite Statement provides guidance on the nature and extent of the risk the Group is prepared to take and in what circumstances.

We expect some short-term challenges in the year 2020/2021 due to the Covid-19 pandemic, which will affect some sources of income and increase certain costs. However, our strategic objectives remain unchanged and we will continue to prioritise maintaining our financial strength to ensure we can deliver a service we are proud of to residents and customers.

Our financial resilience is built through an optimised funding structure and we manage risk through continuous stress testing of our business plans against potential adverse events.

Our financial strength is underpinned by:

Scale and Diversity

Sanctuary's scale, range of activities and national footprint means the Group is not significantly exposed to a single market or geographic region.

Operating Performance

Sanctuary's financial strength is underpinned by its strong operating performance. Sanctuary's overall operating margin is comparable to its peers, despite its significant level of care and support activities; when comparing social housing margins alone, Sanctuary is amongst the highest in its peer group. The Group's operations are also highly cash generative, facilitating continued reinvestment in the existing business and enabling capacity for growth as well as mitigating the effects of economic or regulatory shocks.

Credit Worthiness and Capacity

Credit ratings of A+ (Standard & Poor's) and A2 (Moody's) establish Sanctuary as an investment grade business. These strong credit ratings, in conjunction with £1.4 billion of capacity (cash, undrawn facilities and available security), enable the Group to secure private sector funding from banks and capital markets at competitive rates.

Liquidity

Significant liquidity and facilities to draw upon ensure the Group is able to withstand any additional external challenges that arise from factors such as Brexit or Covid-19. At 31 March 2020, the Group had cash balances of £261.5 million and in April 2020 the Group issued a £350 million 30-year secured bond.

Debt Management

Volatility in cash flow and debt service costs is reduced through maintaining a high proportion of fixed rate debt; 82.7 per cent at year end. The Group also has a cross currency interest rate swap in place to hedge the risk of currency rate volatility in respect of US dollar denominated debt.

Stakeholders

As one of the largest housing associations and providers of care in the country, we play a critical role in the delivery of key services, including to many vulnerable groups of people. Many thousands of individuals are affected by the quality of service, care and housing we provide, and it is right therefore that we operate under the scrutiny of our stakeholders.

We will work closely with our stakeholders as a trusted partner to achieve shared goals and will actively engage our stakeholders, including customers, employees, MPs, local authorities, central Government, suppliers, commissioners of services, investors and the media, in open, honest and ongoing relationships.

Our Homes

We are committed to the development of new, high-quality housing of different tenures. We remain pragmatic about tenure type and continue to build new housing across a range of affordable rental and homeownership options. We also build a small proportion of properties for outright sale, which enables us to supplement the cost of building our affordable tenures.

We are supportive of affordable homeownership however we believe that the continued supply of good quality social housing has an important role to play in tackling the housing crisis and the rise in homelessness.

The development of new, affordable homes will always be our priority and while outright sale is a funding stream, we will limit our exposure in this area to protect our overall financial strength. Our aim is to maximise our ability to build new homes but without risking the sustainability of our business model.

The Covid-19 pandemic has not changed our strategic aim to increase housing supply, however we recognise that this unique event will have an impact on the timing and delivery of our development plans.

Accommodation in Management

Sanctuary has a range of property types and tenancies across the UK.

	Group		Association	
	2020	2019	2020	2019
Social housing accommodation:				
General needs housing	52,767	52,559	45,795	45,898
General needs housing affordable rent	5,666	5,486	3,151	3,140
Supported housing accommodation	4,243	3,714	3,534	3,570
Supported housing affordable rent	123	125	2	3
Housing for older people	10,718	10,686	10,367	10,379
Housing for older people affordable rent	543	542	105	105
Social care homes	193	183	193	183
Key worker (social lets)	509	510	509	510
Shared ownership	3,375	3,323	2,608	2,646
Home ownership	6,740	6,533	4,847	4,741
Social housing leased outside Group tenancy agreement	257	254	188	188
	85,134	**83,915**	**71,299**	**71,363**
Non-social housing accommodation:				
Student and key worker (non-social lets)	10,935	10,977	6,911	6,968
Registered care homes	5,453	5,282	2,176	2,264
Commercial	191	186	150	149
Market rented accommodation	94	96	84	87
Other non-social rental accommodation	320	305	-	-
Non-social leased housing	161	94	62	62
Non-social housing leased outside Group agreements	398	363	398	363
	17,552	**17,303**	**9,781**	**9,893**
Total homes in management	**102,686**	**101,218**	**81,080**	**81,256**

The increase in the number of social housing properties is due to the development of new homes and the acquisition of over 800 homes from Notting Hill Genesis. Non-social housing properties include seven care homes in Scotland that were acquired during the year.

At 31 March 2020, the Group had 5,642 (2019: 6,002) homes in development, with 2,338 (2019: 844) on-site. 788 owned homes are managed by third parties (2019: 1,035).

Investing in Communities

Jane Bird and Dave Birds, Community Wellness, Sheffield

Building sustainable communities is part of our mission. For over 50 years we have committed to making homes and places where residents feel safe, secure and have a vibrant community to engage in.

Investing in our communities is vital to ensuring the homes and estates where we operate are great places to live. Sanctuary invests over a million pounds in cash, time and resources each year in activities and projects that help to support neighbourhoods and improve the lives of local people.

We recognise the strengths and assets that already exist within our communities and build on this to enable our residents to drive real change.

We continue to support a range of projects in recognition of the breadth of aspirations of local people. We do this by working in partnership with hundreds of trusted community groups and charities.

During the year, Sanctuary invested £1.3 million in communities (2019: £1.4 million), of which £12,929 was given through donations to charitable organisations (2019: £500). Sanctuary made no donations to political organisations (2019: none).

Craig Brown and Katie Barns, Rage Fitness, Chester

Case Study

Top Athletes Inspire Young Adults

Former Olympic and Commonwealth Games athletes from the Dame Kelly Holmes Trust have been working with young adults across the country to inspire them to achieve their potential.

Eight elite athletes have worked as mentors at Sanctuary Supported Living schemes which provide support for vulnerable and homeless young people aged 16 to 25.

They took part in the Get on Track initiative being run in partnership between Sanctuary Supported Living and the Dame Kelly Holmes Trust.

It is a six-month programme which aims to motivate young adults to pursue their ambitions as well as improve their confidence, resilience and self-esteem.

Participants took part in a series of sessions where they learnt work-related skills, used activities to promote teamwork and gained qualifications such as First Aid.

Each of the athletes called on personal experience to show those taking part that there are no barriers to success.

A third of the young people who participated in Get on Track are now in employment, education and/or training. By the end of the programme 70 per cent of the young people felt either 'confident' or 'very confident' in having a go at new things compared to 40 per cent at the start of the programme; they felt better connected to their community (increasing from 30 per cent to 36 per cent); they were more determined to develop their skills in areas they struggle in (rising from 38 per cent to 59 per cent); and increased self-awareness – understanding their individual strengths and qualities – rose from 46 per cent to 73 per cent. Participation in the Get on Track programme has also supported an increase in confidence in the young people from 54 per cent to 68 per cent.

The Get on Track programme was funded through £60,000 from Sanctuary's Community Investment Fund.

Get on Track has certainly **improved my life skills**, I feel good. It's really **helped with my confidence**. I think I am **better** at being **part of a team**.

Brighton Foyer
resident Gavin Parry

Environment and Sustainability

We recognise that the climate emergency is one of the key issues of our era. We also accept that as a large employer, developer of new houses and landlord with more than 100,000 properties, we have a significant impact on the environment. The size and scope of our organisation makes it important that we act in an environmentally responsible manner, helping to navigate to a sustainable, low-carbon economy.

Sanctuary has a responsibility to all its stakeholders to deliver environmental good practice, energy and waste reduction and assist the UK Government to meet its target of net zero carbon emissions by 2050.

We are on a journey and we don't have all the solutions at this stage, however environment and sustainability are key priorities for our Group Board so that we can make a material change and play our part in contributing to society and the environment.

The following tables show Sanctuary's energy usage for the year, together with associated greenhouse gas emissions, as well as our target for 2021.

	Sanctuary Group 2020
UK energy use	
Electricity (kWh)	70,310,337
Gas (kWh)	158,557,248
Transport (kWh)	36,690,373
Associated greenhouse gas emissions (GHG)	
Electricity (Tonnes of CO2e)	19,497
Gas (Tonnes of CO2e)	29,151
Transport (Tonnes of CO2e)	8,930
Intensity ratios	
Tonnes of CO2e per home in management	0.56
	Sanctuary Group 2021 - Target
Tonnes of CO2e per home in management	0.55

The property portfolio to which the above data relates comprises over 100 care homes, 35 student accommodation blocks, 29 main office buildings plus other supporting buildings and community centres. Utility energy consumption has been captured using Sigma energy management software.

Transport energy consumption relates to 1,180 vans, 42 minibuses, 14 pool vehicles, 14 wheelchair-adapted vehicles, 313 company cars and business miles carried out by staff in their own vehicles. Transport energy consumption has been captured using SAP Housing Management and Key2 Fleet Management software.

Greenhouse gas emissions have been calculated based on conversion factors published by the Department for Business, Energy & Industrial Strategy.

Implementation of energy-efficient measures have both economic and environmental benefits, cutting costs and at the same time reducing carbon emissions. Specific measures taken to reduce our consumption of energy include:

- Insulation of roof spaces.
- Updating light fittings to use LED lights.
- Fitting presence-detecting and/or light-detecting lighting controls in offices, toilets and storage spaces.
- Setting heating and air conditioning to operate optimally.
- Installing solar thermal systems in buildings with high consumption of hot water such as care homes and student accommodation.
- Installing photo voltaic panels in buildings with high electricity consumption during the day.
- Roll-out of SMETS 2 AMR meters.

We are also committed to improving the energy efficiency of domestic stock and have a dedicated Energy team which is responsible for ensuring adherence to Government energy efficiency and utility policies, Fuel Poverty Strategy, Decent Homes standards and Housing Health and Safety Rating System (HHSRS).

Sanctuary is committed to increasing its energy rating year-on-year via the annual SAP declaration. The work to achieve this includes: loft and cavity wall insulation, external wall insulation, managing the Energy Performance Certificate process, investigating low SAP-rated properties, costing and managing the improvements to increase the SAP rating to a reasonable level, managing legislation changes to ensure compliance, managing the feed-in tariff from photo voltaic installations and advising on renewable technologies.

We are also working hard to fight fuel poverty for tenants by offering advice on being more energy efficient.

The average EPC rating for Sanctuary's housing properties is 71, which equates to band C. This compares favourably with the average energy efficiency rating for a dwelling in England which is band D (rating 60).

We aim to continually improve the sustainability of our business by considering environmental factors in decision-making processes, ensuring adverse impacts on the environment are avoided or minimised through design and planning.

Case Study

Newfield Square, Nitshill

Sanctuary Delivers Energy-Efficient Homes

Sanctuary has seen two of its properties achieve the top energy efficiency rating in Scotland as part of a pilot project to deliver sustainable homes for the future.

The homes, at our £25 million Newfield Square development in the Nitshill area of Glasgow, have been built to the Passivhaus standard, which is the highest level achievable under Scottish Building Standards.

Residents in Passivhaus homes don't need to rely on renewable technologies such as heat pumps and are expected to benefit from significantly reduced energy bills and improved internal air quality.

The homes are among 10 at the development that have used high energy-saving specifications as part of Glasgow City Council's drive for sustainability.

There are also two silver, four gold and two platinum standard houses which meet various energy efficiency criteria including the use of insulated window and door frames, heat recovery and solar thermal hot water systems.

Over the next 12 months the council will assess how energy efficient the properties are and will also seek the views of residents living in the homes.

Peter Martin, Sanctuary's Group Director – Development, said: "To achieve the Passivhaus standard is fantastic and it underlines our commitment to delivering environmentally sustainable homes.

"We are proud to be able to provide residents with extremely energy-efficient homes and look forward to delivering even more in the future."

Ethical Business

Graduates Alice Lovatt, Conor Watt, Maddie Coller and Lola Ogunsanya

Building affordable homes and sustainable communities where people choose to live is Sanctuary's mission. We are committed to working with communities to ensure they are good places to live. We work with local organisations and residents to support them to make positive changes to their communities, and that our residents benefit as a result.

We are committed to conducting our business in an ethical and responsible manner. This involves making decisions which take into account not only economic considerations but also social and environmental impacts. It means running our operations efficiently, investing in the communities where we work, providing training and employment opportunities, and ensuring that our operations are run in an environmentally-friendly manner.

Slavery and Human Trafficking Statement

We are committed to achieving greater clarity and understanding of our supply chains in order to seek out and deal with any evidence of slavery and human trafficking. We recognise that no supply chain can be considered entirely free from the potential for slavery or human trafficking to occur and we are endeavouring to take further steps to understand high risk areas, communicate our approach and take positive action. Our full statement can be found on our website at **www.sanctuary-group.co.uk**.

Diversity and Inclusion

We aim to be an open and inclusive organisation, where diversity is promoted and discrimination eliminated. Our single equality scheme – 'Fairness for All' – outlines the commitment to ensuring that our services and operations meet the needs of all customers. It makes sure that diversity, inclusion and human rights are integrated into the way we plan, develop and deliver services, covering internal functions as an employer and external operations as a provider of housing, care and commercial services. We have an Equality and Diversity Working Group, which ensures that the requirements set out by the scheme are embedded across our operations. The working group is chaired by Nathan Warren, Group Director – Commercial.

Principal Risks and Uncertainties

We operate a comprehensive risk mapping process both at a strategic level and with all our business operations. Risk and assurance maps are approved by the relevant boards and board reports must reference the relevant risks addressed on the appropriate risk map.

The principal risks affecting Sanctuary are set out below, along with the movement in gross risk during the year and examples of key controls and mitigating factors. The order in which they are presented does not represent a hierarchy of risk level.

Risk and potential impact	Key controls and mitigating factors
Government policy, legislation and regulation	
Failure to comply with or react to regulations and Government announcements, for example around welfare reform and rent reduction, fire, and health and safety changes, leading to reputational damage and financial impacts such as cash flow deterioration or additional expenditure. **Change during 2019/2020** ↑	• The impact of Universal Credit roll-out on arrears and bad debts is monitored at all times and income services support to our tenants has been increased in response to the changing landscape. • The number of self-funders in our care homes has been increased to mitigate the New Living Wage cost pressures. • Updated financial projections have been prepared incorporating a revised growth strategy in step with current Government policy. Our projections will continue to undergo regular review and update to ensure operational decisions are supported by precise, forward-looking data. • High standards on compliance, particularly health and safety, are maintained by pro-actively reviewing internal procedures to remain ahead of any changes to policies or regulations. • Existing developments have the option to be reassigned to affordable rent in line with recent Government announcements. • We have taken the decision to maintain a higher level of capacity within the Group to cover, amongst other things, any changes in Government policy or regulations. • Fire Risk Assessment (FRA) actions have been brought forward and further funding has been allocated for water sprinkler installation for our high-rise properties. • Policy and procedures are in place to manage the increased requirements of the General Data Protection Regulation (GDPR). • Additional spend on existing assets has been approved by Group Board to ensure funds are available for compliance and regulatory changes arising from, for example, the Grenfell Tower inquiry. • A building safety project has been established to ensure we are fully prepared for any potential changes to building and safety regulations.
Funding and financial viability	
Gearing and security constraints can limit our capacity for further borrowing. Downgrades to the sector's credit ratings may increase the cost of future borrowing. Failure to obtain funding could undermine our long-term growth plans.	• We retain high credit quality and ratings, enabling access to financial markets. We provide funders, rating agencies and regulators with key treasury reports, long-term business plans and sensitivity scenarios. • Quarterly financial updates for lenders are published on our website, as well as a new sector website. Relationships with existing and potential funders are actively maintained to promote our activities and identify further funding sources. • Capital requirement limits are put in place at the start of all development programmes and commitments are monitored against total liquidity. • Management ensures committed developments are always forward funded via bond issues or bank facilities. • Funding, including shorter-term revolving credit facilities, has been put in place to manage a more variable cash flow requirement for the 6,000 unit development plan to 2023.

continued overleaf

Risk and potential impact	Key controls and mitigating factors
Funding and financial viability *continued...*	
Funding for non-core businesses impact on the rest of the Group. **Change during 2019/2020** ↔	• Longer-term projections, including cash flow requirements and multi-variance stress testing, are reviewed by management, updated regularly and acted upon. • Capacity is monitored on a continual programme to support future funding requirements. Growth is tested against maintaining a minimum level of capacity of £500 million. • The Group Board uses up to date, long-term projections to approve the annual funding strategy. • Active management of debt maturity in order to avoid excessive refinancing requirements. • All our assets and liabilities are maintained and undergo regular monitoring on an assets and liabilities register. • Non-core funding is ring-fenced wherever possible to specific assets with recourse to the rest of the Group limited to the level of the intra-Group funding committed to. • Strong relationships with the credit rating agencies are maintained in order to ensure we have robust credit ratings and therefore have access to lower cost funding.
Sales risk	
The proposed development programme increases the risk due to the level of new properties for sale either via shared ownership or outright sale. **Change during 2019/2020** ↑	• Group Board sets key assumptions and hurdle rates which all project appraisals are required to achieve. • Sales performance is measured against original appraisal assumptions and reported to senior management and the Capital Committee on a monthly basis. Future sales prices included in appraisals are kept updated to reflect current performance. • Management retains the ability to freeze future capital commitments on new projects if expected sales are not being achieved or alter hurdle rates and assumptions for future housing for sale projects. • Market potential of unsold properties is reviewed and if sales performance is expected to be below expectations, these plots can be transitioned to market rented properties. • Stress testing is undertaken both on individual projects and projected development plans as a whole to identify the level of extended sales period and sales price decrease that can be sustained by the Group. • Experience from sales occurring on joint ventures with Vistry Group PLC/Vistry Linden Limited is being used by our Sales teams in executing our own sales strategy.
Programme and structural risk	
Planned expansion or issues with an existing business leads to an impact on the overall Group from a performance, health and safety, reputation or financial point of view. **Change during 2019/2020** ↔	• Governance and project management structures in place throughout the business are reviewed regularly to confirm they remain up to date. • All business areas operate the Group's risk management process including risk and assurance maps. • All acquisitions or expansions are financially mapped against the Group's existing business plans, including sensitivity analysis. • External funding has been structured to avoid reliance or impact from other areas of the Group's operations. • All business areas have set budgets which are monitored at least monthly, with any variance explained and acted upon. • Central Services holds a separate risk map, overseeing consistency of functions throughout the Group, including Technology and Cyber Risk, Business Continuity, Health and Safety, and Financial Reporting.

Risk and potential impact	Key controls and mitigating factors
Reputational risk	
A material service failure or a material regulatory or legislative breach leads to significant reputational damage, individual prosecutions and threats to the continued viability of a business. **Change during 2019/2020** ↑	• Key regulatory and contractual obligations are reviewed across the Group and actions put in place to ensure compliance. • Due diligence is undertaken on new acquisitions to identify possible dilution of performance. Any risks identified are controlled or negotiated out. • A Significant Incident policy is in place, mapping out a clear action plan to be followed in the event of such incidents occurring. The policy is managed by the Corporate Risk Manager to enable consistency in risk management across the Group. • Residential scrutiny is embedded in housing operations, including discussions relating to the standard of our properties with tenants and residents. • Corporate Services assists and monitors operations to mitigate the risk of reputational damage. • Regular dialogue takes place with key funders, investors and the rating agencies. • A Whistleblowing policy is in place and is readily accessible to all. • A central External Affairs department monitors all press output relating to the Group including social media and can react quickly to any enquiries or negative publicity.
Asset maintenance and compliance risk	
A failure to monitor and invest in a group or class of assets leads to a significant impairment due to inadequate returns, a decline in demand or obsolescence generating a material financial loss, impact of health and safety requirements, operational failures or degradation of competitive ability. **Change during 2019/2020** ↔	• The Group Board has allocated £160 million of additional reinvestment expenditure for its social housing stock, over that previously included within the business plan, over the next five years. • The Group Board has allocated £10 million of future reinvestment budgets to prepare for the possibility of sprinkler installations in all of the Group's high-rise buildings. • We monitor the return on assets which is used as a measure to identify and allocate investments. • An annual review of our assets is conducted to identify impaired assets or need for upgrades including health and safety matters. Results of rolling stock condition surveys are reported to management and executives and factored into business plans. • We allocate annual capital sums for reinvestment purposes. Each capital commitment is assessed in terms of operational need, financial viability and compliance requirements and is subject to an appraisal to ensure Value for Money. • We have robust systems in place to ensure compliance testing is undertaken on all required assets and processes in place to resolve matters identified in the testing process. • Annual budgets are set taking into account surveyors' information on the quality and reinvestment needs of the properties. • Long-term voids are regularly reviewed and options recommended to the Capital Committee/Group Chief Executive for approval. • Complaints are tracked by Group Customer Services and those concerning the quality of properties are passed to the Asset Management team. • Monthly reports are provided to senior management and the Capital Committee on spend and reinvestment to budget. • The performance of assets, including demand and voids, is monitored weekly via management reports.

Risk and potential impact	Key controls and mitigating factors
Pensions risk	
We participate in a number of defined benefit pension schemes and there is a risk of increasing funding requirements. Change during 2019/2020 ↔	• Pension liabilities are reviewed with specialist advisors and strategies are developed to minimise deficit risks. • Risk-sharing agreements with local authorities are explored to protect large unexpected, one-off payments. • Significant new contracts are reviewed at the early stages of the bidding process for any pension risks. • All additional funding contributions from the Group are supported by robust financial assessments. • Trustees of the Group's main defined benefit scheme have proposed a revised investment strategy to reflect run-off.
Staffing risk	
A failure to recruit, train and retain a workforce with the appropriate knowledge, skills and experience at all levels will lead to us failing to achieve our strategy or have an impact on reputation. This risk includes wage costs inflation in an environment where costs are increasing. Change during 2019/2020 ↔	• Existing terms and conditions are regularly reviewed by senior management with advice from internal and external human resources (HR) professionals. • Regular reports are made to the Executive Committee identifying key staffing indicators such as turnover, profiles and sickness. • Group HR policies relating to recruitment, training, discipline and conditions for staff set our requirements of all staff/managers. • Dedicated HR professionals are assigned to each operation to provide advice on specific HR matters. • Staff are recruited based on a competency framework to ensure they have the right skills for the job. Training arrangements are put in place based on one-to-one discussions and 'My Performance' is used to perform ongoing performance appraisals. • A core brief cascade system and one-to-one meetings are in place to ensure appropriate levels of communication exist. • We are Investors in People accredited and have a Staff Council arrangement to allow views to be conveyed to management and vice versa. There is a dedicated Learning and Development team.
Brexit risk	
A failure to identify and manage the individual or combined effects of Brexit, including the type of Brexit, which could have significant consequences for Corporate Strategy objectives. Change during 2019/2020 ↑	• Sufficient committed facilities and cash is being maintained to meet current known business plan commitments for the next 12 months. • We monitor and, where possible, seek assurances for critical suppliers and contractors that they maintain sufficient levels of spare parts and resources within the UK to cover our expected requirements. • Impacts on the business in relation to EU staff are controlled and safeguarded against, particularly in the care and student businesses. • The risks to our Corporate Strategy are modelled and assessed, particularly around potential changes in interest rates, inflation, suppliers and housing demand/pricing. • We monitor the level of current and future business and Group arrangements with Scotland in light of the increased risk of Scottish Independence.

Risk and potential impact	Key controls and mitigating factors
Information security and availability	
A failure to protect our technology, data and assets against unauthorised access leading to a loss of, or no access to, data or systems being rendered unavailable, resulting in prosecution, significant financial loss and reputational damage. Change during 2019/2020 ↑	• Our technology specialists guide us on our requirements for information security, which is reflected in our Group-wide policies and procedures. • Access to premises and systems is controlled to enable the secure transfer of information for legitimate business purposes. • All staff are required to read and accept the Group's Acceptable Usage policy and procedure and undertake mandatory training. • The Information Security team deploys technical resources to automatically eliminate attacks such as spam or 'phishing' as far as possible. • Regular backups of systems and data are maintained and secured. • Penetrative tests of existing controls are undertaken and responded to in order to mitigate any risks identified. • A robust review of cyber security was undertaken in 2020.
Covid-19	
The outbreak of the Coronavirus (Covid-19) and the associated measures to address its transmission could: (a) severely impact our ability to provide frontline and back office services, (b) result in reduced income from all business streams and (c) limit our ability to access credit/capital markets. Change during 2019/2020 ↑	• Daily meetings between the Executive Committee take place to ensure that the Group is adhering to the latest Government guidance and managing the business consequences including a heat map of known and suspected cases. Prompt communication is then cascaded down. • Solis and KnowledgePoint websites are kept up to date to ensure our staff receive the latest information and guidance. • Business Continuity Plans were used to develop new ways of operating in light of self-isolation and social distancing advice from the Government. Non-essential business travel and classroom-based training has been cancelled. • All revolving credit facilities (RCFs) have been drawn down to secure cash into the organisation and increase liquidity. Close monitoring, forecasting and modelling of cash flows has been instigated with mitigation measures being deployed to limit cash outgoings. • Staff following Government advice to self-isolate or social distance will be paid in full, regardless of their contractual entitlement. • Staff performing critical roles have been provided with laptops, mobile equipment and appropriate software to ensure they have the ability to work from home. • Restricted access to care homes and certain Sanctuary Supported Living schemes is in place. • Maintenance activities have been restricted to emergency cases with operatives using protective equipment. Housing Officers restrict visits to tenants who are self-isolating.

Group Finance Director's Review

Ed Lunt (Group Finance Director), centre, with Sarah Clarke-Kuehn (Group Director - Care) and Kevin Heslop (Group Director - Technology)

Introduction

Sanctuary has recorded another strong financial performance. Group revenue has grown to £763.0 million for the year, with an enhanced development programme and acquisitions more than offsetting the impact of the fourth year of the one per cent social housing rent reduction in England.

Although the operating surplus of £186.2 million is lower than the prior year (2019: £203.7 million), the underlying operating surplus of £182.6 million represents a £1.6 million improvement over the prior year (2019: £181.0 million) – a good result particularly in the context of a further year of rent reductions, compliance expenditure, increased staff costs and an impact from Covid-19 in the final part of the year. These pressures have had a downward pressure on margins though we have kept the increase in operating expenditure in line with revenue growth to deliver the improved underlying operating surplus performance.

This solid financial operating performance is the product of improved operational metrics including rent arrears of 3.6 per cent (2019: 3.8 per cent), good satisfaction scores, a CQC score of 84 per cent (2019: 81 per cent) and void loss at a low 1.1 per cent (2019: 1.1 per cent).

Surplus before tax of £52.4 million is lower than the prior year (2019: £76.9 million). However, the underlying surplus for the year is £3.2 million ahead of last year (£57.4 million in 2020 compared to £54.2 million in 2019), with an improved underlying net margin of 7.5 per cent (2019: 7.4 per cent), reflecting the good underlying operating performance in conjunction with a lower interest burden.

We took the opportunity to repay a tranche of legacy debt during the year, which will lower the interest cost to the business in the long-term even after taking into account the £8.6 million loan break costs.

The healthy cash generated from operating activities of £244.2 million allows us to confidently pursue reinvestment activities as well as develop new housing stock.

The Group exited the year with £261.5 million of cash (2019: £150.1 million), which was augmented further by the £350 million bond issue undertaken in early April 2020. Our £1.4 billion of capacity (cash, undrawn facilities and available security), in conjunction with our strong credit ratings of A+ (Standard & Poor's) and A2 (Moody's), is a further sign of our balance sheet strength.

Overall these results demonstrate the Group's continued financial strength and leave us well positioned to face the current short-term challenges and volatility presented by Covid-19 while still moving towards our longer-term strategic aims.

Investment in Our Assets

The Group continually reinvests in its existing asset base to ensure that homes are well maintained and pleasant places to live, that they are compliant with relevant safety standards and they are maximised for energy efficiency. Capital spend on existing properties during the year totalled £80.3 million and a further £20.7 million was spent on non-capital planned maintenance of social housing properties.

The Group also remains committed to increasing housing supply through the development of new affordable homes and during the year spent £180.2 million to develop new properties; 5,642 properties were on-site and in development at the reporting date.

Alternative performance measures are defined and/or reconciled in Appendix 4 on page 174.

Five-Year Summary

Five-Year Summary	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Statement of Comprehensive Income					
Revenue	763.0	735.4	708.1	670.9	669.0
Cost of sales and operating exp. (excl. restructuring)	(584.8)	(557.5)	(519.5)	(478.6)	(485.5)
Share of profit of joint ventures	4.4	3.1	0.5	0.1	-
Underlying operating surplus	**182.6**	**181.0**	**189.1**	**192.4**	**183.5**
Restructuring costs	(2.6)	-	-	-	-
Pension exit costs	-	-	-	-	(8.2)
Other gains and losses	6.2	22.7	9.6	3.0	17.7
Operating surplus	**186.2**	**203.7**	**198.7**	**195.4**	**193.0**
Net interest payable in respect of loans	(124.3)	(125.8)	(124.0)	(130.0)	(131.4)
Loan break costs	(8.6)	-	(1.3)	(4.0)	(6.4)
Other finance costs	(0.9)	(1.0)	(2.6)	(2.3)	(2.4)
Surplus for the year before tax	**52.4**	**76.9**	**70.8**	**59.1**	**52.8**
Surplus for the year before tax	**52.4**	**76.9**	**70.8**	**59.1**	**52.8**
Adjustments for:					
Restructuring costs	2.6	-	-	-	-
Pension exit costs	-	-	-	-	8.2
Other gains and losses	(6.2)	(22.7)	(9.6)	(3.0)	(17.7)
Loan break costs	8.6	-	1.3	4.0	6.4
Underlying surplus for the year	**57.4**	**54.2**	**62.5**	**60.1**	**49.7**
Statement of Financial Position					
Non-current assets	4,002.1	3,750.0	3,656.3	3,486.1	3,434.6
Current assets	457.5	337.8	286.4	283.9	434.0
	4,459.6	4,087.8	3,942.7	3,770.0	3,868.6
Current liabilities	239.3	254.1	295.0	278.2	271.4
Loans and borrowings and other payables	3,065.7	2,747.5	2,634.8	2,500.8	2,647.0
Provisions, pensions and derivatives	33.2	48.5	52.6	138.4	80.0
Reserves	1,121.4	1,037.7	960.3	852.6	870.2
	4,459.6	4,087.8	3,942.7	3,770.0	3,868.6
Statement of Cash Flows					
Operating surplus	186.2	203.7	198.7	195.4	193.0
Depreciation, amortisation and impairment	73.0	67.3	60.3	63.9	56.5
EBITDA	259.2	271.0	259.0	259.3	249.5
Capital adjustments	(10.6)	(25.8)	(10.1)	(9.6)	(26.2)
Working capital movements	(4.4)	(30.0)	(85.0)	(28.3)	(15.9)
Cash generated from operating activities	244.2	215.2	163.9	221.4	207.4
Financing and returns on investments	(142.5)	(133.0)	(128.8)	(143.8)	(133.4)
Investing - capital expenditure and investment	(307.2)	(190.9)	(288.1)	(253.2)	(213.3)
Investing - capital grants and sales proceeds	59.0	85.0	55.7	136.2	131.2
Pension deficit payment	-	-	(40.0)	-	-
Net cash flow from financing activities	257.9	78.1	156.0	(128.3)	180.0
	111.4	54.4	(81.3)	(167.7)	171.9
Cash and cash equivalents at start of year	150.1	95.7	177.0	344.7	172.8
Cash and cash equivalents at end of year	261.5	150.1	95.7	177.0	344.7

The Group uses certain alternative performance measures throughout this report which, in the opinion of the Directors, aid the understanding of the business performance or provide comparison with our peer group. These measures are presented on a consistent basis over time to assist in comparison of performance and are defined and/or reconciled in Appendix 4 on page 174. VFM Metrics defined by the Regulator of Social Housing (RSH) are highlighted grey in the following table.

Key Performance Indicators

Key Performance Indicators	2020	2019	2018	2017	2016
Satisfaction - monitoring quality of service					
Care - resident satisfaction %	96	96	97	98	96
Resident satisfaction - services %	80	81	83	83	81
Satisfaction - maintenance %	94	93	94	92	90
Satisfaction - rent is VfM %	90	90	87	83	81
First stage complaints responded to on target %	92	94	90	85	80
Compliance - measurement against standards prescribed by regulating bodies					
Care Quality Commission rating % (new regime)	84	81	82	85	80
Care Inspectorate rating % (Scotland)	88	73	82	-	-
Properties with valid gas safety certificate %	99.9	99.9	99.6	99.9	99.8
RSH governance	G1	G1	G1	G1	G1
RSH viability	V2	V1	V1	V1	V1
Operational - evaluation of operational efficiency and effectiveness					
Occupancy - Sanctuary Care %	91	90	95	95	94
Occupancy - Student %	94	95	97	99	96
Rent arrears %	3.60	3.80	4.31	4.95	2.79
Homes in management	102,686	101,218	101,114	99,481	100,160
Void loss %	1.1	1.1	1.4	1.4	1.3
Group procurement savings (aggregate) £m	21.5	20.8	19.0	17.5	16.0
RSH social housing cost per unit £	4,499	4,584	4,208	4,172	4,314
Average weekly fee rates - Care £	807	761	751	682	661
Debt - ability to service debt and secure funding					
Interest cover (excluding loan break costs) - times	2.09	2.15	2.09	1.99	1.90
RSH EBITDA MRI interest cover %	119.3	121.3	128.4	120.9	117.9
Gearing %	50.6	49.3	49.6	47.3	47.7
RSH gearing %	53.1	51.9	52.2	50.3	50.6
Capacity £m	1,408.8	1,131.1	1,024.1	1,059.6	918.7
% of debt under fixed interest rates	82.7	87.0	92.3	93.8	93.5
Standard & Poor's credit rating	A+	A+	A+	A+	A+
Moody's credit rating	A2	A2	A2	A1	A1
Profitability - measurement of financial performance					
Underlying operating surplus margin %	23.9	24.6	26.7	28.7	27.4
RSH operating surplus (social) %	37.4	38.5	40.1	41.8	38.0
RSH operating surplus (overall) %	23.0	24.2	26.7	28.7	27.4
Operating costs as % of revenue	73.0	72.9	71.4	68.7	69.6
Underlying net margin %	7.5	7.4	8.8	9.0	7.4
Total divisional EBITDA £m	260.1	260.8	266.8	269.5	254.9
Total divisional EBITDA %	34.1	35.5	37.7	40.2	38.1
Maintenance - investment in assets and how efficiently they are maintained					
Average repair cost per home £	1,257	1,262	1,254	1,173	1,168
Reinvestment spend per home £	782	827	675	691	694
RSH reinvestment %	4.0	3.1	6.3	4.0	3.8
Average cost per responsive repair £	122	119	115	118	119
Asset efficiency - the returns generated from the Group's assets					
RSH Return on capital employed %	3.1	3.5	3.5	3.7	3.7
Development - delivery of new properties					
Homes on-site and in development	5,642	6,002	6,019	4,686	4,381
RSH new supply delivered (social) %	0.6	0.9	0.7	0.5	2.3
RSH new supply delivered (non-social) %	0.1	0.1	0.1	0.1	0.2
Homes completed (excluding joint ventures and consortia)	604	941	773	456	1,608

Treasury

The Group had total borrowings of £3,105.7 million (2019: £2,810.9 million).

	2020 £m	2019 £m
Bank loans and mortgages	1,446.6	1,253.8
Senior notes and debenture stock	1,482.6	1,411.6
Lease liabilities under IFRS 16 (2019: finance lease liabilities under IAS 17)	176.5	145.5
	3,105.7	**2,810.9**

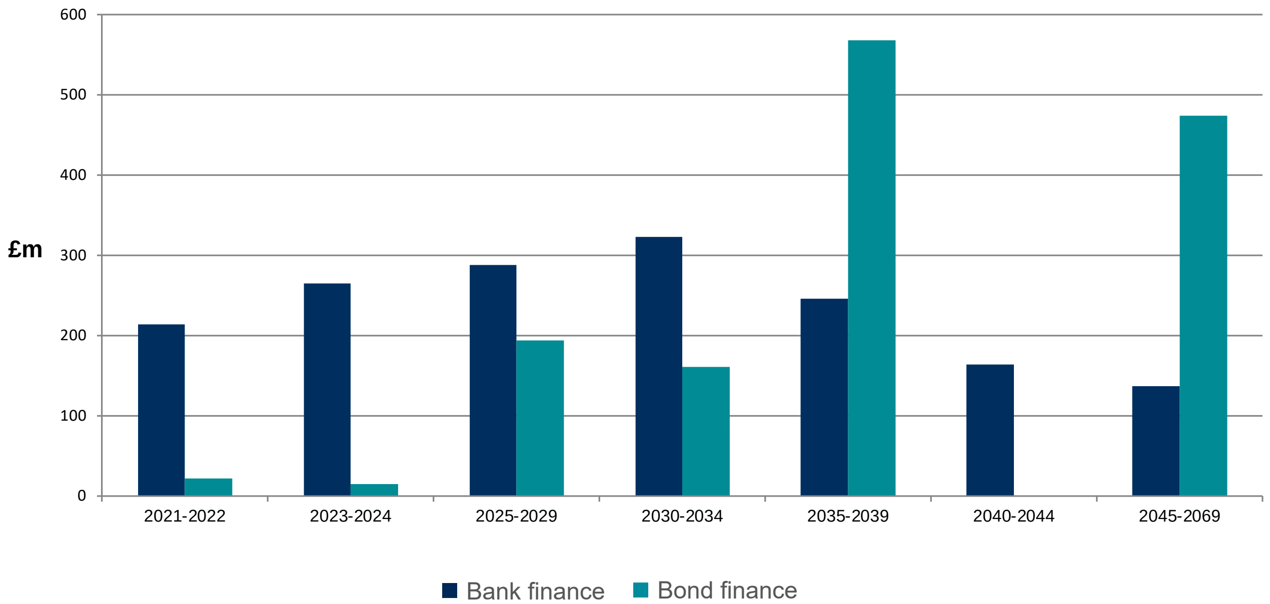
Debt Repayment Profile and Cost of Borrowing

Net finance costs on borrowings, before loan break costs, totalled £124.2 million (2019: £125.7 million), a decrease of £1.5 million. Loan break costs of £8.6 million (2019: £nil) were incurred during the year, relating to the early repayment of a number of historical loans held with one funder. The debt has subsequently been re-financed with lower fixed rates, which has also simplified the financing structure.

The Group's cost of borrowing is 4.16 per cent (2019: 4.56 per cent) and interest cover before loan break costs is 2.09 (2019: 2.15). The weighted average duration of drawn debt across the Group is 17.2 years (2019: 19.2 years). Our funding strategy is designed to monitor the debt maturity profile and thereby manage the refinancing risk across the Group.

The Group has always maintained an ability to refinance and this forms part of our normal Treasury operations. The Group will refinance 22.1 per cent (£680.2 million) of existing drawn loans in the next five years. The Group is confident its financial strength will allow it to refinance existing loans and finance the current business plan commitments at competitive rates. The Group anticipates funding this through a mix of fixed and variable interest rate facilities, operating activities, cash generated from property sales and Government grants.

Debt Maturity Profile



The Group applied IFRS 16 leases from 1 April 2019, resulting in recognition of an additional £36.8 million of lease liabilities. These liabilities are included within the debt maturity profile above.

Working Capital and Liquidity Management

The Group manages liquidity by preparing and monitoring cash forecasts on a daily, weekly, monthly and longer-term basis to ensure that short and medium-term cash requirements are met. The forecasts are updated regularly to include sensitivity and scenario planning. Loan drawdowns are carefully managed to ensure funding is available when required and ensure debt finance costs are minimised. Sanctuary utilises revolving credit facilities to meet short-term fluctuations in cash flow, including capital expenditure on new housing for shared ownership or for sale where cash receipts are received in the short to medium-term. Longer-term funding requirements utilise term-loan facilities and debt capital market issues where necessary.

During the year the Group secured an additional £150 million of facilities, made up of a £75 million bond and a £75 million revolving credit facility. The Group also renewed £50 million of revolving credit facilities for another three years.

Just after year end the Group issued a £350 million 30-year secured bond at a coupon of 2.375 per cent, demonstrating the confidence investors have in Sanctuary and its long-term strategic aims. The bond proceeds will support investment plans to enhance our current stock, develop new affordable homes, and deliver services in line with our social purpose of providing housing and care to those in need.

Interest Rates

The Group operates an interest rate policy designed to reduce volatility in cash flow and debt service costs where possible. At 31 March 2020, 82.7 per cent of debt was fixed (2019: 87.0 per cent) and 17.3 per cent floating (2019: 13.0 per cent). The change is due to an increased use of revolving credit facilities to fund the Group's development programme.

Sanctuary has one stand-alone interest rate swap, entered into as part of a project finance arrangement, which swaps a variable interest rate to a fixed rate. At the reporting date, a £3.5 million liability (2019: liability of £3.4 million) was recognised for this derivative financial instrument. The requirement to collateralise this derivative is limited to the assets already securitised under this ring-fenced arrangement.

	2020 £m	2019 £m
Finance income	(3.6)	(3.5)
Finance costs – borrowings other than leases	117.4	120.3
Finance costs – leases	10.4	8.9
Net finance costs before loan break costs	**124.2**	**125.7**
Loan break costs	8.6	-
Net finance costs on borrowings	**132.8**	**125.7**

Further details of finance income and costs can be found in note 9.

Foreign Currency Management

At 31 March 2020, the Group had US dollar denominated debt with an aggregate value of $80 million (2019: $80 million). A cross currency interest rate swap is in place to hedge the risk of currency rate volatility in the future. This derivative is recognised at fair value on the Statement of Financial Position; an asset of £41.5 million at the reporting date (2019: asset of £22.3 million).

Covenant Compliance

The Group monitors loan covenants on a continual basis and these are reported to Group Board, Group Audit and Risk Committee and subsidiary boards as appropriate. Key covenants include interest cover, gearing ratios and asset cover. All covenants on loan facilities have been met during the financial year.

Cash Collection and Generation

The cash position of the Group remains strong, with sufficient cash in hand and facilities to fund operations and capital expenditure through the next financial year and beyond, to act as a buffer. The Group generated £244.2 million of cash from operating activities before working capital movements (2019: £215.2 million). At 31 March 2020, the Group had a cash balance of £261.5 million (2019: £150.1 million).

Sanctuary Homes has successfully completed the sale of all of its 46 homes at the Chase Park development in Ellesmere Port – Around £7 million has been invested in the shared ownership and outright sale properties where we worked with our joint venture partner Vistry Group

Business Review

Affordable Housing – Divisional Review

Housing Officer Rajwinder Garcha with resident James Annis

Performance

Despite the ongoing financial challenges faced by the social housing sector, including the final year of the one per cent rent reduction in England, revenue increased over the year, helped by the additional rent generated from new social housing properties completed and let in the year. Divisional EBITDA and divisional EBITDA percentage have again fallen this year due to the increased fire protection and compliance work. In addition to the development programme, we continue to look at new ways to expand our housing offering and on 30 March 2020 the Group purchased a portfolio of over 800 properties from Notting Hill Genesis, of which 228 were general needs properties located in Essex.

Our maintenance division has seen improvement in performance during the year with an increase in customer satisfaction levels to 94 per cent (2019: 93 per cent), as well as an increase in the use of our internal maintenance staff to 82.4 per cent (2019: 80.7 per cent). The average cost per responsive repair has increased slightly during 2020 to £122 (2019: £119), while the average repair per home was £1,257 (2019: £1,262).

Affordable Housing	2020	2019
Revenue (£m)	392.8	388.9
Divisional EBITDA (£m)	202.1	204.2
Divisional EBITDA (%)	51.5	52.5
Internal maintenance team utilisation (%)	82.4	80.7
Capital investment (£m)	58.4	60.2
Homes in management at the year end	80,286	79,583

The Group's operating segments are defined and reconciled in note 6 on page 118.

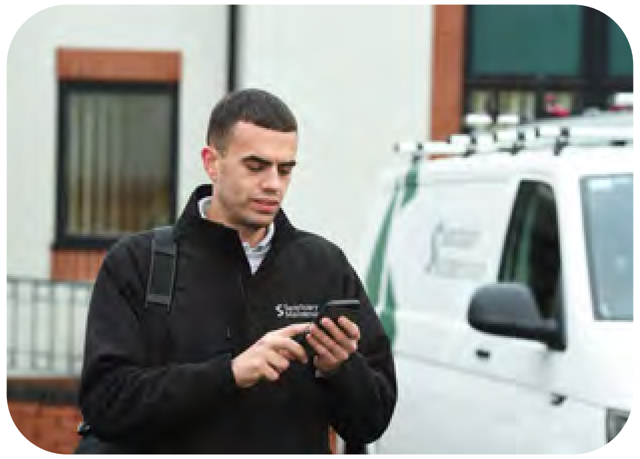
Future Plans

We anticipate the UK Government's social housing white paper. The assumption remains that homeownership will continue to be promoted in all its forms. While rent reductions in England have now come to an end, the roll-out of Universal Credit to existing claimants will keep placing pressure on our income base. In order to maximise our resources, while ensuring the support, quality and value of our service remains relevant to our residents, we will undertake a major resident consultation exercise called 'A Conversation with Sanctuary'. By listening to our residents we can ensure the services provided are the right ones and to a quality they expect.

We will maximise the use of the in-house maintenance and reinvestment service to successfully deliver our five-year reinvestment programme ensuring compliance with Decent Homes and Scottish Housing Quality standards. Utilising knowledge from asset performance and both residents and operations we will ensure that our properties continue to offer a safe, comfortable and energy-efficient place for people to live, comply with the latest legislations on fire protection and health and safety, while helping to reduce fuel poverty and manage our carbon emissions.

We continue to maintain our commitment to listening to our customers through resident scrutiny and co-regulation ensuring residents are actively engaged in shaping and designing of services and the safety of their homes, and that we are prepared for all future consumer regulation and building safety legislation.

We will continue to identify and implement further efficiencies in service delivery, administration and back office functions, with these savings reinvested into frontline services.



Sanctuary Operative David Taylor

The Simmons family outside their home in Redruth

Income Officer
Faye Waddy

Case Study

Sanctuary Housing Launches New Direct Debit App

Sanctuary Housing has revolutionised the way it manages the finances of residents by launching a new Direct Debit app.

The app, which has been designed by our in-house Technology team, allows Income Officers to work more efficiently on the move, reducing the amount of paperwork and enabling them to spend more time with residents.

With just a few taps on the screen of their tablet, our staff can create, change or cancel Direct Debits on the doorstep, meaning a resident no longer has to complete forms by hand.

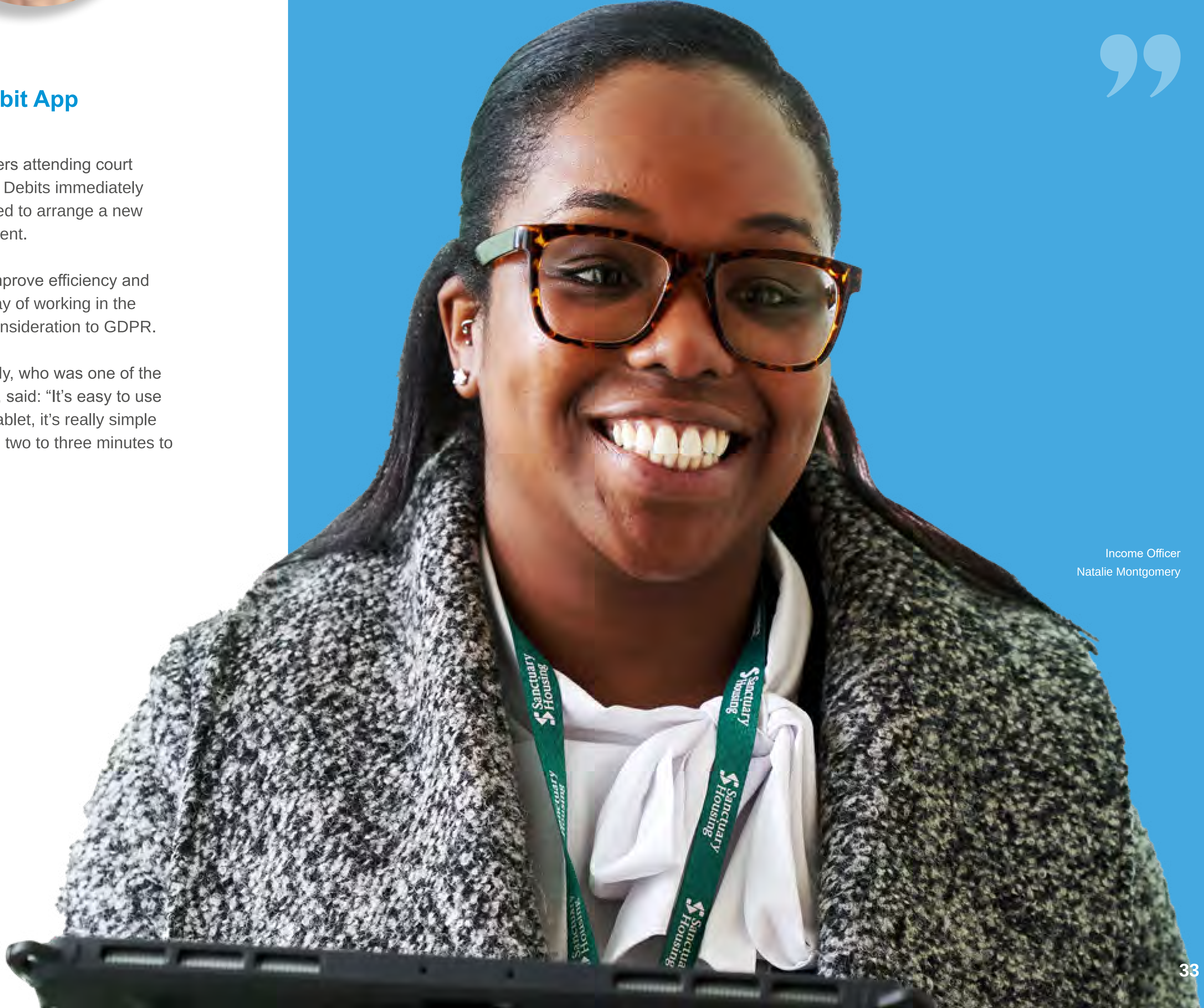
Not only does this save time for Income Officers, it also allows residents to have greater control over their finances and avoid getting into arrears. Instead of setting up standing orders or using payment cards, rent is paid automatically from their account when they want – something made more pertinent following the introduction of Universal Credit.

Significantly, Income Officers attending court hearings can set up Direct Debits immediately via the app without the need to arrange a new appointment with the resident.

All of this is designed to improve efficiency and promote a more mobile way of working in the modern world, with due consideration to GDPR.

Income Officer Faye Waddy, who was one of the first people to use the app, said: "It's easy to use because it's an app on a tablet, it's really simple and Direct Debits can take two to three minutes to set up."

> "The app will **increase the visibility of our staff** and **enhance** greater levels of **customer satisfaction**"



Income Officer
Natalie Montgomery

Business Review

Supported Living – Divisional Review

Resident Sherrif Shettum and Project Worker Oluwatoyin Akanji at Victoria Way, Greenwich

Performance

While increased pressures on social care and health demand and funding continues to be felt by operations, Sanctuary Supported Living has again improved revenue in the year through growth of support hours delivered and new support contracts undertaken in Redcar and Cleveland, and Birmingham. We also acquired a portfolio of over 800 properties from Notting Hill Genesis on 30 March 2020, of which 460 were supported housing properties located in Norfolk, Suffolk and Essex.

Divisional EBITDA has decreased in the year, reflecting the increased levels of compliance and health and safety related costs in our schemes.

In addition to the improving revenue, the high standard of both accommodation and service continues to receive recognition with six older people schemes receiving regional awards from the Elderly Accommodation Counsel, while 12 staff reached the finals, and five received first places, in the Great British Care Awards. Hilltop House in Bury St. Edmunds, a scheme providing supported housing services for people with physical disabilities, and Montague Road Nursing Home both received an Outstanding rating from the Care Quality Commission, making a total of five supported living schemes now with an Outstanding rating.

Supported Living	2020	2019
Revenue (£m)	76.0	72.9
Divisional EBITDA (£m)	3.2	4.4
Divisional EBITDA (%)	4.2	6.0
Capital investment (£m)	1.6	4.6
Homes in management at the year end	4,859	4,323

The Group's operating segments are defined and reconciled in note 6 on page 118.

Future Plans

We will look to continue to grow the supported living business through new contracts, the acquisition of services aligned to our own strategy and ensuring the newly acquired services in the East of the country are quickly and fully embedded into our operating model.

We will ensure residents meaningfully engage in the services we deliver to them, and that our wellbeing approach is fully embedded, so that their needs are fully met.

We will continue to explore ways to improve the service offered to residents through the use of technology.

Resident Joanne Gatford at Hazel Court, Worcester

Craig Surtees and Vicky Ford from Nickleby Road, Chelmsford

Case Study

Stanley Grove, Manchester

Stanley Grove employees Michael McCarrick and Neil Lawler with resident Astley Skeen

Manchester Service Helps City's Rough Sleepers

Sanctuary Supported Living's Stanley Grove, which provides accommodation for rough sleepers, marked its first year of operation with a visit from the Mayor of Greater Manchester Andy Burnham.

Stanley Grove first opened its doors in March 2019 as part of Mr Burnham and the Greater Manchester Combined Authority's A Bed Every Night initiative, which was launched in November 2018 to provide a bed plus targeted support for every person sleeping rough in the city region.

Stanley Grove was set up in just six weeks in 2019 by Sanctuary Supported Living and provides accommodation and support to 20 people including couples, people with limited mobility and wheelchair users.

The service was specifically designed and commissioned to meet the immediate needs of entrenched rough sleepers and those with complex support needs across the city.

The service provides 24-hour support to help residents address immediate needs. It also helps them to develop independent living skills including budgeting, meal planning, overcoming social isolation, confidence, self-esteem, managing their tenancy and developing personalised move-on pathways.

Mr Burnham met with residents to hear about how the service has helped provide them with stable accommodation and tailored support to prepare them for the transition to independent living.

Speaking at Stanley Grove during his visit, Mr Burnham said: "I've heard a lot about Stanley Grove – it's been one of our major locations for A Bed Every Night.

"When you come here and you see the quality of the environment and the difference it's made for people, all of the good reports I've heard are true."

> I'm **very proud of the team here, everything** they're doing, the **difference** that they're **making for people,** they're **helping turn people's lives around**

Andy Burnham with residents Glenn Doyle and Natalie Harding at Stanley Grove, Manchester

Business Review

Care – Divisional Review

Deputy Manager Tyler Durnall with resident Wesley Thompson at Lime Tree Court Residential Care Home, Bilston, West Midlands

Performance

Despite the care sector remaining challenging throughout the past year, Sanctuary Care has seen revenue grow through a combination of occupancy increasing above 2019 levels and the average weekly fee achieved in our homes increasing to £807.

Increases in staffing costs, due to an increase in the delivery of chargeable hours and the continued emphasis on compliance costs, has resulted in a small reduction in both divisional EBITDA and divisional EBITDA percentage in the year.

Significant improvement has been achieved in quality ratings in 2020, with 84 per cent of all services in England rated as Good or Outstanding and 88 per cent of services in Scotland, reinforcing our position as one of the leading providers of elderly persons care services which truly enriches the lives of all its residents. Enriching lives has been the cornerstone to the successful rebranding exercise carried out in September 2019 to ensure we are positioned correctly in the highly competitive care home sector.

We continue to utilise technology to improve the quality of service to our residents and staff, such as kradle, our in-house developed electronic care planning tool, electronic medication administration records (eMARs), and staff communication app – Kronos Dimensions. Specific past and current objectives are included within the Customers part of the Value for Money section.

In January 2020 the Group acquired a total of seven care homes in Scotland from three different providers, taking the total Sanctuary Care portfolio to 102 homes (107 registered services) with over 6,900 employees.

Care	2020	2019
Revenue (£m)	194.1	185.5
Divisional EBITDA (£m)*	21.7	22.7
Divisional EBITDA (%)*	11.2	12.2
Care Quality Commission rating (England) %	84	81
Care Inspectorate rating (Scotland) %	88	73
Average weekly rates (£)	807	761
Occupancy (%)	91	90
Capital investment (£m)	12.1	13.1
Number of bed spaces in management at the year end	5,201	5,023

*Excludes restructuring costs of £2.5 million in 2020

The Group's operating segments are defined and reconciled in note 6 on page 118.

Future Plans

The Covid-19 pandemic has seen increased pressure on our care operation. In order to protect both our residents and staff we took the difficult decision to not allow visitors to our care homes from 16 March 2020, but we were able to ensure vital family and social connections were not lost, by our staff facilitating virtual visits through iPads in every one of our care homes.

In 2020/2021 Sanctuary Care will continue to enrich the lives of our current and future residents, by continuing to build on the foundations already in place.

We will build on our quality reputation and brand awareness to seek to enhance occupancy performance and continue to empower and invest in all our teams to improve the operational performance and outcomes for our residents. Our use of technology will be optimised, especially in training, to ensure the highest standards, including health and safety, infection control, and person-centred care, which enriches the lives of all who use our services – residents, families and staff.

Fred Kennedy, resident, and Asha Gurung, volunteer, at Bartley Green, Birmingham

Juniper House Residential Care Home, Sanctuary Care's flagship Worcestershire home

Case Study

Watlington and District Nursing Home

Staff and residents at Watlington celebrating their success

Oxfordshire Care Home Rated Outstanding by Regulator

Sanctuary Care's Watlington and District Nursing Home, in Watlington, was rated as Outstanding by the Care Quality Commission following an unannounced inspection – the first of Sanctuary's nursing homes to achieve the rating.

The home, which provides care for up to 60 residents, was commended by inspectors for its exceptional levels of leadership and responsiveness as well as for its care, safety and effectiveness.

It was the third Outstanding rating Sanctuary Care has been awarded since January 2019 and takes the total across our portfolio to four.

Watlington's provision for dementia care was acclaimed in the report. The use of kradle, Sanctuary's bespoke in-house electronic care planning app, which allows plans to be updated at the point of care, was also recognised by inspectors because it enabled staff to spend more time with people as the recording was less time consuming.

The report noted the satisfaction of relatives with the level of care their loved ones received, with one saying 'We have a sense of relief knowing they are safe and well cared for'. Another added 'I am in awe of the kindness and friendliness of the staff – nothing is too much trouble'.

In addition, staff were complimentary of the training they received as well as support to identify and pursue development opportunities.

Staff celebrating Watlington's Outstanding rating

"We take **pride** in **working tirelessly** to **ensure our residents** are cared for with the **utmost levels of kindness**, **integrity** and **professionalism** that truly **enriches their lives**"

Business Review

Student and Market Rented – Divisional Review

Victor Ajayi and Serena Lee at Craft Building, London

Performance

Despite the continuing changing environment within higher education, revenue showed little change over 2019 and performed better than target due to increased student extensions and summer lets. The careful cost control in the year has also impacted on the EBITDA performance, which shows an improvement in terms of both pounds and percentage. Occupancy levels remain high, although slightly below that achieved in 2019.

This year saw the refurbishment of Manna Ash student accommodation in London, which involved 239 bedrooms, 37 kitchens, communal corridors, en suites, studio flats with kitchenettes, furniture and white goods, at a total cost of £2.8 million.

Student and Market Rented	2020	2019
Revenue (£m)	56.7	57.9
Divisional EBITDA (£m)	29.1	28.5
Divisional EBITDA (%)	51.3	49.2
Occupancy – Student (%)	94	95
Capital investment (£m)	8.2	5.9
Homes in management at the year end	12,340	12,289

The Group's operating segments are defined and reconciled in note 6 on page 118.

Future Plans

The Covid-19 pandemic will undoubtedly impact the student side of the business in particular, during the current academic year and possibly into the next, with uncertainties around how the 2020/2021 academic year will differ from previous years. Sanctuary's priority will remain the safety of our residents and staff during this time.

Despite the uncertainty, the focus remains to position the business for sustainable long-term financial and performance improvements. The strategic aim is to make our accommodation a place where students and key workers choose to live because of the great locations, the quality and the all-inclusive nature of the housing. For many of our tenants, this will be their first time living away from home, so we need to provide them with a safe and secure environment to make that transition before progressing to truly independent living. Key themes for students include wellbeing and supporting their mental health; the environment and sustainability; and safety and security.

Sanctuary Students will continue to work with the Group's Asset Management team on the ongoing capital investment into the student stock and to review and explore alternative uses for under-utilised assets to ensure the maximum return.

We will need to consider the impact of any trade agreement or no deal with the European Union and what impact this may have for higher education beyond 2021 due to the potential loss of European Union research funding streams and the subsequent impact on the flow of students, researchers and academics.

Denmark Road, student accommodation in Manchester

Joe Freeman at Coopers Court, London

Case Study

Lilian Knowles House

Interior of Lilian Knowles House

Sanctuary Students Shortlisted for Leading Award

Sanctuary Students was named as a finalist in the National Student Housing Awards 2019.

Lilian Knowles House in London, accommodation available exclusively to postgraduates at The London School of Economics, was shortlisted in the best Specialist Accommodation category.

The accommodation, which can house up to 366 students, offers one-bedroom flats and studio apartments, as well as flats for four to eight people with a shared kitchen and dining area.

The shortlist for each category was compiled using the results of the National Student Housing Survey, which received more than 40,000 votes.

Sam McMillan, Director – Sanctuary Students, said: "To be a finalist in these awards, which are voted for by students, is a fantastic achievement for Sanctuary Students."

> "We **pride ourselves** on **providing excellent accommodation** at all of our **properties across the country,** so we are **delighted** that **Lilian Knowles House** has been **recognised** for this"

Franca Asimonye, Assistant Accommodation Manager, at Lilian Knowles House, London

Business Review

Development – Divisional Review

Lauren Packham, Nina Richards, Justin Cartwright and Rebekah Christon at our Kingsfield site, Glastonbury

Performance

Sanctuary has continued to make progress towards its aspiration to deliver 16,000 new homes by 2029. During 2019/2020 a total of 604* new properties were completed, with 203 sales being made. The increase in sales achieved during 2020 has resulted in increased revenue. Although the margin was lower than 2019, a good start has been made to the open market sales programme with three new sites launched under our outright sales brand Beech Grove Homes and a sharp increase in the number of off-plan sales.

Strong performance during 2020 was seen for Sanctuary's MORE community programme with the number of new and existing apprenticeships supported by the development programme up 53 per cent (against a target of 25 per cent) and over £345,000 spent on community initiatives (a 38 per cent increase from 2019).

Our dedication to improving homes continues to be recognised with four awards in the year for the £60 million regeneration scheme at Anderston in Glasgow, including the Scottish Home Awards – Housing Regeneration Project of the Year 2019, Homes For Scotland – Affordable Housing Development of the Year 2019 as well as recognition from the Saltire Society Housing Design Awards. There was also praise from Scotland's Minister for Local Government, Housing and Planning, during a visit to the new development of homes in Wellmeadow Street, Paisley, in Glasgow.

An important milestone was reached in December with the purchase of the 10 blocks of maisonettes on the Barne Barton estate in Plymouth. This will allow the multi-million pound regeneration on the estate, which will see the blocks demolished and replaced with a mix of high-quality new housing.

Development	2020	2019
Revenue (£m)	40.4	25.4
Cost of sales (£m)	(29.7)	(17.3)
Divisional EBITDA (£m)	10.7	8.1
Divisional EBITDA (%)	26.5	31.9
Homes completed in the year*	604	941
Housing sales**	203	150
Homes on-site and in development at the year end	5,642	6,002
Funding for development		
Expenditure contracted (£m)	317.0	83.2
Authorised expenditure not contracted (£m)	463.8	687.5
Total (£m)	780.8	770.7

*Excluding joint ventures and consortia **Includes First Tranche Sales

The Group's operating segments are defined and reconciled in note 6 on page 118.

Future Plans

The impact of Covid-19 on the housing market is unknown and the final trade agreement with the European Union following the United Kingdom's exit is also to be agreed, but careful selection of land, sites and risk management means Sanctuary is well placed to ride out this potentially turbulent time and continue to make a significant contribution towards easing the housing crisis.

During 2020/2021 we hope to:

- Finalise plans for the regeneration of 120 homes in Barne Barton in Plymouth following community consultations and land assembly conducted during 2019;
- Start on-site for all aspects of Sanctuary's Victoria Infirmary scheme in Glasgow, which will deliver affordable rent as well as New Supply Shared Equity homes and apartments for open market sale; and
- Complete the first homes on two flagship sites at Cooks Lane, a development of 243 homes in Sittingborne, and Bullwood Hall, a collection of 78 properties set in extensive woodlands in Hockley.

In conjunction with our construction partners, we will seek to continue to improve the environment of the areas where we operate by providing skills and resources to make improvements to local spaces and bring local aspirations to life, as well as creating local jobs through apprenticeships and training opportunities.

Interior of show home at Hawkers Reach, Padstow

Sanctuary Group Apprentice Nyah Allen, with Simon Parkman, Senior Construction Manager, at the Woodland View development, Stoke Lacy

Case Study

Residents Receive Keys to New Village Homes

A new £7 million housing development in the Essex village of Canewdon welcomed its first residents during the year.

Thirty-five affordable homes were built at our Three Acres scheme on Anchor Lane. Comprising 21 two-bedroom, seven three-bedroom and three four-bedroom houses, as well as four apartments, the development was a significant addition to the local housing market.

Around half of the properties, part funded by Homes England, have enabled first-time buyers to take their first step on the housing ladder through shared ownership, while the rest have been made available for affordable rent.

The properties at Three Acres have been designed in keeping with Canewdon's historic architecture and form part of Sanctuary's wider development programme.

> We all know how **tricky** it can be to **get onto that first rung of the housing ladder** and these **new properties,** which have been **made available for shared ownership,** will provide a **helping hand**

A street scene of Three Acres

Value for Money

Value for Money is about making the best use of every pound to deliver social housing, improve existing homes and better serve our customers.

The delivery of Value for Money is essential to our success in building affordable homes and sustainable communities where people choose to live. It supports our Corporate Strategy's priorities to engage, invest, advance and grow; builds on our values of ambition, diversity, integrity, quality and sustainability; and delivers the resources required to achieve our mission.

Our Value for Money Principles

Our Value for Money principles are:

Economy

Achieving the best value from our inputs, that is, when items were purchased did we get them for the best possible value?

Efficiency

Maximising the outputs for a given level of inputs, that is, how good are we at creating the output?

Effectiveness

Ensuring the outputs deliver the desired outcome, that is, was what we delivered at the correct standard and did it achieve the desired outcome?

Equity

Ensuring the distribution of resources is equitable, that is, are our services equally available to, and did they reach, all the people that they are intended for?

Monitoring Our Performance

We analyse our performance in four areas: assets, resources, structures and processes, and customers. In monitoring our Value for Money performance, we start with strategic Value for Money objectives for each of these areas. We then have two approaches to achieving and monitoring these strategic objectives.

The first approach consists of specific and measurable project-based Value for Money objectives. In this report we look at how we performed against these specific Value for Money objectives we set ourselves at the beginning of the financial year. We also set out what our specific Value for Money objectives will be for the next financial year.

The second approach consists of analysis of key performance indicators that assess the overall success of our Value for Money activities over time and in comparison to other organisations. Benchmarking with other organisations allows us some insight into what constitutes excellent performance. By reviewing and applying this learning, we are continually challenging and improving our performance and achieving economy, efficiency, effectiveness and equity.

Within the suite of key performance indicators, we include metrics required by the Regulator of Social Housing (RSH) through its 2018 Value for Money Standard. These metrics, referred to in this report as 'RSH metrics', are being disclosed by all Registered Providers, using prescribed methods of calculation to improve comparability. The methodology calculations for the RSH metrics can be obtained from the RSH website: **https://www.gov.uk/government/organisations/regulator-of-social-housing**.

Although these metrics work well to compare some Registered Providers whose range of activities are very similar, they are less ideal for large Registered Providers who have diversified operations. For instance, our significant nursing and residential care activities are relatively rare within the sector, as is our student portfolio, with the result that our RSH metrics are not truly comparable with other

Resident Jazz Shaban who sits on our Group Housing Committee

Registered Providers. We believe that our results are better understood when considering each operation individually.

Our housing benchmarking group (also referred to as peer group) includes organisations either of a similar size or with activities of a similar nature to our own. However, none of these organisations have a similar-sized care or student portfolio, making meaningful comparisons difficult.

For divisional benchmarking, relevant peer groups include large care providers and student accommodation providers.

Understanding Our Performance

The outcomes for the Group's specific objectives set in respect of the year ended 31 March 2020 are colour-coded as follows:

- Objective achieved
- Objective partially achieved and/or scope revised as a result of further analysis
- Objective not achieved

Group key performance indicator results for 2020 and 2019 are colour-coded as follows:

- Exceeded target (2020)/outperformed peer group (2019)
- Within 10 per cent of target (2020)/within 10 per cent of peer group (2019)
- More than 10 per cent short of target (2020)/more than 10 per cent short of peer group (2019)

Where no colour-coding is offered, this is because no comparison is available, or a comparison is subjective.

Assets

Assets comprises management of our existing asset base and developing new properties.

Value for Money and Asset Management: Our Strategic Objectives

Achieving Value for Money through our asset management processes means investment in our existing homes, ensuring they are safe and decent, and advancing their quality through maximising energy efficiency. We do this through:

- Delivering economic, effective and timely maintenance and compliance services;
- Ensuring optimal efficiency and effectiveness of assets, including identifying remedies for under-performing assets; and
- Improving energy and environmental efficiency ratings.

The Group Board sets the asset management strategy in conjunction with the Capital Committee, while our assets function enforces and delivers it, including the proposal of investment and disposal decisions. Our subsidiaries and their boards also retain asset ownership responsibilities.

We monitor a variety of information to achieve these objectives, including vacant stock reports, re-let data, portfolio performance, compliance levels, energy ratings, demand analysis, stock condition surveys, maintenance spend, local property markets and commissioners' activity.

We use this information to establish investment requirements, plan maintenance and compliance services and identify where action is required to address under-performing assets through our option appraisal process.

Monitoring and analysis of non-social operations such as care and our student business, with different operating margins to social housing, draw on specialist market information and insight.

Value for Money and Development: Our Strategic Objectives

Achieving Value for Money through our development programme means investment in regeneration and growth through new shared ownership, affordable rented and social rented homes with the help of proceeds from homes built for sale. We believe this is an equitable development model.

Heritage Point, Cornwall

Our Specific Value for Money Objectives for Assets

Here is how we performed in respect of the specific objectives we set for 2019/2020.

We said we would:	Our performance:
• Make more homes available to those in need through the completion of over 900 homes for affordable tenures. We will further increase housing supply and financially support affordable housing development through the completion of over 250 new homes for market sale.	We have completed 635 affordable homes during 2019/2020. These include 22 through joint ventures and 82 through consortium partners. 181 new homes for market sale have been built, of which 108 are through joint ventures. As in the previous financial year, Group development activities continue to be delayed by the planning processes.
• Generate at least £1 million of additional revenue from under occupied or poorly performing assets.	The Option Appraisal team, which assesses a range of options for properties requiring review, has completed reviews and identified appropriate courses of action for 61 properties, comprising 206 homes, which will now generate an additional £1.1 million income.
• Continue to improve the quality of our student accommodation and its income potential through an extensive refurbishment of Manna Ash, one of our London student accommodation schemes.	The refurbishment of Manna Ash was completed in September 2019. This covered 239 bedrooms, 37 kitchens, communal corridors, en suites, studio flats with kitchenettes, furniture and white goods. Total spend was £2.8 million. Additional rental income of £276,000 has subsequently been received in 2019/2020.
• Improve the environments in which our residents live and create capacity for new homes by considering the options for garage sites and agreeing individual courses of action.	Four sites have started the planning process for direct development with five more ready to follow. Additional sites are being reviewed from this perspective. Where direct development is not possible, options under review include disposal with planning permission, disposal to developers, exchanges with local authorities or other uses which would enhance the services we provide to residents.

Value for Money Key Performance Indicators: Assets

	Group 2020 actual	Group 2020 target	Group 2019 actual	Peer group average 2019	Group 2021 target
Investment per property in existing properties (£)	782	908	827	642	484
Reinvestment (%)*	4.0	6.5	3.1	5.7	3.9
Return on Capital Employed (%)*	3.1	3.2	3.5	3.8	2.7
New supply delivered – social (%)*	0.6	0.9	0.9	2.1	0.6
New supply delivered – non-social (%)*	0.1	0.2	0.1	0.4	0.1
Number of new homes completed including through joint ventures and consortia	816	1,065	1,128	1,325	605
Number of new homes sold	203	265	150	n/a	138

*RSH metrics

Investment per Property in Existing Properties

Sanctuary invested more in its homes in 2019 than its peers according to the peer benchmarking group figures above. Within our peer benchmarking group, there is a correlation between the amount per unit invested in existing properties and the proportion of housing stock used for supported and sheltered tenures. We have among the highest proportion of these tenures when compared to our peers. Typically, those with high proportions of sheltered and supported stock invest more due to the nature of the properties.

Reinvestment decisions are made in light of our unique stock mix of social housing, care and student properties, sustaining the right level of investment to maintain our stock at a high standard.

During the year ended 31 March 2020 we have invested significantly in improving social housing around the country, including a national energy efficiency programme and specific remodelling projects in Rochford, the South West and London. We have also continued to invest in our commercial businesses including care homes, students and supported living accommodation. We continue to progress with the implementation of essential fire safety works, as a result of the Hackett Review, across all our properties to ensure compliance with the Building a Safer Future programme. Our 2020 result and 2021 target are impacted by Covid-19.

Reinvestment

The RSH's reinvestment metric considers investment in properties as a percentage of the value of total properties held. This calculation considers investment in existing stock as well as new supply, including acquisitions.

We have not met our target for the year ended 31 March 2020 because of continuing delays in the external planning process. Although we originally expected planning hurdles to be cleared during the coming year, our 2021 target builds in new delays caused by the ongoing Covid-19 response at the time of writing.

Return on Capital Employed (ROCE)

ROCE divides EBITDA by capital employed. Capital employed is the net book value of properties.

The prescribed RSH calculation method includes gains on disposal of fixed assets within its equivalent of EBITDA. Income from such disposals is not sustainable and will fluctuate substantially from one year to the next; therefore, a more accurate comparison within the peer group would be achieved by omitting this amount. This would result in a peer group average for 2019 of 3.1 per cent, which would exactly match the recalculated Sanctuary Group result. We expect our ROCE to drop slightly in 2021 as EBITDA is impacted by the effects of Covid-19.

New Supply Delivered

The RSH's new supply delivered metrics consider the number of new social housing and non-social housing units that have been acquired or developed in the year as a proportion of total social housing units and of total housing units managed at the year end.

Just as external planning delays have impacted our reinvestment metric, so it has also resulted in a shortfall against target for both our social and non-social new supply metrics.

As with our reinvestment metric, the 2021 target for new supply delivered – social has been suppressed to reflect the ongoing effects of Covid-19 at the time of writing.

The non-social new supply delivered metric can reflect a wide range of non-social development, depending on the particular activities of each organisation, although much of this activity tends to comprise outright sales. We have a far smaller outright sales programme than most of our peers due to our focus on delivery of affordable homes.

New Homes Delivered and New Homes Sold

Sales of newly built homes generated £40 million, with a gross margin of 26 per cent. The surplus has been reinvested in further development of social homes. This compares to £25 million in 2019 generating alongside a margin of 32 per cent.

The number of homes sold in 2020 fell short of target because of the delays in our development programme, as impacted on reinvestment and new supply delivered metrics, above. As with our reinvestment and new supply delivered metrics, the completions and sales targets for 2021 reflect the impact of Covid-19.

Our Updated Specific Value for Money Objectives: Assets for 2020/2021 and Beyond

- Despite the significant disruption of the Covid-19 response, we remain committed to delivering our development programme in England and Scotland. A cornerstone of that programme is the Shared Ownership Affordable Homes Programme 2016-2021. We are now back on-site and working under social distancing guidelines, pressing forward to deliver new homes for those who need them while supporting the construction industry and employment in general.
    - We will deliver the 2,264 affordable homes, both rented and shared ownership, committed within the programme. Through developing the schemes within this programme, we will also deliver 634 homes for outright sale. In Scotland we will deliver our pipeline of social rented properties of approximately 1,000.
- We will invest in the safety of our residents in high-rise accommodation through retrofitting sprinklers, emergency lighting and fire alarms into our high-rise blocks in Chester, Stafford and the West Midlands.

New Court, Cheltenham

Resources

Our resources include our operational and financing income and our people. They are impacted by our procurement practices.

Value for Money and Resources: Our Strategic Objectives

Achieving Value for Money when managing our resources means investment in frontline staff, economies and efficiencies. Practically, this involves efficiency through optimising income collection; economy in how much of that income we need to spend while maintaining and improving the effectiveness and equity of our services; and attracting the best staff through our fair and equitable employment practices.

Our Specific Value for Money Objectives for Managing Resources

Here is how we performed in respect of the specific objectives we set for 2019/2020:

We said we would:	Our performance:
• Support skills development, progression and retention of care staff by recruiting 50 nurse apprentices and increasing our investment in staff training. We aim to increase the number of staff working towards qualifications in the year from 150 to 350.	15 nurse apprentices are currently in post. Further nursing apprentices will be appointed across our nursing homes when the Covid-19 response allows. In addition, we are exploring the opportunity to further invest in care staff by offering the Level 3 senior health care support qualification. There are currently 354 employees undertaking a Regulated Qualification Framework qualification. 81 apprenticeships have been completed in 2019/2020.
• Renew our commitment to the Group's employees by maintaining our Investors in People accreditation for all parts of the Group being reassessed during 2019/2020.	Sanctuary Housing, Sanctuary Scotland, Sanctuary Students and Sanctuary Supported Living have all had their 12-monthly Investors in People reviews with Sanctuary Housing, Sanctuary Scotland and Sanctuary Students having their silver status reconfirmed. Sanctuary Supported Living has achieved gold status.
• Improve fairness and consistency in our delivery of care and improve its administrative efficiency by completing a review of employee terms and conditions and reducing 47 variants to three.	The review was successfully completed, and the new terms and conditions came into effect on 1 October 2019.
• Sustain and improve income collection rates, particularly during the roll-out of Universal Credit, by increasing the proportion of new tenants signing up to pay their rent by Direct Debit to 40 per cent.	The rate of new tenants signing up to pay their rent by Direct Debit is now well over 50 per cent.
• Exceed £1 million in annualised savings on new contracts through our Group procurement processes.	The Group Procurement team has succeeded in meeting this target.
• Extend consistency and efficiency of Group income collection through migration of our care home income collection systems onto OneSanctuary. .	Our work on the proposed migration identified that it is more cost-effective to wait until scheduled Enterprise Resource Planning system upgrades in the medium-term. An interim solution is being devised to improve consistency and efficiency before the full migration can be made.

Value for Money Key Performance Indicators: Operational Resources

	Group 2020 actual	Group 2020 target	Group 2019 actual	Peer group average 2019	Group 2021 target
Headline social housing cost per unit (£)*	4,499	4,714	4,584	4,092	4,471
Headline social housing cost per unit excluding non-social capitalised spend (%)	4,241	4,424	4,340	4,092	4,372
Operating margin – social housing lettings (%)*	37.4	37.9	38.5	33.0	36.2
Operating margin – overall (%)*	23.0	24.0	24.2	24.0	21.8
Void loss %	1.1	1.1	1.1	1.5	1.2
Rent arrears %	3.6	4.3	3.8	4.6	n/a
Average cost per responsive repair £	122	115	119	n/a	113
Average total repair cost per unit £	1,257	1,378	1,262	1,055	1,260
Chief Executive pay per unit £	2.92	n/a	3.76	4.24	n/a

*RSH metrics

Headline Social Housing Cost per Unit

This has been derived from information contained in the Income and Expenditure from Social Housing Lettings and the Turnover, Cost of Sales, Operating Costs and Operating Surplus notes (Appendices 1 and 2).

We have exceeded our target for the year.

Under the methodology presented by the RSH, the calculation does not allow for the fact that our Group capitalised repairs amount includes non-social activities, being care homes and student accommodation. The performance results above include adjusted headline social housing cost per unit in this respect. Considering their activities, we do not believe that any of our peer group are likely to have notable capitalised repairs to non-social properties, therefore their calculations are unlikely to require adjustments in this respect.

Operating Margin

Our 2020 RSH operating margin – social housing lettings is close to target. The decrease in operating margin from 2019 to 2020 reflects the fourth year of the rent reduction and no reductions in our maintenance programmes.

Our 2019 RSH operating margin for social housing lettings was among the highest within our peer group despite having a greater proportion of supported and sheltered housing activities than the majority of our peer group. Operating margins for supported and sheltered housing activities are lower due to the greater staffing and maintenance requirements associated with them.

Our RSH operating margin – overall was around average for our peer group in 2019 despite approximately one quarter of the Group's income coming from care and support activities which typically attract lower margins. Our overall operating margin is lower than our 2020 target due to the one-off costs associated with our exercise to align employee terms and conditions across our care homes business.

Our target operating margins for 2021 have been impacted by Covid-19. Specific factors include increased bad debts and void losses, decreases in development and maintenance activities and lower care home occupancy.

A significant proportion of our business is the provision of care and support for older people, people with learning and physical disabilities, homeless people and people with mental health problems. Operating margins across these industries are lower than general needs housing due to greater staffing requirements and their reliance on public funding, which is constantly under pressure. We monitor and manage these activities very carefully, balancing the risks and rewards to ensure that margins remain appropriate.

Other Operational Management Metrics

Void loss is in line with target.

The average cost of a responsive repair is comparable to 2019 but is slightly higher than our target mainly as a result of higher than expected fuel costs and vehicle repairs. After analysis of these costs and the reasons behind them, we remain confident that our 2021 target is achievable.

Since 2017 we have been reducing our rent arrears percentage successfully year-on-year.

Value for Money Key Performance Indicators: Financial Resources (Treasury Management)

Our borrowings are managed carefully to minimise their cost and maximise their effectiveness.

	Group 2020 actual	Group 2020 target	Group 2019 actual	Peer group average 2019	Group 2021 target
EBITDA MRI interest cover %*	119.3	111.6	121.3	141.8	136.3
Proportion of fixed rate debt	82.7	n/a	87.0	81.0	n/a
Interest cover (ratio)**	2.09	1.88	2.15	2.32	1.76
Cost of borrowing %	4.16	n/a	4.56	4.05	n/a
Gearing %*	53.1	53.6	51.9	49.1	54.2
Gearing % (Sanctuary Group method)	50.6	53.5	49.3	50.3	50.4

*RSH metric **Excludes loan break costs

Interest Cover

Interest cover can be calculated in different ways, but the results for both methods used here show us achieving a lower interest cover than our peer group. This is a reflection of several factors, most notably our extensive history of development and the associated costs of financing those programmes. We have always maintained a prudent approach to our treasury management and we therefore maintain a high level of fixed debt, reducing volatility in our cash flow and debt servicing requirements.

Our peers, on average, do not maintain as high a level of fixed rate debt. Further information on our approach to treasury management can be found in the Group Finance Director's Review and note 23 to the Financial Statements (financial instruments and risk management).

EBITDA MRI (Major Repairs Included) Interest Cover

This RSH metric includes the cost of major repairs in the calculation of the numerator, irrespective of whether those repairs have been capitalised.

EBITDA refers to earnings before interest, tax, depreciation and amortisation. Our target for the year ending 31 March 2021 reflects a decrease in maintenance costs and a drop in forecast interest payable because of reduced maintenance and development activity resulting from Covid-19.

Interest Cover (Our Metric)

This is our preferred method and makes no adjustment for capitalised major repairs. Our lenders do not require adjustment for capitalised major repairs in their covenants. It is expressed as the number of times our operating surplus (before depreciation) can cover our net interest costs.

Cost of Borrowing

The improvement in the cost of borrowing is the result of greater use of variable rate facilities along with lower fixed rates on refinanced debt.

Gearing

There are a variety of ways to calculate gearing. The method required by the RSH for comparison purposes considers net debt as a proportion of the carrying value of housing properties. However, our preferred method is to divide net debt by properties' depreciated cost, including investment properties. This method is commonly used by our investors and credit agencies to aid comparability. Under this measure our gearing is similar to our peers.

Emma Ball from Lime Tree Court Care Home

Our People

Our employees are a huge asset to Sanctuary and are discussed in the Our People section on page 8.

Our Updated Specific Value for Money Objectives: Resources for 2020/2021 and Beyond

We will:

- Safeguard the homes of residents of Thistle Housing Association by completing its Transfer of Engagements into Sanctuary Scotland, while paving the way for new efficiencies in our resultant expanded Glasgow housing operations.
- Demonstrate our commitment to care staff by facilitating an increase in the number of staff achieving qualifications from 150 to 350.
- Exceed £1 million in annualised savings on new contracts through our Group procurement processes.
- Support people at the very beginning of their construction careers by increasing apprenticeships within our supply chain by 20 per cent, year-on-year.

Structures and Processes

Our structures and processes include our corporate structure, our operational structure, our governance structure and processes, and our technology processes.

Value for Money and Structures and Processes: Our Strategic Objectives

Achieving Value for Money through our structures and processes means investment in the most efficient, economic and effective corporate, operational and governance structures and processes and applications of technology.

Our Corporate Structure

As at 31 March 2020, Sanctuary Group comprises 59 entities with a variety of purposes including social housing activities, student accommodation operations, care home management and special purpose financing vehicles. We have also invested in five joint ventures which are building new homes.

Our structure ring-fences non-social housing activities, including development, to protect social housing activities from the added risks of commercial activities. By ensuring transparency in our structure, we facilitate the delivery of Value for Money for all of our customers.

For detailed information on all subsidiaries and joint ventures, see note 34, Investments in subsidiaries, associates and jointly controlled entities.

Our Operational Structure

Our operations individually focus on distinct social and non-social business areas. This enables us to build up specialist skills and knowledge and thereby deliver Value for Money services to all our customers.

Our operational activities are supported by our award-winning Corporate Shared Service Centre, maximising the benefits of our employees working in a modern office environment, while delivering a Value for Money solution to the provision of back office functions.

Our Governance Structure and Processes

Our governance structure is described on pages 65 to 75.

Our Group Board sets our strategic objectives and monitors progress. Our strategic priorities are set out in our Corporate Strategy and form the basis of our operational plans. Our specific Value for Money objectives, as discussed in this report, are agreed by the Group Board and reflected in operational plans and budgets.

Key performance indicators and management accounts reports are monitored by Group Board, subsidiary boards, our Executive Committee and Capital Committee against our operational plans and budgets. A balanced scorecard and performance reports are presented to our Group Board. The Group Board scrutinises the plans and results presented to it, and holds the Executive Committee, Group Audit and Risk Committee, Capital Committee and Group Housing Committee accountable for delivery. Members of the Group Board are carefully selected to ensure they possess the full range of skills required to provide this level of robust scrutiny.

Value for Money is considered in every decision made by the Group Board, subsidiary boards, Executive Committee and Capital Committee.

The risk and return profiles of each of our operations are very different. When making decisions, our Group Board considers the balance of risks and rewards for residents, customers and service users, our impact on society and across the Group.

Our Group Board regularly considers the potential Value for Money gains of alternative commercial, organisation and delivery structures. Current key initiatives include:

- Integrating the 460 supported living places, 228 general needs properties and 125 units of other tenures acquired by Sanctuary at year end into our existing operations, structurally and operationally, optimising the efficient, economic, effective and equitable operation of these additional homes and schemes.
- Optimising our commercial financing structures within the Group, ensuring the most economic and effective funding for our commercial operations.
- The use of carefully selected joint venture arrangements to deliver new homes. This enables more new homes to be built while sharing the risks and rewards with a third party.

Our Technology

Our Technology function is committed to building a highly productive environment where technology empowers everyone to achieve more and never gets in their way. This is discussed on page 10 within Technology and Innovation.

There are a variety of initiatives in progress that are designed to provide valuable technology services to customers and to provide technology that enables everyone to do their jobs better, enabling us to provide further Value for Money to our customers.

Our Specific Value for Money Objectives for Structures and Processes

Here is how we performed in respect of the specific objectives we set for 2019/2020:

We said we would:	Our performance:
• Reduce our administrative time and costs through simplification of the corporate structure we acquired with our Sanctuary Care (North) Limited care homes. We will reduce the number of companies in this structure from 22 to a maximum of three.	Sanctuary Care (North) Limited is in the process of taking on all businesses and assets from its sub-group, allowing for the removal of 21 companies from our Group structure. We aim to complete these transfers by December 2020.
• Continue to improve the efficiency of our development process by establishing our in-house construction presence in Worcestershire. This will be achieved through successful mobilisation of the Drakes Broughton site which will deliver 110 new homes.	In-house construction is now on-site developing 34 properties for rent in Cranham Drive in Worcester and 34 properties for rent, 33 shared ownership properties and 44 properties for outright sale in Drakes Broughton.
• Increase the efficiency of our maintenance operations by maximising our delivery of gas servicing and repairs through our internal maintenance service. During 2019/2020 we aim to deliver more than 97 per cent of all our gas servicing and repair needs in this way.	Current utilisation of gas repairs and servicing is above target at 99 per cent. To further support the initiative, a pilot is currently underway in the North to ascertain the viability of internalising commercial gas repairs. The pilot is ongoing and is being regularly reviewed to ascertain if further roll-outs would offer Value for Money.
• Generate efficiencies in our Corporate Shared Service Centre through the optimisation of technology.	We have implemented invoice processing software which has automated certain processes including invoice validation and verification. We now automatically validate an average of 35 per cent of invoices, with six per cent of all invoices being processed entirely automatically from receipt to payment.

Our Updated Specific Value for Money Objectives: Structures and Processes for 2020/2021 and Beyond

We will:

- Introduce new efficiencies into our Energy Performance Certificates process by training our Asset Surveyors to undertake them internally.
- Speed up our maintenance programmes enabling homes of the right quality to be available as quickly as possible to those who need them, through delivery of Field Service Management; a technology that will bypass current manual processes by allowing Works Supervisors to create works orders electronically while at the property.
- Continue to improve the efficiency of our development process by completing 144 homes in two Worcestershire locations through our in-house construction business.
- Continue to generate efficiencies in our Corporate Shared Service Centre through the optimisation of technology.
- Reduce our administrative time and costs through simplification of the corporate structure we acquired with our Sanctuary Care (North) Limited care homes. We will reduce the number of companies in this structure from 22 to one by December 2020.

Customers

We have a wide range of customers, many of whom are residents in our homes, be that social housing, student accommodation or a care home, or any other type of accommodation we provide.

Value for Money and Our Customers: Our Strategic Objectives

Achieving Value for Money for our customers includes engagement with our customers, listening to their needs and responding appropriately. This ensures our services are effective and equitable. It also involves investment in communities and advancing the quality of our services through accessibility and care technology.

Resident Engagement

We believe our residents should actively play a part in driving improvement and changes through our organisation. Sanctuary has a governance structure that enables and empowers residents to engage and participate in decision making at the highest levels of the organisation. Two members of our Group Housing Committee, the sub-committee of Group Board which has strategic oversight for housing, are residents. Reporting directly to the Group Housing Committee is the National Residents Scrutiny Panel, a resident panel which scrutinises policy and performance to ensure greater accountability about service delivery.

Listening to residents is not just about governance or scrutiny. We recognise that every day our residents give us information about the condition of our homes, communities and performance of our services. It is our role to capture that qualitative data and map it against our quantitative data about performance and use it to inform investment decisions. To be able to have confidence in our understanding of our performance, we survey approximately 10,000 residents each year regarding their experiences and satisfaction with services.

To further enhance our engagement with residents, we will launch an ambitious listening exercise. A Conversation with Sanctuary will canvas the views of a significant number of customers so that we can better understand the biggest challenges they face, and how we may be able to support them and their communities.

We were early adopters of the National Housing Federation's Together with Tenants plan and the actions following from the plan are already underway. We are working specifically with our National Resident Scrutiny Panel on this project, which will see tenant voice throughout Sanctuary strengthened and more clear reporting of actions where resident feedback has improved services.

Wendy Burridge, Chair of our National Residents Scrutiny Panel

Our Specific Value for Money Objectives Regarding Customers

Here is how we performed in respect of the specific objectives we set for 2019/2020:

We said we would:	Our performance:
• Deliver and embed actions resulting from the early adoption of the National Housing Federation's Together with Tenants plan, designed to strengthen tenant voice and ensure we are fully accountable and transparent with residents.	We were proud to have been early adopters of the National Housing Federation's Together with Tenants plan, which provided a good starting point for reviewing and enhancing relationships with residents. We want to go further and we remain committed to engaging with all of our residents in a way that suits them, on the issues that matter to them, over time. We are revising our plans to launch A Conversation with Sanctuary in light of the Covid-19 pandemic to ensure we engage with residents safely and using virtual means where we can be confident of accessibility.
• Invest in communities by gaining 30 per cent additional commitment to community benefit from partners and our internal construction business.	We have exceeded this target, achieving a 38 per cent increase in commitment to community benefit from partners and our internal construction business during the year.
• Ensure that Sanctuary Scotland rent levels remain affordable in the long-term by reviewing whether it is possible to reduce the inflation applied to Scottish social rent without compromising the financial viability of the organisation.	Our Scottish tenants were presented with options and have voted on their preferred approach to rent increases for 2020/2021, balancing increases with levels of reinvestment. 60 per cent of residents voted for an option that capped rent at 3 per cent for the next three years.

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We said we would:	Our performance:
• Continue to use technology to enhance the lives of our residents in care homes and supported housing schemes and provide a foundation for the further growth of the business. During 2019/2020 this will include: the roll-out of electronic care and support planning to all of our remaining care homes and to 17 supported living schemes; the creation of a new care home enquiries hub; the procurement and pilot of an electronic medication management system; and the pilot of acoustic monitoring systems within our care homes.	The Group's internally developed electronic care and support planning app for care homes, kradle, has now been rolled out in 80 care homes. By summer 2020 we expect to have completed the roll-out to all remaining homes, including recent acquisitions. The needs of our supported living schemes are far broader and, as such, require a multi-platform approach. A pilot has been underway during the year with a potential off-the-shelf package for part of our operations and a separate package has been procured and implemented for our portfolio of schemes in the East and South East, acquired at the year end. Work in this area will continue to be reviewed under a separate supported living-focused objective during 2020/2021. The care home enquiries hub went live in May 2019, initially with 10 care homes. It now supports 44 care homes. All care homes are expected to be using the hub by the end of 2020. The tender process for electronic medication management was completed in July 2019. After a successful pilot, it is now live in 27 care homes with the roll-out to all remaining homes expected to complete in March 2021. A 12-month pilot of an acoustic monitoring system commenced at one care home during October 2019. We are already seeing benefits to residents' health and wellbeing due to significant reductions in sleep disturbances.

Our Updated Specific Value for Money Objectives: Customers for 2020/2021 and Beyond

We will:

- Give a greater voice to our residents through increasing resident representation on the Group Housing Committee.
- Enhance the quality of our care home residents' lives through growing our number of active volunteers from 650 to 1,000 nationally.
- Continue to enhance the lives of our residents in care homes and supported living accommodation and provide a foundation for the further growth of the business. During 2020/2021, this will include the following:
    - o In our care homes: completing the roll-out of electronic care and support planning to all our care homes when we install it in our more recently acquired Scottish care homes; completing our roll-out of our electronic medication management system to all care homes nationally; completing our 12-month acoustic monitoring pilot with a view to beginning the roll-out if current favourable results continue; launching a pilot to improve the safety of our most vulnerable residents through GPS tracking; and trialling an exercise bike system linked to videos that enable residents to feel like they are exploring locations within the UK and around the world.
    - o In our supported living accommodation: the roll-out of electronic care and support planning to 17 supported living schemes; and a pilot of our electronic medication management system.

Governance

Sanctuary has a group structure, in which Sanctuary Housing Association (the Association) is the parent company. The Association was established on 5 May 1969 and is a Registered Society (19059R). The Group is governed by the Board of the Association (the Group Board) which comprises up to seven non-executive members, the Group Chief Executive, and up to three co-opted members.

The Role of the Group Board

The Group Board's primary role is to define strategy and ensure compliance with the Group's values and objectives. It agrees the strategic direction of the organisation and makes sure that policies and plans are in place to achieve those objectives. It also establishes and oversees a framework of delegation and systems of control, ensuring that good governance practices are embedded across the Group's operations.

The Group Board:

Andrew Manning-Cox BA Law, MA Law, FCIArb., CEDR Accredited Mediator
Group Chair
Andrew Manning-Cox retired as Senior Litigation Partner of Gowling WLG (UK) LLP in 2018, having been with the organisation for 40 years. He specialised in dispute resolution world-wide. Andrew is now in practice as an Arbitrator, Mediator and a Notary Public.

Andrew is an experienced non-executive director of a number of companies and public bodies. He is currently Chair of Hereford Enterprise Zone (Skylon Park); a non-executive director of Thursfields Legal Limited, The Marches Local Enterprise Partnership and Worcestershire County Cricket Club; and a member of the Independent Remuneration Committee of Worcestershire County Council. Immediate past non-executive directorships include Malvern Hills Science Park and Central Technology Belt.

Craig Moule BSc (Hons)
Group Chief Executive
Craig Moule has been with Sanctuary for over 30 years, having joined the organisation in 1989 from Coopers & Lybrand. Craig was appointed Group Chief Executive on 1 January 2019.

Prior to this he was the Group's Chief Financial Officer. While holding this position, Craig oversaw Sanctuary being the first housing association to implement a SAP enterprise solution and the formation of our Corporate Shared Service Centre. Craig is an ex-officio member of the Group Board.

Robert McComb MSc
Group Vice Chair and Chair of Remuneration Committee

Robert McComb is a retired investment banker with experience in treasury, structured and asset finance, and debt capital markets. Prior to retiring from Dresdner Kleinwort in 2007, Robert was treasurer of the bank's $36 billion structured credit fund, issuing bonds and commercial paper to investors worldwide. He was a senior member of the bank's structured and asset finance group, with specific responsibility for treasury and liability management.

Robert continues to take a close interest in the financial markets.

Trudi Elliott CBE, BSc Econ (Law and Econs), MRTPI, FAcSS
Chair of Group Housing Committee

Trudi Elliott is a Chartered Town Planner and was formerly a lawyer, practising in both the public and private sectors. In April 2018 Trudi was appointed by the Ministry of Housing, Communities and Local Government as the Chair of the Planning Inspectorate for England and Wales. Trudi is a visiting Professor in planning and land economy at Henley Business School, University of Reading, and a Fellow of the Academy of Social Sciences. Prior to this Trudi was Chief Executive of the Royal Town Planning Institute; Director of the Government Office for the West Midlands; Chief Executive of West Midlands Regional Assembly (Regional Planning Body); Director of Local Government Practice (West Midlands); and Chief Executive of Bridgnorth District Council.

Trudi has considerable experience across the civil service, local Government, charity and private sector, and she has a strong track record of partnership working and delivery. Trudi sits on the Oxford Joint Planning Law Conference Committee; the University of Warwick Estates Committee; is Patron of the Commonwealth Association of Planners; is a Commissioner of UK2070, an inquiry into regional inequalities; and is a Trustee of Community Transport Wyre Forest.

Elwyn Roberts MA, FCA
Chair of Group Audit and Risk Committee

Elwyn Roberts has an Engineering Sciences degree from Cambridge University and qualified as a Chartered Accountant with Deloitte Haskins and Sells in 1982. He became a partner in the multinational professional services firm PricewaterhouseCoopers LLP (PwC) in 1990 and specialised in Audit and Assurance services in both the private and public sectors. He retired from the PwC partnership in December 2011. While at PwC, Elwyn was involved in developing the firm's housing association client portfolio in Wales and the South West. He also advised a range of organisations in the charity sector, including the Aberfan Disaster Fund, and was appointed to the Charity Commission's national working party for the development of the 2000 SORP.

Elwyn led and developed PwC's Regional Risk Assurance practice in the Midlands, focusing on governance, risk, compliance and controls. He advised a range of clients on corporate governance and enterprise risk management matters. Between 2015 to 2018, he was an independent non-executive director at Jaguar Land Rover India Limited where he chaired the audit committee and served on the company's nomination and remuneration committee. He is currently a trustee of a Cardiff-based charity that provides grants to a range of charitable organisations, including those addressing the issues of homelessness and disadvantaged children in Wales.

Dr Gareth Tuckwell Dip. Pall. Med (Univ of Wales), MRCGP
Group Board Member

Gareth Tuckwell brings many years of experience in clinical leadership, care delivery and clinical governance to the Group. Gareth was Chief Executive Officer of Burrswood Hospital, Kent, from 2007 for a five-year term, Clinical Director of Hospice in the Weald from 2003 to 2007, and Regional Director of Macmillan Cancer Support from 2000 to 2003. He was also Medical Director of Burrswood Hospital from 1986 to 1999.

Gareth was a Trustee of Macmillan Cancer Support from 2003 to 2013, Chairman of the ME Trust from 2017 to 2020 and a Trustee and subsequently chairman of Friends of Vellore (UK) from 2011 to 2016. Gareth is currently a Vice-President of Phyllis Tuckwell Hospice Care.

Denise Plumpton BSc (Hons), CERTIoD
Group Board Member

Denise Plumpton is currently Senior Independent Director of Think Active and Chair of its Audit and Governance Committee. Denise was a non-executive director within NHS primary care for 11 years (2007 to 2018) and chaired the Finance and Performance Committee there.

Since 2010 Denise has worked as an Independent Strategic Consultant advising and directing companies to improve their performance, in particular focusing on developing and delivering strategy, and enhancing customer service and process efficiency. Prior to this, Denise was Director of Information at the Highways Agency; IT Director at Sendo Group; Group IT Director at TNT UK & Ireland; and Chief Information Officer/Director for Powergen PLC.

Arvinda Gohil BA (Hons)
Group Board Member

Arvinda Gohil is Chief Executive of Central YMCA, the first ever YMCA. She was previously Chief Executive of Community Links, a social action and advocacy charity based in East London, where she led a strategic partnership with a national charity Catch22. Arvinda has worked in the not-for-profit and charitable sector all of her working life, including Chief Executive of Emmaus UK, where she developed a federation-wide strategy and introduced social investment to member organisations. Prior to this, she ran her own consultancy for five years, specialising in governance, leadership and equalities. Previous roles include Membership Services Director at the National Housing Federation; Assistant Director for Regulation at the Housing Corporation; and Chief Executive of two housing associations. Arvinda has also worked in South Africa where she assisted in developing a social housing model.

As an experienced non-executive, Arvinda is Chair of The Peel, a charity that has been building a connected community in Clerkenwell since 1898, and an advisory board member at The Fore.

Ed Lunt BA (Hons), CA
Group Finance Director and Co-opted Group Board Member

Ed Lunt joined Sanctuary Group in May 2019 as Group Finance Director. He is responsible for finance and treasury, ensuring the Group maintains its financial strength to deliver its ambitions. Ed is also a co-opted member of the Group Board.

Ed is a Chartered Accountant who previously worked at Alliance Medical Limited, where he was the UK Finance Director. Prior to this Ed worked as a Finance Director at National Express PLC and at PricewaterhouseCoopers LLP for 15 years, where he moved through various roles to become Audit Director.

Nicole Seymour BA (Hons), MA
Group Director - Corporate Services and Co-opted Group Board Member

As Group Director - Corporate Services, Nicole Seymour is responsible for human resources, learning and development, external affairs, health and safety, facilities, governance and legal services. Nicole is a co-opted member of the Group Board and is the Company Secretary to Sanctuary and all of its subsidiaries.

Nicole joined Sanctuary in 2012 through its successful graduate programme. After completion of the programme, she initially worked in Sanctuary's Business Development team before setting up a new service for the strategic oversight of complaints, management of enquiries from key external contacts, and the maintenance of policies and procedures across the Group.

Board membership, as at the signing date, is summarised as follows:

Membership details	Group Board	Group Audit and Risk Committee	Group Housing Committee	Nominations Committee	Remuneration Committee	Succession Planning Committee**
Andrew Manning-Cox*	Chair (6/6)	-	-	Chair (0/0)	-	Chair (0/0)
Craig Moule	✓ (6/6)	-	-	Lead officer	Lead officer	Lead officer
Robert McComb	Vice chair (6/6)	✓ (4/4)	-	✓ (1/1)	Chair (1/1)	✓ (0/0)
Trudi Elliott	✓ (6/6)	-	Chair (4/4)	✓ (1/1)	-	✓ (0/0)
Elwyn Roberts	✓ (6/6)	Chair (4/4)	-	✓ (1/1)	✓ (1/1)	✓ (0/0)
Gareth Tuckwell	✓ (6/6)	-	-	✓ (1/1)	-	✓ (0/0)
Denise Plumpton	✓ (6/6)	✓ (4/4)	-	✓ (1/1)	✓ (1/1)	✓ (0/0)
Arvinda Gohil	✓ (3/5)	-	✓ (2/2)	✓ (0/0)	-	✓ (0/0)
Ed Lunt	✓ (6/6)	Lead officer	-	-	-	-
Nicole Seymour	✓ (6/6)	-	-	-	-	-

*As Group Chair, Andrew Manning-Cox is an ex-officio member of all committees of the Group Board.
**The Succession Planning Committee is currently dormant.
Member attendance at committee meetings is also included in the table above. This is shown as (number of meetings attended in year/number of meetings held in year).

Code of Governance

The Group Board considers that the Group and its Registered Provider subsidiaries comply with the provisions of the National Housing Federation's Code of Governance 2015. In addition, all non-Registered Provider subsidiaries also comply with relevant provisions of the Code.

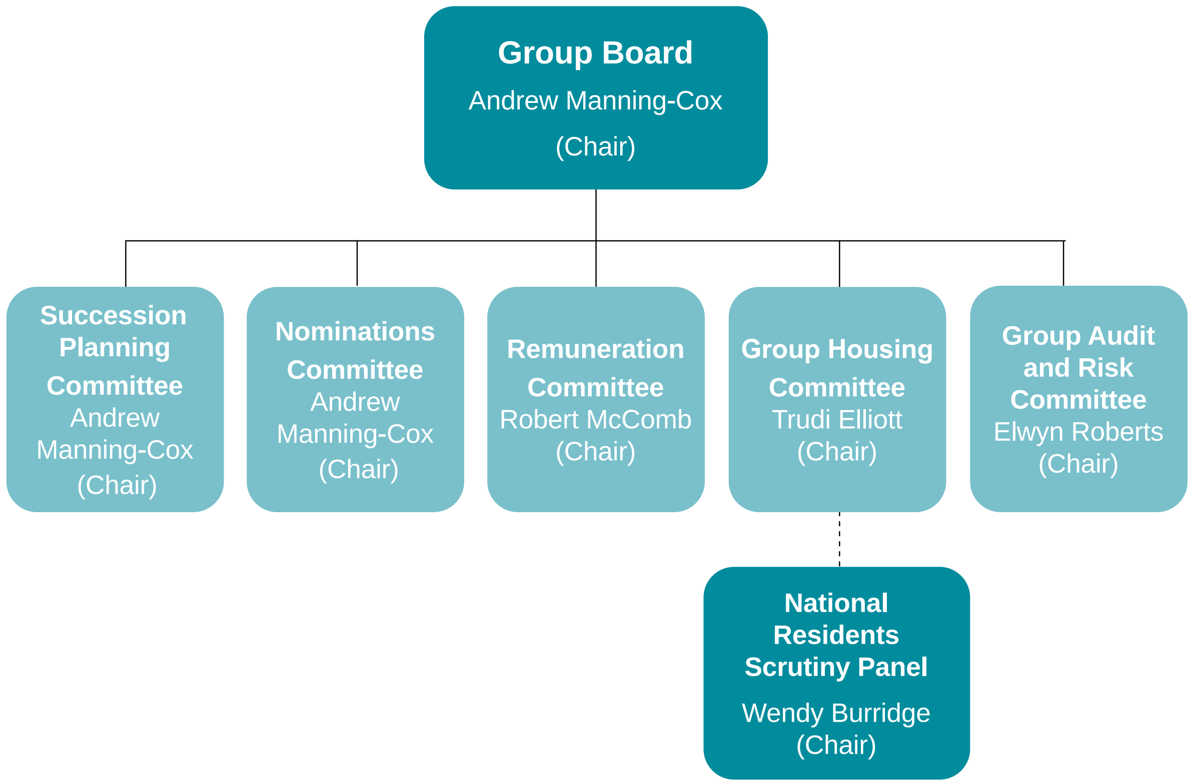
Subsidiary Boards

All subsidiaries within the Group have their own boards, which are responsible to the Group Board for overseeing the operations of each subsidiary.

Andrew Manning-Cox, Chair of Group Board, meets resident Alma Brockhill on a visit to Hartshorne Court, a retirement living scheme in Telford

Committees of the Group Board

Sanctuary has the following committee structure in place.



Group Audit and Risk Committee

The membership of the Group Audit and Risk Committee is determined by the Group Board and comprises a maximum of five members including at least three Group Board members.

The role of Group Audit and Risk Committee is detailed below:

Effectiveness – The Group Audit and Risk Committee:

a) Advises the Group Board of the effectiveness and adequacy of the Association's risk management and internal control systems.
b) Monitors the implementation of approved recommendations relating both to internal audit reports and external audit reports and management letters.
c) Monitors the effectiveness of the external and internal audit services and their relationship with each other.
d) Reviews the objectivity and independence of external and internal audit services.

Accountability – The Group Audit and Risk Committee:

a) Reviews and considers whether the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable before it is presented to the Group Board focusing on:
   - Accounting policies;
   - Compliance with accounting standards;
   - Findings of the external auditors, including significant audit adjustments; and
   - Statements concerning internal controls and risk management.
b) Prepares an annual report for submission to the Group Board.

Internal audit – The Group Audit and Risk Committee:

a) Reviews the long-term plan and strategic focus for internal audit, approves the annual audit plan, and monitors results as presented in internal audit's annual report.
b) Reviews, considers and advises upon reports made by the internal audit services, as to the financial affairs of the Association and the functioning, maintenance and development of its financial control systems.
c) Advises the Group Board on the organisation and resourcing of the internal audit service.

External audit – The Group Audit and Risk Committee:

a) Advises the Group Board on the appointment and remuneration of external auditors and the scope of their work.
b) Communicates with the external auditors on audit approach, reporting, timetables and findings.
c) Pre-approves audit and non-audit services to be provided by the external auditors, as set out in the Protocol for Non-Audit Services Fees, as reviewed from time to time.
d) Reviews relationships or services that may impact on the independence and objectivity of the external auditors.

Risk management and internal control – The Group Audit and Risk Committee:

a) Advises the Group Board on the adequacy and effectiveness of the internal control framework and risk management strategy and the risk implications of Sanctuary Group's activities.
b) Regularly reviews the Sanctuary Group and its operations risk maps to assess the risks involved in the organisation and how these are controlled and mitigated.
c) Reviews the policies and procedures for Risk Management, Fraud Investigating and Reporting, Whistleblowing, Prevention of Bribery and Anti-Money Laundering.

Audit

KPMG LLP (KPMG) provides external audit services and PricewaterhouseCoopers LLP (PwC) performs internal audit services. The Group Audit and Risk Committee has approved a policy in relation to the nature of non-audit work undertaken by PwC and KPMG. The Chair of the Group Audit and Risk Committee must approve the work. There is an annual review of the provision of, and fees for, non-audit services as part of Group Audit and Risk Committee's review of the services provided by PwC and KPMG.

Group Housing Committee

Group Board has determined that there should be a Group Housing Committee to which it will delegate certain powers in relation to Sanctuary Housing Association's activity as landlord. The Group Housing Committee is responsible for ensuring the Association's Registered Provider services, including general needs (England and Scotland), sheltered (retirement), supported and extra care landlord services, are efficient and effectively responding to and meeting the needs of residents. Landlord services cover the delivery of housing management and maintenance, including repairs, achievement of the Decent Homes standard, the allocation and lettings of property, rent collection and arrears pursuance, management of tenancy breaches, customer services, complaints management and resident engagement.

Membership of the Group Housing Committee is determined by the Group Board and at least one third of the membership of the Committee comprises existing residents of the Association.

The Group Board has delegated certain responsibilities to the Committee (limited to the Association's Registered Provider services).

The Group Housing Committee:

a) Reviews and approves housing-related policies, including social policy, ensuring they comply with current legislation, meet or exceed standards as laid down by the Regulator of Social Housing (or its successors) or the Scottish Housing Regulator (or its successors) (together, the 'Regulators');
b) Makes recommendations to the Group Board or Executive Committee (as appropriate) on investment, covering reinvestment and capital programmes of work;
c) Sets and monitors service standards to ensure all services are delivered efficiently, offering Value for Money for residents and other stakeholders;
d) Oversees processes that ensure all activity is compliant with the regulatory requirements of the Regulators;
e) Ensures adequate and purposeful co-regulation and resident scrutiny arrangements are in place and working effectively;
f) Ensures that diversity and inclusion strategies and plans are delivered;
g) Ensures the Local Offers and the Annual Reports to Tenants are produced in a manner that ensures compliance with the Regulator's regulatory framework, and reflect the wishes of the Association's residents; and
h) Reviews consultation documents to be submitted by the Association to third parties.

Succession Planning Committee*

The Succession Planning Committee is a committee of the Group Board. The Chair of the Group Board is expressly appointed as a voting member and Chair of the Succession Planning Committee. In addition to the Chair, the membership of the Succession Planning Committee shall be the Non-Executive members of the Group Board (including any Non-Executive co-optees).

The role of the Succession Planning Committee is to assist the Group Board in the performance of its responsibilities relating to succession planning for the Group Chief Executive.

The Succession Planning Committee:

a) In collaboration with the Group Chief Executive, develops candidate profiles and qualifications (including experience, competencies and personal characteristics) to meet the leadership needs of the organisation taking into account its strategic plan;
b) In collaboration with the Group Chief Executive, identifies and evaluates internal candidates against the profile, including state of readiness to assume a larger role;
c) Agrees with the Group Chief Executive on development opportunities to be provided to identified candidates to overcome deficiencies in experience and/or education, as well as opportunities to increase exposure to the Group Board in business and social settings;
d) Considers the appointment of external advisers to support succession planning, to include identification of external candidates, as well as appointment of advisors to support any selection and recruitment process;
e) Evaluates external candidates identified by the Group Chief Executive, members of the Committee or recruitment exercise, and benchmark against internal candidates;
f) Performs functions listed above in collaboration with the Group Chief Executive at least annually and updates as needed;
g) Presents results of this work to the Group Board annually for review and discussion;
h) Identifies and recommends to the Group Board a permanent Group Chief Executive; and
i) Replaces, whether in emergency situations or for planned transition, as appropriate.

*The Succession Planning Committee is currently dormant.

Nominations Committee

The Nominations Committee is a committee of the Group Board. The Chair of the Group Board is expressly appointed as a voting member and Chair of the Nominations Committee. In addition to the Chair, the membership of the Nominations Committee shall be the Non-Executive members of the Group Board (including any Non-Executive co-optees).

The Nominations Committee is an advisory body to the Group Board.

The Nominations Committee:

a) Considers the suitability of candidates put forward by the Group Board for election to the Group Board by the shareholding membership; and
b) Provides feedback to the Group Board on its nominees, being mindful of any regulatory requirements and the need to ensure that the governing body has a wide range of skills, experience and sufficient diversity to be able to maintain effective control of the organisation.

Remuneration Committee

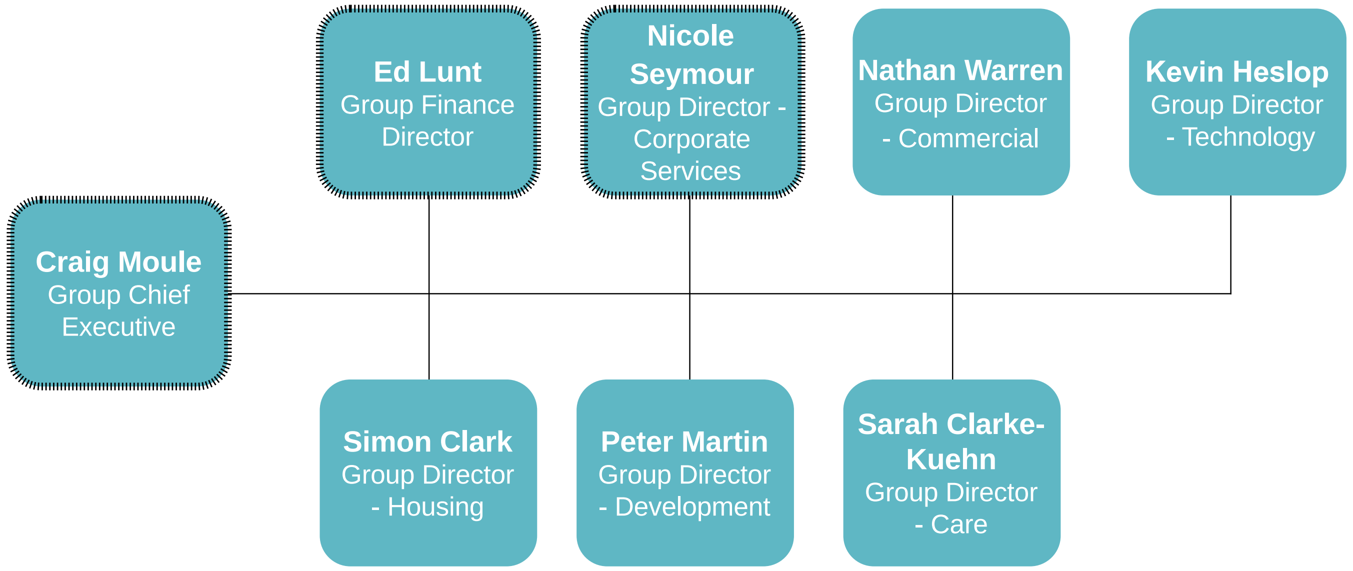
The Remuneration Committee is a committee of the Group Board. The membership of the Remuneration Committee is determined by the Group Board and is a maximum of three of its Non-Executive members. The Chair of the Group Board is an ex-officio non-voting member of the Committee unless expressly appointed as a voting member and is not eligible to be the Chair of the Committee. The Chair of the Committee is appointed by the Group Board.

The Remuneration Committee:

a) Determines and agrees with the Group Board the framework for the remuneration of Sanctuary Group Executive Directors;
b) Sets remuneration for the Group Executive Directors;
c) Determines targets for performance-related pay schemes operated by the Association in respect of each Group Executive Director;
d) Determines the policy and scope of pension arrangements for each Group Executive Director;
e) Determines, within the terms of the agreed framework, the total individual remuneration package of each Group Executive Director including, where appropriate, bonuses and incentive payments;
f) Monitors the structure and level of remuneration for senior management where senior management is defined as being those reporting directly to the Group Chief Executive;
g) Ensures that in relation to the Group Executive Directors and senior management, contractual terms on termination and any payments made, are fair to the individual and the Association, that failure is not rewarded and that the duty to mitigate loss is fully recognised;
h) Considers employment conditions elsewhere in the Group and across the sector when determining annual salary increases for Executive Directors' pay;
i) Is aware of, and advises on, any major changes in employee benefit structures throughout the Group;
j) Agrees the policy for authorising claims for expenses from the Group Chief Executive;
k) Has exclusive responsibility for establishing the selection criteria, the selection and appointment of, and the setting of the Terms of Reference for, any remuneration consultants who advise the Committee;
l) Makes a statement in the Annual Report about its activities; the membership of the Committee, number of Committee meetings and attendance over the course of the year;
m) Conducts an annual review, or as and when needed, of the Terms of Reference to reflect any changes in regulatory requirements;
n) Gives due regard to the contents of associated guidance issued by the Regulators and the National Housing Federation and ensure that the provisions regarding disclosure of remuneration, including pensions, as set out in the Directors' Remuneration Report Regulations 2002 and the UK Corporate Governance Code (each as may be subsequently amended), are fulfilled. Where the Remuneration Committee decides not to comply with the requirements of the Combined Code it will explain the rationale for its decision; and
o) Reviews the Non-Executive Director remuneration annually and recommends to the Group Board, taking external advice where appropriate.

Executive Management

Direct reports to the Group Chief Executive



= Executive Directors of the Group Board

The Group Board delegates day-to-day management of activities to the Group Chief Executive, Craig Moule, who is responsible for ensuring that the organisation has appropriate executive arrangements in place to meet Group objectives and targets, and that those arrangements reflect the complex needs of the business, including financial performance, capital investment, compliance, growth and business planning. To this end, Sanctuary has an Executive Committee, chaired by Craig Moule, which considers and approves strategic matters affecting the Group (either implementation of strategy direction by the Group Board or determination of recommendations to the Group Board); and a Capital Committee, also chaired by Craig Moule, which is responsible for monitoring performance and approving capital projects in furtherance of the Group's Corporate Strategy agreed by the Group Board.

Group Executives

Craig Moule BSc (Hons)
Group Chief Executive

Craig Moule has been with Sanctuary for over 30 years, having joined the organisation in 1989 from Coopers & Lybrand. Craig was appointed Group Chief Executive on 1 January 2019.

Prior to this he was the Group's Chief Financial Officer. While holding this position, Craig oversaw Sanctuary being the first housing association to implement a SAP enterprise solution and the formation of our Corporate Shared Service Centre. Craig is an ex-officio member of the Group Board.

Ed Lunt BA (Hons), CA
Group Finance Director and Co-opted Group Board Member

Ed Lunt joined Sanctuary Group in May 2019 as Group Finance Director. He is responsible for finance and treasury, ensuring the Group maintains its financial strength to deliver its ambitions. Ed is also a co-opted member of the Group Board.

Ed is a Chartered Accountant who previously worked at Alliance Medical Limited, where he was the UK Finance Director. Prior to this Ed worked as a Finance Director at National Express PLC and at PricewaterhouseCoopers LLP for 15 years, where he moved through various roles to become Audit Director.

Nicole Seymour BA (Hons), MA
Group Director - Corporate Services and Co-opted Group Board Member

As Group Director - Corporate Services, Nicole Seymour is responsible for human resources, learning and development, external affairs, health and safety, facilities, governance and legal services. Nicole is a co-opted member of the Group Board and is the Company Secretary to Sanctuary and all of its subsidiaries.

Nicole joined Sanctuary in 2012 through its successful graduate programme. After completion of the programme, she initially worked in Sanctuary's Business Development team before setting up a new service for the strategic oversight of complaints, management of enquiries from key external contacts, and the maintenance of policies and procedures across the Group.

Nathan Warren BA (Hons), FCCA, MBA, C-DIR
Group Director - Commercial

As Group Director - Commercial, Nathan Warren is responsible for developing commercial opportunities for the Group and leading on new business development.

Before joining Sanctuary, Nathan spent his career working in the private sector with FTSE listed Rolls-Royce PLC, chartered accountancy practice Grant Thornton and US global oil and defence group Halliburton. During his time with Sanctuary, Nathan has led a number of our operations and worked on corporate planning and business development activities.

Kevin Heslop BA (Hons)
Group Director - Technology

Kevin Heslop is Group Director - Technology and is responsible for teams which support our current technologies, ensuring they are safe, secure and up to date, as well as teams responsible for delivering new and future technologies aligned to the needs of the Group.

Kevin joined Sanctuary in March 2010, working initially as System Development and Support Manager until he was promoted to the role of Director of Technology in December 2014. During his time at Sanctuary, Kevin has been responsible for supporting the roll-out of systems to enable the creation of the internal maintenance services, leading the implementation of OneSanctuary and more recently our Modern Workplace strategy. Prior to this, Kevin worked in technology consultancy providing leadership to large-scale IT implementation programmes, including within the social housing sector.

Simon Clark BA (Hons)
Group Director - Housing

Simon Clark is Group Director - Housing, with responsibility for the Group's landlord, supported living and student operations across England and Scotland.

Simon started his career with Sanctuary as Managing Director of Rochford Housing Association, before taking on a Group role leading on customer services. In his current position, he is responsible for driving improvements in service delivery resulting in increased productivity, efficient working and maintaining high levels of customer satisfaction.

Peter Martin BA, DipHsg, LLM
Group Director - Development

As Group Director - Development, Peter Martin is responsible for leading the Development and Construction teams to achieve the Group's aspiration to build more homes.

Prior to this role, Peter was appointed as Senior Development Manager for Sanctuary Scotland, promoted to Head of Development Services and then appointed Director of Sanctuary Cumbernauld. This followed 25 years working in the housing sector.

Sarah Clarke-Kuehn BA (Hons)
Group Director - Care

As Group Director - Care, Sarah Clarke-Kuehn is responsible for Sanctuary's care services. Sarah joined Sanctuary in 2011 as Head of Finance - Housing and Communities and since then has undertaken a number of roles including Director of Housing Operations, Commercial Services Director, and Operations Director for Sanctuary Supported Living.

Sarah is a qualified management accountant, who started her career at London International Group (FMCG) and progressed from manufacturing into the service sector with RWE npower.

An Executive meeting in progress

Internal Controls

The Group Board is ultimately responsible for ensuring that the Group 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 Group 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 Group Board 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 Executive Committee of Sanctuary. These controls are designed to give reasonable assurance with respect to:

- The reliability of financial information used within Sanctuary 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 Group Board 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 Group'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 Group 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, PwC and KPMG to provide reasonable assurance that control procedures are in place and are being followed. The Group Audit and Risk Committee receives 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.

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

Arrangements for Managing the Risk of Fraud

The Group has robust arrangements in place for managing the risk of fraud. These include:

- Prevention – the Group seeks to generate a strong anti-fraud culture supported by appropriate controls over operational and employment systems.
- Detection – the Group has implemented comprehensive systems and procedures to detect evidence of fraud and to facilitate and encourage the reporting of fraud.
- Investigation – the Group follows a comprehensive Group policy on fraud investigation and reporting.
- Insurance – the Group has appropriate insurance cover in place to mitigate the potential financial losses associated with fraud.

Going Concern

The Group Board's assessment of the Group and the Association's ability to continue as a going concern is based on consideration of cash flow forecasts that have been updated for the next two years to take account of the anticipated effects of Covid-19 and subjected to severe, but plausible, downside sensitivities.

Having assessed the principal risks as set out on pages 19 to 23, the above mentioned sensitivities and other matters discussed in connection with the viability statement below, the Group Board considers that the Group and the Association have adequate resources to remain in operation for the foreseeable future, have sufficient cash to meet their needs for the foreseeable future and will continue to meet all borrowing covenants. The Group Board has therefore continued to adopt the going concern basis in preparing the Financial Statements.

Viability Statement

During the year the Group Board has assessed the viability of the Group in line with the business plan. This assessment has been made through the business planning process which takes account of both the Group's current position and its principal risks, which are detailed on pages 19 to 23.

The Group Board has determined that the period to 2022 is an appropriate period over which to provide its viability statement. While the Group Board believes that Sanctuary will be viable over a much longer period, this period has been chosen as it has a much greater degree of certainty.

The business planning process includes the Group's most recent targets, operational plans and a review of external factors. The operational plans provide long-term direction and are reviewed on at least an annual basis. The base strategy is tested through rigorous sensitivity analysis and stress testing using a series of robust downside financial scenarios which result in a financial impact. The testing also identifies the principal risks that may adversely impact the Group which include operational, political, business, liquidity, market and credit risk. The results of the testing ensure potential mitigating actions are appropriately developed.

Due to the inherent uncertainty involved in all business planning, it is not possible for the review to consider every risk that the Group may face. However, the Group Board considers that the stress testing performed includes all major risks and therefore provides strong assurance of the Group's financial viability. These risks include the expected impact of welfare reform on our tenants, further reductions in social rents, uncertainty around Brexit and the impact of Covid-19.

Also key is the maintenance of a Group-wide assets and liabilities register and risk management processes that flow through to all of the Group's subsidiaries and operations. External assurance of the Group's viability is demonstrated by the Group's credit ratings (Moody's: A2 and Standard & Poor's: A+), while the Group has strong liquidity in place and is able to refinance any debt due over the period.

The Group Board has therefore concluded, based on the extent of the business planning process and strong financial position, that there is a reasonable expectation the Group and the Association have adequate resources and will continue to operate and meet their liabilities as they fall due over the period of their assessment.

The Group Board can also confirm that it has complied with the Governance and Financial Viability Standard set out by the RSH. During the year, the RSH gave Sanctuary Group ratings for Governance and Viability of G1 and V2 respectively (2019: G1 and V1).

Baskeyfield House, Stoke-on-Trent

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

The Group Board is responsible for preparing the Annual Report and the Group and Association Financial Statements in accordance with applicable law and regulations.

Co-operative and Community Benefit Society law requires the Group Board to prepare Group and Association Financial Statements for each financial year. Under these regulations, the Group Board has elected to prepare the Group and Association Financial Statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

The Financial Statements are required by law to give a true and fair view of the state of affairs of the Group and the Association and of the income and expenditure of the Group and the Association for that period.

In preparing these Financial Statements, the Group Board is required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether they have been prepared in accordance with IFRSs as adopted by the EU;
- Assess the Group and 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 they either intend to liquidate the Group or the Association or to cease operations, or have no realistic alternative but to do so.

The Group Board 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 and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2019. It is responsible for such internal control as they determine 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 them to safeguard the assets of the Group and the Association and to prevent and detect fraud and other irregularities.

The Group Board 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 Group Board at the date when this report was approved:

- So far as each of the members of the Group Board is aware, there is no relevant audit information of which the Group and Association's auditor is unaware; and
- Each of the members of the Group Board has taken all the steps that they ought to have taken as a Member of the Group Board to make themselves aware of any relevant audit information and to establish that the Group and Association's auditor is aware of that information.

Independent Auditor

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

By order of the Group Board.

Nicole Seymour
Company Secretary

24 June 2020

Registered office: Sanctuary House, Chamber Court, Castle Street, Worcester, WR1 3ZQ

KPMG

Independent Auditor's Report to the Members of Sanctuary Housing Association

1. Our Opinion is Unmodified

We have audited the Financial Statements of Sanctuary Housing Association ('the Association') for the year ended 31 March 2020 which comprise the Group and Association Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, and the related notes, including the accounting policies in note 1, and appendices 1, 2, 3 and 4.

In our opinion the Financial Statements:

- Give a true and fair view, in accordance with International Financial Reporting Standards as adopted by the European Union, of the state of the Group's and of the Association's affairs as at 31 March 2020 and of the Group's and Association's 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 properly prepared in accordance with the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 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 believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Group Audit and Risk Committee.

We were first appointed as auditor by the Directors on 28 November 2014. The period of total uninterrupted engagement is for the six financial years ended 31 March 2020. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: Group Financial Statements as a whole		£7.5m (2019: £7.0m) 1.0% (2019: 1.0%) of revenue
Key audit matters		vs 2019
Recurring risks	The impact of uncertainties due to the UK exiting the European Union on our audit	
	Care property impairment	
	Post-retirement benefits obligation	
	Carrying value of Property held in Inventory	

2. Key Audit Matters: Including Our Assessment of Risks of Material Misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the Financial Statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the Financial Statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
The impact of uncertainties due to Britain exiting the European Union on our audit	Unprecedented levels of uncertainty: All audits assess and challenge the reasonableness of estimates, in particular as described in the key audit matters on care property impairment and the carrying value of property held in inventory (together referred to as 'key audit matters affected'), and related disclosures and the appropriateness of the going concern basis of preparation of the Financial Statements. All of these depend on assessments of the future economic environment and the Group's future prospects and performance. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: • Our Brexit knowledge: We considered the Directors' assessment of Brexit-related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. We considered the Directors' plans to take action to mitigate the risks. • Sensitivity analysis: When addressing the key audit matters affected and other areas that depend on forecasts, we compared the Directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty. • Assessing transparency: As well as assessing individual disclosures as part of our procedures on the key audit matters affected we considered all of the Brexit-related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. **Our Results** As reported under the key audit matters affected, we found the estimates and disclosures of care property and inventory and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for an entity and this is particularly the case in relation to Brexit.

	The risk	Our response
Care property impairment (Group asset value 2020: £299.5 million; 2019: £245.9 million; Impairment charge 2020: £nil; 2019: £1.0 million; Association asset value 2020: £121.6 million; 2019: £91.9 million; Impairment charge 2020: £nil; 2019: £1.0 million) Refer to pages 95 and 102 (accounting policy) and pages 125 to 127 (financial disclosures).	Subjective estimate: The Group and Association holds care property at depreciated cost under IAS 16. In line with IAS 16 and IAS 36, the Group undertakes an annual review to identify any indication of impairment. Where such an indication exists, the carrying value of the property is compared to an estimate of the value in use of that property or the fair value less costs of disposal. The estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows. The effect of these matters is that, as part of our risk assessment, we determined that care property impairment has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the Financial Statements as a whole. The Financial Statements (note 12) disclose the range of reasonable outcomes for those properties where a trigger was identified.	Our procedures included: • Sector knowledge: Assessing, through inquiry of operational finance personnel, inspection of year end financial information and assessment of external evidence, whether any trigger events have arisen which would indicate a possible impairment based on our knowledge of current market conditions. • Benchmarking assumptions: Comparing the growth rate applied by the Group to externally derived data and assessing it with reference to historical growth rates achieved. • Benchmarking assumptions: Challenging, including input from our own specialists, the key inputs used in the calculation of the discount rates used by the Group, including comparisons with external data sources and comparator group data. • Historical comparisons: Evaluating the Group's forecasting accuracy by comparing prior year forecast cash flows to those cash flows currently being achieved. • Assessing forecasts: Challenging finance and operational personnel where forecast cash flows are significantly higher than current levels or do not reflect known or probable changes in the business environment. • Sensitivity analysis: Performing our own sensitivity analysis on the assumptions noted above. • Assessing transparency: Assessing whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflect the risks inherent in the valuation. **Our Results** We found the carrying amount of care property to be acceptable (2019: acceptable).

	The risk	Our response
Post-retirement benefits obligation (Group 2020: £402.7 million; 2019: £445.3 million; Association 2020: £378.5 million; 2019: £418.5 million) Refer to pages 94 and 109 (accounting policy) and pages 152 to 158 (financial disclosures).	Subjective estimate: The valuation of the post-retirement benefits obligation involves the selection of appropriate actuarial assumptions, most notably the discount rate applied to the scheme liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective and small changes in the assumptions and estimates used to value the Group and Association's pension liability could have a significant effect on the financial position of the Group and Association. The effect of these matters is that, as part of our risk assessment, we determined that post-retirement benefits obligation has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the Financial Statements as a whole. The Financial Statements (note 28) disclose the range estimated by the Group.	Our procedures included: • Benchmarking assumptions: Challenging, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate and mortality/life expectancy against externally derived data. • Assessing transparency: Considering the adequacy of the Group's disclosures in respect of the sensitivity of the deficit to these assumptions. **Our Results** We found the estimate of the post-retirement benefits obligation to be acceptable (2019: acceptable).

	The risk	Our response
Carrying value of property held for sale (Group 2020: £110.7 million; 2019: £109.2 million; Association 2020: £18.8 million; 2019: £21.5 million) Refer to pages 95 and 103 (accounting policy) and pages 132 and 133 (financial disclosures).	Subjective estimate: Property held for sale comprises properties which are developed and are held for outright sale as well as proportions of shared ownership properties allocated as first tranche sales. Per IAS 2, these properties must be held at the lower of cost and net realisable value (NRV). In order to assess the NRV of property held for sale, site appraisals are prepared which include forecast revenue and costs and provide an indication of the recoverability of property held for sale. Site appraisals include a number of estimates that could have a significant effect on the NRV of the property held for sale. The effect of these matters is that, as part of our risk assessment for audit planning purposes, we determined that the valuation of property held for sale had a high degree of estimation uncertainty.	Our procedures included: • Our sector expertise: Assessing a risk-based sample of development sites, selected using criteria including quantum of work in progress, low profit margin and significant year-on-year movements, to obtain an understanding of the status of the site focusing on matters relevant to the site valuation, being the status of the development and whether the appraisal reflects any additional unexpected costs. • Test of detail: Assessing site appraisals by comparing the revenue achieved on each site sold in the year with the revenue included in previous site appraisals. In addition, for a sample of development sites, we assessed the revenue in site appraisals against market evidence. We tested the key cost assumptions within the appraisal to supporting evidence, such as invoices and contracts. • Historical comparisons: Where a site has been appraised over a period of time, seeking to understand the changes to assumptions over time for a sample of sites and consider whether those changes are consistent with our market expectations. • Test of detail: Comparing the value carried in the balance sheet with the sales price achieved for a selection of property sales after the balance sheet date. • Sensitivity analysis: Performing sensitivity analysis to understand how forecasted revenue and future costs could be impacted based on market trends of macroeconomic consequences from the outbreak of Covid-19. • Assessing transparency: Critically assessing the adequacy of the Group's disclosures in relation to judgement and estimation in relation to inventory. **Our Results** We found the carrying amount of property held for sale to be acceptable (2019: acceptable).

3. Our Application of Materiality and an Overview of the Scope of Our Audit

Materiality for the Group Financial Statements as a whole was set at £7.5 million (2019: £7.0 million), determined with a reference to a benchmark of Group revenue of which it represents 1.0 per cent (2019: 1.0 per cent). We consider revenue to be more appropriate than a profit-based benchmark as the Association is a not-for-profit organisation, therefore the focus is on revenue and any surplus generated is variable, with any surpluses reinvested in the Group.

Materiality for the Association's Financial Statements as a whole was set at £4.5 million (2019: £4.5 million), determined with reference to a benchmark of Association total revenue, of which it represents 1.0 per cent (2019: 1.0 per cent).

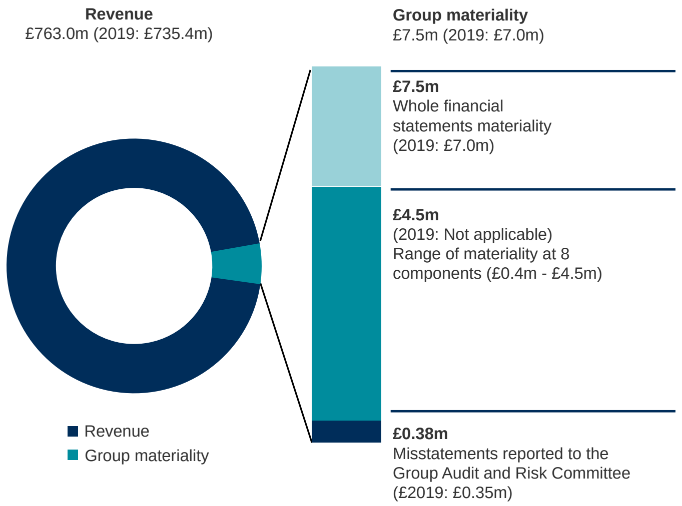
We agreed to report to the Group Audit and Risk Committee any corrected or uncorrected identified misstatements exceeding £0.38 million (2019: £0.35 million) in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 54 reporting components, we subjected eight to full scope audits for Group purposes.

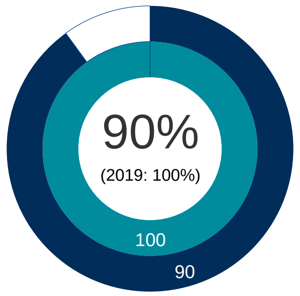
The components within the scope of our work accounted for the percentages illustrated opposite.

The remaining 10 per cent of Group revenue and 4 per cent of total Group assets is represented by 46 reporting components, none of which individually represented more than 1 per cent of any of Group revenue or total Group assets. For these residual components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatements within these.

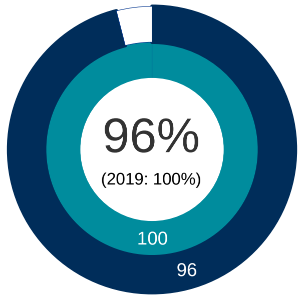
In the prior year, the Group team performed the audit of the Group as if it were a single aggregated set of financial information. The audit was performed using the materiality levels set out above. The audit of the Association was performed by the Group team.



Group revenue



Group total assets



Key:

- Full scope for Group audit purposes 2020
- Full scope for Group audit purposes 2010
- Residual components

4. We Have Nothing to Report on Going Concern

The Directors have prepared the Financial Statements on the going concern basis as they do not intend to liquidate the Association or the Group or to cease their operations, and as they have concluded that the Association's and the Group'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 their 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').

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group or the Association will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Association's business model and analysed how those risks might affect the Group's and Association's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Association's available financial resources over this period were:

- The impact of Covid-19 on the economy and trading of the Group and Association;
- Increased funding requirement due to economic downturn and changes to Government policies;
- The impact of Brexit on the Group's availability of labour.

As these were risks that could potentially cast significant doubt on the Group's and the Association's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the impact of Covid-19 on house price values, which could result in a rapid reduction of available financial resources.

Based on this work, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the Financial Statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5. We Have Nothing to Report on the Other Information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the Financial Statements. Our opinion on the Financial Statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, 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. Based solely on that work we have not identified material misstatements in the other information.

6. We Have Nothing to Report on the Other 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 accounts; or
- The Association has not maintained a satisfactory 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.

7. Respective Responsibilities

Directors' Responsibilities

As explained more fully in their statement set out on page 78, the Directors are responsible for: the preparation of the Financial Statements including being satisfied that they give a true and fair view;

such internal control as they determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error; assessing the Group and 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 they either intend to liquidate the Group or the Association or to cease operations, or have 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 other irregularities (see below), 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, other irregularities 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.**

Irregularities – Ability to Detect

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, through discussion with the Directors and other management (as required by auditing standards) and discussed with the Directors and other management 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.

The Group is subject to laws and regulations that directly affect the Financial Statements including financial reporting legislation (including related Housing Association legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Whilst the Group is subject to many other laws and regulations, we did not identify any others where the consequences of noncompliance alone could have a material effect on amounts or disclosures in the Financial Statements.

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 (irregularities) 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 irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. 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 128 of the Housing and Regeneration Act 2008. Our audit work has been undertaken so that we might state to the Association those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association as a body, for our audit work, for this report, or for the opinions we have formed.

M. Froom

Michael Froom
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham B4 6GH
26 June 2020

Statement of Comprehensive Income for the Year Ended 31 March 2020

		Group		Association	
INCOME STATEMENT	**Notes**	**2020 £m**	**2019 £m**	**2020 £m**	**2019 £m**
Continuing operations					
Revenue	2	763.0	735.4	454.1	455.8
Cost of sales	4	(30.1)	(21.5)	(7.9)	(11.8)
Operating expenditure	4	(557.3)	(536.0)	(335.9)	(326.0)
Other gains and losses	7	6.2	22.7	5.8	21.3
Other income	3	-	-	19.8	14.4
Share of profit of joint ventures	34	4.4	3.1	-	-
Operating surplus		**186.2**	**203.7**	**135.9**	**153.7**
Finance income	9a	3.6	3.5	7.2	7.0
Finance costs	9b	(137.4)	(130.3)	(100.7)	(92.2)
Surplus before tax		**52.4**	**76.9**	**42.4**	**68.5**
Taxation	10	0.8	0.6	-	0.1
Surplus for the year from continuing operations		**53.2**	**77.5**	**42.4**	**68.6**
OTHER COMPREHENSIVE INCOME					
Items that will not be reclassified subsequently to income or expense:					
Remeasurement of defined benefit pension scheme liability	27,28	14.8	(0.3)	16.0	(0.6)
Equity investments at fair value through other comprehensive income – net change in value	14,27	(0.5)	(0.6)	(0.5)	(0.6)
Items that may be reclassified subsequently to income or expense:					
Cash flow hedges – changes in fair value	27	16.3	3.7	16.3	3.8
Cost of hedging reserve – changes in fair value	27	(0.1)	0.1	(0.1)	0.1
Other comprehensive income for the year		**30.5**	**2.9**	**31.7**	**2.7**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**83.7**	**80.4**	**74.1**	**71.3**

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

The notes and appendices on pages 91 to 177 form part of these Financial Statements.

Statement of Financial Position as at 31 March 2020

	Notes	Group 31 March 2020 £m	Group 31 March 2019 £m	Association 31 March 2020 £m	Association 31 March 2019 £m
ASSETS					
Non-current assets:					
Intangible assets	11	62.0	64.3	56.0	58.7
Property, plant and equipment	12	3,559.0	3,359.5	2,527.5	2,481.8
Investment property	13	260.3	226.8	148.8	138.8
Deferred tax assets	24	5.1	4.3	-	-
Derivative financial assets	15	41.5	22.3	41.5	22.3
Investments in subsidiaries	34	-	-	87.9	67.6
Equity accounted investments	34	4.4	3.2	-	-
Other investments	14	24.3	27.0	24.1	26.8
Trade and other receivables	16,17	45.5	42.6	64.9	123.9
		4,002.1	3,750.0	2,950.7	2,919.9
Current assets:					
Trade and other receivables	16,17	83.2	75.5	177.4	90.1
Contract assets	2	0.3	0.3	0.3	0.3
Inventory	18	112.3	110.6	18.8	21.5
Assets classified as held for sale	19	0.2	1.3	0.2	-
Cash and cash equivalents	32	261.5	150.1	1.9	15.1
		457.5	337.8	198.6	127.0
TOTAL ASSETS		4,459.6	4,087.8	3,149.3	3,046.9
LIABILITIES					
Current liabilities:					
Trade and other payables	20	155.4	147.7	77.7	81.3
Contract liabilities	2	30.8	26.8	19.7	17.3
Current tax liabilities		0.4	0.3	0.2	-
Loans and borrowings	21,22	47.9	74.7	40.3	38.9
Provisions	25	4.8	4.6	2.4	4.4
		239.3	254.1	140.3	141.9
Non-current liabilities:					
Trade and other payables	20	7.3	10.7	5.3	8.6
Loans and borrowings	21,22	3,057.8	2,736.2	1,789.3	1,739.0
Deferred tax liabilities	24	0.6	0.6	-	-
Derivative financial liabilities	15	3.5	3.4	-	-
Retirement benefit obligations	28	25.9	41.4	23.8	40.1
Provisions	25	3.8	3.7	-	0.8
		3,098.9	2,796.0	1,818.4	1,788.5
TOTAL LIABILITIES		3,338.2	3,050.1	1,958.7	1,930.4
EQUITY					
Equity attributable to owners of the parent:					
Ordinary shares	26	-	-	-	-
Cash flow hedge reserve	27	17.7	1.4	17.6	1.3
Cost of hedging reserve	27	1.0	1.1	1.0	1.1
Revaluation reserve	27	0.1	1.2	0.1	1.2
Restricted reserves	27	2.2	0.2	2.2	0.2
Retained earnings	27	1,100.4	1,033.8	1,169.7	1,112.7
TOTAL EQUITY		1,121.4	1,037.7	1,190.6	1,116.5
TOTAL EQUITY AND LIABILITIES		4,459.6	4,087.8	3,149.3	3,046.9

The notes and appendices on pages 91 to 177 form part of these Financial Statements. The Financial Statements were authorised and approved by the Board on 24 June 2020 and signed on its behalf by:

Andrew Manning-Cox
Group Chair

Ed Lunt
Group Board Member,
Group Finance Director

Nicole Seymour
Group Board Member,
Company Secretary

Statement of Changes in Equity for the Year Ended 31 March 2020

Group	Share capital £m	Revenue reserve £m	Restricted reserves £m	Revaluation reserve £m	Cash flow hedge reserve £m	Cost of hedging reserve £m	Total equity £m
At 1 April 2018	-	959.6	0.2	1.8	(1.3)	-	960.3
Adjustment on initial application of IFRS 9	-	(2.1)	-	-	(1.0)	1.0	(2.1)
Adjustment on initial application of IFRS 15	-	(0.9)	-	-	-	-	(0.9)
Restated balance at 1 April 2018	-	956.6	0.2	1.8	(2.3)	1.0	957.3
Surplus for the year	-	77.5	-	-	-	-	77.5
Other comprehensive income	-	(0.3)	-	(0.6)	3.7	0.1	2.9
Total comprehensive income	-	77.2	-	(0.6)	3.7	0.1	80.4
At 31 March 2019	-	1,033.8	0.2	1.2	1.4	1.1	1,037.7
At 1 April 2019	-	1,033.8	0.2	1.2	1.4	1.1	1,037.7
Surplus for the year	-	53.2	-	-	-	-	53.2
Other comprehensive income	-	14.8	-	(0.5)	16.3	(0.1)	30.5
Total comprehensive income	-	68.0	-	(0.5)	16.3	(0.1)	83.7
Transfer of VRTB proceeds	-	(2.0)	2.0	-	-	-	-
Transfer of gain on disposal of equity investments	-	0.6	-	(0.6)	-	-	-
Total transfers	-	(1.4)	2.0	(0.6)	-	-	-
At 31 March 2020	-	1,100.4	2.2	0.1	17.7	1.0	1,121.4

Association	Share capital £m	Revenue reserve £m	Restricted reserves £m	Revaluation reserve £m	Cash flow hedge reserve £m	Cost of hedging reserve £m	Total equity £m
At 1 April 2018	-	1,045.8	0.2	1.8	(1.5)	-	1,046.3
Adjustment on initial application of IFRS 9	-	(1.1)	-	-	(1.0)	1.0	(1.1)
Restated balance at 1 April 2018	-	1,044.7	0.2	1.8	(2.5)	1.0	1,045.2
Surplus for the year	-	68.6	-	-	-	-	68.6
Other comprehensive income	-	(0.6)	-	(0.6)	3.8	0.1	2.7
Total comprehensive income	-	68.0	-	(0.6)	3.8	0.1	71.3
At 31 March 2019	-	1,112.7	0.2	1.2	1.3	1.1	1,116.5
At 1 April 2019	-	1,112.7	0.2	1.2	1.3	1.1	1,116.5
Surplus for the year	-	42.4	-	-	-	-	42.4
Other comprehensive income	-	16.0	-	(0.5)	16.3	(0.1)	31.7
Total comprehensive income	-	58.4	-	(0.5)	16.3	(0.1)	74.1
Transfer of VRTB proceeds	-	(2.0)	2.0	-	-	-	-
Transfer of gain on disposal of equity investments	-	0.6	-	(0.6)	-	-	-
Total transfers	-	(1.4)	2.0	(0.6)	-	-	-
At 31 March 2020	-	1,169.7	2.2	0.1	17.6	1.0	1,190.6

The notes and appendices on pages 91 to 177 form part of these Financial Statements.

Statement of Cash Flows for the Year Ended 31 March 2020

	Group		Association	
	2020 £m	2019 £m	2020 £m	2019 £m
CASH FLOWS FROM OPERATING ACTIVITIES				
Surplus for the year	53.2	77.5	42.4	68.6
Adjustments for:				
Depreciation, amortisation and impairment	73.0	67.3	58.3	53.8
Surplus on sale of property, plant and equipment	(6.2)	(22.1)	(5.8)	(20.7)
Surplus on sale of investments	-	(0.6)	-	(0.6)
Share of profits in joint venture	(4.4)	(3.1)	-	-
Net finance costs	133.8	126.8	93.5	85.2
Tax credit	(0.8)	(0.6)	-	(0.1)
	195.4	167.7	146.0	117.6
Cash generated before working capital movements	248.6	245.2	188.4	186.2
Changes in:				
Trade and other receivables	(5.5)	2.7	(18.0)	1.5
Trade and other payables	8.1	(9.2)	1.5	(20.1)
Inventories	(1.7)	(18.9)	2.6	5.9
Provisions	(5.3)	(4.6)	(5.1)	(1.1)
	(4.4)	(30.0)	(19.0)	(13.8)
Cash generated from operating activities	244.2	215.2	169.4	172.4
Interest paid	(143.7)	(134.0)	(96.2)	(89.3)
Tax paid	-	-		-
Net cash inflow from operating activities	**100.5**	**81.2**	**73.2**	**83.1**
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	1.2	1.0	0.7	0.7
Proceeds from sale of property, plant and equipment and investment property	19.7	40.4	16.9	34.7
Proceeds from sale of investments	3.3	8.3	3.3	8.3
Acquisition and construction of property, plant and equipment, investment property and software	(245.8)	(191.5)	(99.4)	(104.7)
Acquisition of subsidiaries and other business combinations, net of cash acquired (note 35)	(61.0)	-	(20.3)	-
Acquisition of other investments	(1.1)	(3.7)	(1.1)	(3.7)
Capital grants received	36.0	36.3	-	0.3
Dividends received from joint ventures	3.2	0.5	-	-
Loans to joint ventures	(2.5)	3.8	(2.5)	3.8
Loans to other Group entities	-	-	(7.2)	(24.5)
Net cash outflow from investing activities	**(247.0)**	**(104.9)**	**(109.6)**	**(85.1)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from loans and borrowings	485.0	167.0	193.0	114.0
Repayment of borrowings	(227.1)	(88.9)	(169.8)	(98.9)
Net cash flow from financing activities	**257.9**	**78.1**	**23.2**	**15.1**
Net increase/(decrease) in cash and cash equivalents	**111.4**	**54.4**	**(13.2)**	**13.1**
Cash and cash equivalents 1 April 2019	150.1	95.7	15.1	2.0
Cash and cash equivalents 31 March 2020	**261.5**	**150.1**	**1.9**	**15.1**

An analysis of changes in liabilities from financing activities is shown in note 32.

The notes and appendices on pages 91 to 177 form part of these Financial Statements.

Notes to the Financial Statements

1. Principal Accounting Policies

General Information

The Association is registered in England as a Registered Society (number 19059R) and with the Regulator of Social Housing (number L0247); it is the ultimate parent undertaking within the Group. The Association's separate Financial Statements are presented alongside those of the Group, which consolidates the Financial Statements of the Association and entities controlled by the Association.

The Financial Statements are presented in pounds sterling which is the Group's functional currency. Unless otherwise stated, amounts are denominated in millions (£m) rounded to the nearest £0.1 million.

Basis of Accounting

The Group's and Association's Financial Statements (the Financial Statements) have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS). They are also prepared in accordance with the Co-operative and Community Benefit Societies Act 2014, Schedule 1 to the Housing and Regeneration Act 2008 and The Accounting Direction for private registered providers of social housing 2019. Additional guidance is taken from the Statement of Recommended Practice: Accounting by Registered Social Housing Providers 2018 (the SORP) where this does not conflict with IFRS.

Alternative Performance Measures

In the reporting of financial information, the Group uses various Alternative Performance Measures (APMs). These measures are not defined under IFRS and therefore may not be directly comparable with the APMs of other businesses reporting under IFRS.

APMs are not intended to be a substitute for, or superior to, IFRS measurement, but are included to provide additional useful information on the underlying trends, performance and position of the Group.

APMs are used for the following reasons:

- Where metrics have been defined by the Regulator of Social Housing (RSH) and are a compulsory requirement within the Financial Statements of a housing association.
- Where metrics are not defined by the RSH but are commonly used within the sector and so their use aids comparability with peers.
- Where adjustment for non-recurring events aids users of the Financial Statements in understanding the Group's underlying performance.

Further details of the Group's APMs, including reconciliations to line items within the primary Financial Statements and accompanying notes, are included in Appendix 4.

Changes to Accounting Policies

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

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

An explanation of how the transition has affected the Group's financial position and financial performance is set out in the separate transition note in Appendix 3.

Going Concern

The Group's operations, together with the factors likely to affect its future performance and financial position, are set out in the Strategic Report and Directors' Report on pages 6 to 64.

The Group manages its exposure to risk and this activity is reviewed and scrutinised by the Group Audit and Risk Committee. The principal risks to the Group, key controls and mitigating factors are discussed in detail on pages 19 to 23.

Information about the Group's approach to treasury management can be found in the Group Finance Director's Review on pages 27 and 28 and also within note 23 to the Financial Statements (financial instruments and risk management).

The Group's core operations are built on a solid base with strong relationships forged over the years with local authorities. The Group prepares robust business plans which are reviewed by the Regulator of Social Housing (RSH).

The Group's strategy and core strength is reflected in the external ratings with the RSH and credit agencies, with a V2 viability status from the RSH as well as maintaining A2 status from Moody's and A+ status from Standard & Poor's.

The Group Board's assessment of the Group and the Association's ability to continue as a going concern is based on consideration of cash flow forecasts that have been updated for the next two years to take account of the effects of Covid-19 and subjected to severe but plausible downside sensitivities. This assessment is detailed below in the Covid-19 section.

Having assessed the principal risks as set out on pages 19 to 23, the other matters discussed in connection with the viability statement on page 77 and the severe but plausible downside sensitivities, the Group Board considers that the Group and the Association have adequate resources to remain in operation for the foreseeable future, have sufficient cash to more than meet its needs for the12 months from the date of signing the Annual Report and Financial Statements (the going concern assessment period) and it will continue to meet all borrowing covenants. The Group Board has therefore continued to adopt the going concern basis in preparing the Financial Statements.

Uncertainty Over the Future Relationship With the European Union (EU)

While the Group operates within England and Scotland, its diverse operations mean the uncertainty around the future relationship with the EU requires careful planning around multiple aspects of our operations.

The Group is a large borrower of capital and there was initially concern that leaving the EU would increase the cost of debt. However, there are high levels of demand for secure long-term, good credit quality bond issues that housing associations offer and the Group recently secured a £350 million 30-year bond issue with a wide variety of respected investors. The Group has ensured sufficient liquidity is available through committed facilities and cash balances that cover well over the going concern assessment period.

Staffing, particularly within the care home business, has and will continue to be impacted by leaving the EU. A range of actions have been taken in recent years to reduce the impact of this risk, including proactively seeking to recruit nurses from other areas of the world, supporting existing members of staff through an internal nursing academy and a review of terms and conditions to support the Group's position as an employer of choice.

With a significant development pipeline as well as an ongoing reinvestment programme, the ability to secure construction contracts and the appropriate materials and labour is key. Virtually all the Group's key suppliers are sourced from within the UK and paid for in sterling. Where possible the Group's Procurement team has sought assurances from key suppliers on contingency plans for the ongoing delivery of supplies.

Leaving the EU could have an impact on the amount of EU research funding and the number of European students attending UK universities. This could, in turn, have an impact on future occupancy of the Group's student accommodation. The Group continues to actively market direct-let accommodation to students both within the UK and non-EU countries.

Covid-19

The Covid-19 outbreak has become a global pandemic, moving from an emerging risk to becoming a principal risk for Sanctuary. However, as detailed on page 23, the Group has acted swiftly to put controls in place to mitigate the effects as far as possible.

The challenges to be faced in the year 2020/2021 due to Covid-19 and the affect that this will have on some sources of income and costs have been assessed.

The Board has considered the impact on each of its businesses as part of their assessment. The affordable housing business is anticipated to remain resilient, with continuing strong demand for good quality affordable housing stock, though the economic fall-out from the Government measures to control the virus will affect our tenants. The care business has seen more significant impacts from the Covid-19 pandemic, with lower occupancy and increased staff and personal protective equipment costs, which will be partly offset by increased Government support through an additional £3.8 billion of funding for the sector as a whole. The development business has seen a slowdown in on-site activity during the pandemic and while the Group's long-term strategic aim of increasing housing supply is unchanged, it is acknowledged that this will have a short-term impact on the timing and delivery of development plans. The student segment may be impacted by Covid-19 with uncertainty around how higher education will be undertaken in the next academic year and this has been factored in to the severe but plausible downside sensitivities.

The Group has considered whether any adjustments are required to balances within the Financial Statements due to Covid-19; in particular, the effects have been incorporated into property impairment testing and the review of inventory carrying value and have been considered when establishing expected credit loss provisions for receivables.

As detailed within the going concern section above, cash flow forecasts covering a period of two years have been updated for the impact of Covid-19 and detailed severe but plausible downside sensitivity testing performed, along with mitigating options such as delaying expenditure on uncommitted developments.

The conclusion of this assessment was that, even after taking account of the impact of Covid-19, the Group's liquidity position remains robust and it has sufficient cash to more than meet its needs for the going concern assessment period and it will continue to meet all of its borrowing covenants.

IFRSs Not Yet Applied

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

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

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

Critical Accounting Judgements

In the process of applying the Group's and Association's accounting policies, management has made certain judgements which have an impact upon the Financial Statements, these are detailed below.

Classification of Property

A degree of judgement is required over whether property held by the Group 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 Group considers all of its commercial property and its property held for student lettings 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 Group has therefore classified its office buildings (held for administrative purposes) and its care homes (held for the provision of care services) 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 Group's opinion that while 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).

Critical Accounting Estimates and Assumptions

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

Estimates and assumptions are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

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 Group:

- Inflation rate;
- Life expectancy; and
- Discount rate.

The Group is exposed to risks through its defined benefit schemes if actual experience differs to the assumptions used and through volatility in the plan assets. Details of the assumptions used, and associated sensitivities, are included in note 29.

Inventory Carrying Value

The Group has ongoing procedures for assessing the carrying value of inventories and identifying where this is in excess of net realisable value, with reference to estimates of costs to complete and remaining revenues. The assumptions and estimates for both revenue and costs are based on conditions existing at the reporting date, with reference to recent experience on similar properties and site-specific knowledge. A material portion of the Group's activities are undertaken through house building and development and the Group is required to make estimates in accounting for revenue and margin. These estimates may depend upon the outcome of future events and may need to be revised as circumstances change.

Specific procedures for assessing development projects include:

- **Market analysis** – A review of potential impact on build costs and sales revenues based on analysis of information published by the leading consultants in the sector;
- **Contract analysis** – A review of current contractual positions and the potential impact on build costs; and
- **Impact analysis** – Application of a series of sensitivities to existing models to assess the impact of potential revenue and cost movements.

Details of the year end review are included in note 18.

Impairment of Property Assets

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

- Future occupancy levels;
- Fee rates;
- Inflation rates;
- Discount rates; and
- Sustainable Earnings Before Interest, Taxation, Depreciation, Amortisation, Rent and Management fees (EBITDARM) and EBITDARM multiples for determining valuations.

Further details of the general principles of impairment testing are included later within note 1. Details of the specific assumptions used, and associated sensitivities, are included in notes 12 and 13.

Other Accounting Judgements, Estimates and Assumptions

Provisions and Contingent Liabilities

A provision is recognised when the Group 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 Group are included in note 26.

Contingent liabilities are possible obligations whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the Group's control, or present obligations that are not recognised because it is not probable that a settlement will be required or the value of such a payment cannot be reliably estimated. The Group does not recognise contingent liabilities but discloses them in note 37.

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 23). Due to the diverse activities of the Group 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 Group's historical experience and informed credit assessment.

Revenue

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

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

Fair Value Measurement

A number of assets and liabilities included in the Group's Financial Statements require measurement at, and/or disclosure of, fair value. The fair value measurement of the Group's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible.

The Group measures (or discloses) the following items at fair value:

- Investment property – disclosure only (note 13)
- Equity investments at FVOCI – listed investments (notes 14 and 23)
- Derivative financial instruments (notes 15 and 23).

Basis of Consolidation

The consolidated Financial Statements incorporate the Financial Statements of the Association and entities controlled by the Association.

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The Financial Statements of subsidiaries are included in the consolidated Financial Statements from the date that control commences until the date that control ceases. Business combinations are accounted for using the acquisition method.

Investments in subsidiaries are accounted for at cost less any impairment for permanent diminutions in value.

Joint Arrangements

A joint arrangement is an arrangement over which the Group and one or more third parties have joint control. These joint arrangements are, in turn, classified as:

- Joint ventures whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities; and
- Joint operations whereby the Group has rights to the assets and obligations for the liabilities relating to the arrangement.

Application of the Equity Method to Joint Ventures

Joint ventures are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The consolidated Financial Statements include the Group's share of the total comprehensive income and equity movements of equity accounted investees, from the date that joint control commences until the date that joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the Group's carrying amount is reduced to £nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an investee.

Transactions Eliminated on Consolidation

Intra-Group balances and transactions, and any unrealised income and expenses arising from intra-Group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Goodwill Arising on Business Combinations

Goodwill is calculated as the difference between the fair value of the aggregate of the consideration transferred and the net fair value of identifiable assets acquired and liabilities assumed.

If the difference calculated above is positive, the amount is treated as an intangible asset in the Statement of Financial Position and is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment with any impairment losses recognised in the Statement of Comprehensive Income.

Investments Treated as Non-Current Assets

Where the investments in listed or unlisted securities are held as a condition of financing arrangements, with the result that the Group's ability to utilise these funds is restricted in the long-term, the investments are treated as non-current assets.

Listed investments are accounted for as fair value through other comprehensive income (FOCI). Unlisted investments are stated at amortised cost less impairment.

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 Group recognises revenue when it transfers control over a product or service to a customer.

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

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

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

Contract liabilities are obligations to transfer goods or services to a customer for which the Group 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 Group has presented contract assets and contract liabilities as separate line items on the Statement of Financial Position while contract receivables are included within trade and other receivables.

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 Group 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 Group continually reviews costs incurred in fulfilling contracts to determine if they require capitalisation under the Standard.

Intangible Assets – Software

Software acquisition costs, licence costs and development costs are treated as intangible assets and stated at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is charged to the Statement of Comprehensive Income on a straight-line basis over the estimated useful lives of the software from the date it is available for use.

The estimated useful lives used for software are between 4 to 10 years. Management judges these estimated lives to be a reasonable reflection of the economic lives of the assets.

Property, Plant and Equipment and Depreciation

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

Land and Buildings

Land and buildings consists of housing properties for social rent (including care homes) and shared ownership properties. The provision of social housing is akin to supplying a service and therefore property held for the primary purpose of providing social benefits should be excluded from the scope of investment property and accounted for as PPE. 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 Group 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 to 125 years
Doors and door entry systems	10 to 40 years
Bathrooms	15 to 40 years
External works	20 to 25 years
Heating systems	15 to 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) and improvements	10 to 40 years
Leasehold land and buildings (offices)	Over the period of the lease
Furniture and equipment	4 to 10 years
Motor vehicles	4 to 7 years
Computer equipment (excluding software)	4 to 10 years

Investment Property

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

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

Student property (right-of-use assets)	Over the period of the lease
Other investment property	As per PPE

Shared Ownership Property

Under shared ownership arrangements, the Group disposes of a long lease to the occupier; the initial lease premium paid for the first tranche is typically for between 25 per cent and 75 per cent of the value. The occupier has the right to purchase further proportions. A shared ownership property comprises two assets: that to be disposed of in the first tranche, which is recorded as inventory within current assets; and that retained by the Group, which is recorded as a non-current asset (PPE) in the same manner as general needs housing properties. Proceeds of sale for first tranches are accounted for as revenue in the Income Statement, with apportioned cost being shown as cost of sales within operating results. Subsequent tranches sold (staircasing) are reflected as surpluses or deficits on sale of housing properties, shown within other gains and losses on the Income Statement.

Capitalised Borrowing Costs and Capitalised Staff Costs

Interest on the Group's and 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. For the Group, 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 Group's and Association's own employees that are incurred in relation to the development of properties, whether for sale or rental, are also capitalised.

Social Housing Grant (SHG) and Other Public Grant

Where developments have been financed wholly or partly by SHG and/or other public grant, the amount of grant received is offset against the cost of developments on the face of the Statement of Financial Position. In instances where grant for the development programme exceeds development costs, an amount equal to the excess is held in payables. Where grants are receivable for the development programme in arrears the amounts are accrued within receivables. Where grants are repayable and the associated asset is sold, the grant is held within the recycled capital grant fund (RCGF) or disposal proceeds fund (DPF) within payables until it is recycled or repaid to the issuer.

Where acquired entities have grant, the gross book value has been uplifted by the grant amount to show both the cost and grant element within the Group Statement of Financial Position.

Recycled Capital Grant Fund and Disposal Proceeds Fund

In certain circumstances the Group and Association are permitted to retain the SHG relating to properties sold and to apply this to further property development within a certain time frame. If this time frame is exceeded the grant may be repayable. In these circumstances it is included within the RCGF or DPF within payables.

Impairment

Financial Assets

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

The Group 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 Group 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 Group is exposed to credit risk.

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

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

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

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group 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 Group's historical experience and informed credit assessment and including forward-looking information.

The Group 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 Group considers this to be 'Baa3' or higher as per the rating agency Moody's.

Non-Financial Assets

The carrying amounts of the Group's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or a cash-generating unit (CGU) exceeds its estimated recoverable amount. Impairment losses are recognised in the Statement of Comprehensive Income. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the 'cash-generating unit'). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to CGUs.

Impairment Testing – Property

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

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

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 Statement of Comprehensive Income.

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

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

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

Impairment Testing – Goodwill and Other Intangible Assets

The Group tests goodwill and other intangible assets annually for impairment or more frequently if there are indications that items might be impaired. The carrying value of the relevant CGU is compared to the recoverable amount to ascertain if impairment is required. Recoverable amounts for CGUs are based on the higher of value in use and fair value less costs of disposal. VIU is determined by calculating the present value of future cash flows of the CGU, using discount rates that reflect the time value of money and risks specific to the CGU. Discount rates are derived from the Group's weighted average cost of capital, as adjusted for the specific risks relating to each CGU.

Inventories

Inventories are stated at the lower of cost and net realisable value and comprise properties held for sale and consumables used by the Group's maintenance operation. Properties held for sale include properties held for outright sale and proportions of shared ownership properties allocated as first tranche sales; costs include direct materials, direct labour and other direct costs that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less any anticipated selling costs. Maintenance consumables are valued on a first in, first out basis.

Assets Classified as Held for Sale

A non-current asset is classified as held for sale if its carrying amount will be recovered principally through sale rather than through continuing use, it is available for immediate sale and sale is highly probable within one year. On initial classification as held for sale, assets are measured at the lower of previous carrying amount and fair value less costs to sell with any adjustments taken to the Income Statement.

Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identical asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- The contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- The Group has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and
- The Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either:
  - The Group has the right to operate the asset; or
  - The Group designed the asset in a way that predetermines how and for what purpose it will be used.

This policy is applied to contracts entered into, or changed, on or after 1 April 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocated the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

As a Lessee

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the initial rate implicit in the lease. The Group uses a single discount rate for each portfolio of leases with reasonably similar characteristics.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable under a residual value guarantee; and
- The exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the Statement of Financial Position.

Short-Term Leases and Leases of Low-Value Assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term and low value assets. The Group recognises the lease payments associated with the leases as an expense on a straight-line basis over the lease term.

As a Lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains a lease and non-lease components, the Group applies IFRS 15 to allocate the consideration in the contract.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of revenue.

The accounting policies applicable to the Group as a lessor in the comparative period were not different from IFRS 16. However, when the Group was an intermediate lessor the sub-leases were classified with reference to the underlying asset.

Under IAS 17 (Comparative Period)

In the comparative period, as a lessee the Group classified leases that transfer substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent.

Subsequently, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Group's Statement of Financial Position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

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 Group becomes a party to the contractual provisions of the instrument.

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

Classification and Subsequent Measurement

a) Financial Assets

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or FVPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group 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 Group 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 Group
- How the performance of the assets is evaluated and reported to the Group'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.

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 Group 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 Group 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 Group'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 Group 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 Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group 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 Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group 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.

Derivative Financial Instruments and Hedge Accounting

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met.

Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss.

The Group designates certain derivatives as hedging instruments which hedge the variability in cash flows arising from changes in foreign exchange rates relating to foreign currency borrowings.

At inception of designated hedging relationships, the Group documents the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

Cash Flow Hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in Other Comprehensive Income (OCI) and accumulated in the hedging reserve. The effective portion of changes in the fair value of the derivative that is recognised in OCI is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

The Group designates only the change in fair value of the spot element of the forward exchange contract as the hedging instrument in cash flow hedging relationships. The effective portion of changes in fair value of hedging instruments is accumulated in a cash flow hedge reserve as a separate component of equity.

The forward points are accounted for as a cost of hedging; they are recognised in OCI and accumulated in a cost of hedging reserve as a separate component within equity.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, is terminated or is exercised, then hedge accounting is discontinued prospectively. When hedge accounting for cash flow hedges is discontinued the amount that has been accumulated in the hedging reserve remains in equity until it is reclassified to profit or loss in the same period or periods as the hedged expected future cash flows affect profit or loss.

If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the hedging reserve and the cost of hedging reserve are immediately reclassified to profit or loss.

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 Group and Association are 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.

Retirement Benefits

The Group's and Association's pension arrangements comprise various defined benefit and defined contribution schemes. Where the underlying assets and liabilities of the defined benefit schemes can be separately identified the Group 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.

For defined contribution arrangements, the cost charged to the Statement of Comprehensive Income represents the Group's contributions to those schemes in the financial year in which they fall due.

2. Revenue

Nature of Goods and Services and Revenue Recognition

The following is a description of the principal activities from which the Group 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, sheltered housing, extra care, shared ownership (all affordable housing division), supported housing (supported living division) or key worker accommodation (student division). 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.
Domiciliary	Home care services are provided to certain tenants of extra care schemes. Revenue is recognised based on care hours delivered. Clients are generally billed either weekly, fortnightly, four-weekly or monthly, in arrears, depending on the terms of the individual contract.
Supported registered services	Supported registered services (CQC registered services) encapsulate both residential and non-residential care and support. Residential care and support services are provided to individuals who are in care homes for reasons other than being an older person, for instance due to physical or mental disabilities. Revenue is recognised based on number of bed days occupied in the period. Billing is predominantly done on a four-week cycle, which may be in advance or arrears. Non-residential care and support services are generally supported living services where income is separately recognised for rent and service charges (social housing lettings income); support income may be received for support hours delivered, dependent upon the client needs and the agreements with the local authority and/or the client.

Product/ service	Nature, timing of satisfaction of performance obligations and significant payment terms
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. This includes people with disabilities, people with mental health issues, young people, homeless people or people at risk of domestic violence. 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.
Care homes	Residential and nursing homes for older people are managed within the care division. Revenue relates to provision of residential/nursing care, with contracts in place with local authorities, the NHS and private self-funders. Revenue is recognised based on the number of bed days occupied (or available for occupation in the case of block contracts) in the period. Billing is generally monthly or four-weekly in advance.
Student lets	Student lettings income is received through direct lets or via nominations agreements with universities. Revenue is recognised in accordance with the rental contract periods and is generally billed termly in advance.
Facilities management	The Group provides facilities management services for several student and non-student sites. Performance is by virtue of managing the sites, with all that this entails, and so revenue is recognised equally throughout the year based on the contracted annual fees; this is generally billed quarterly.
Property sales – outright sales	Property held for sale in the ordinary course of business or in the process of construction or development for such a sale is treated as inventory as per IAS 2; sales of these properties are treated as revenue under IFRS which is consistent with the approach of the housing SORP. Revenue is recognised on the date of legal completion of the sale to the new owner of the property when consideration is also received.
Property sales – initial sales	Initial sales are governed by a shared ownership arrangement, where the Group will retain a percentage of the ownership of the property with the new shared owner having the remaining share. The Group recognises sales of shared ownership properties as those where the initial tranche of equity has been sold; this is treated as revenue under IFRS which is consistent with the approach of the housing SORP. Revenue is recognised on the date of legal completion of the sale of the acquired proportion when consideration is also received.

Disaggregation of Revenue

In the following tables, revenue is disaggregated by major products and services using the same headings as the note prepared to meet the requirements of the Accounting Direction for private registered providers of Social Housing 2019 (Appendices 1 and 2) and reconciled to the Group's operating segments (note 6).

Year ended 31 March 2020 - Group	Affordable housing	Supported living	Care	Student & market rented	Development property sales	All other segments	Total
	£m	£m	£m	£m	£m	£m	£m
Revenue recognised over time							
Income from social housing lettings	378.4	28.4	-	4.2	-	-	411.0
Home ownership and managed properties	7.3	-	-	-	-	-	7.3
Supported registered services	-	11.0	-	-	-	-	11.0
Supporting People contract income	0.2	25.3	-	-	-	-	25.5
Other social housing income	0.8	4.8	-	0.2	-	-	5.8
Student lettings, facilities management and commercial	2.1	-	-	52.3	-	-	54.4
Care homes	-	-	194.1	-	-	-	194.1
External maintenance services	3.3	-	-	-	-	-	3.3
Domiciliary	-	6.5	-	-	-	-	6.5
Non-social housing development contracts	-	-	-	-	-	0.5	0.5
Other development income	-	-	-	-	-	0.3	0.3
Other non-social housing income	0.7	-	-	-	-	2.2	2.9
Total revenue over time	**392.8**	**76.0**	**194.1**	**56.7**	**-**	**3.0**	**722.6**
Revenue at a point in time							
Shared ownership first tranche sales	-	-	-	-	17.1	-	17.1
Non-social housing property sales	-	-	-	-	23.3	-	23.3
Total revenue at a point in time	**-**	**-**	**-**	**-**	**40.4**	**-**	**40.4**
Total revenue from external customers	**392.8**	**76.0**	**194.1**	**56.7**	**40.4**	**3.0**	**763.0**
Less lease income	-	(4.8)	-	(6.7)	-	-	(11.5)
Revenue from contracts with customers	**392.8**	**71.2**	**194.1**	**50.0**	**40.4**	**3.0**	**751.5**

Year ended 31 March 2019 - Group	Affordable housing	Supported living	Care	Student & market rented	Development property sales	All other segments	Total
	£m	£m	£m	£m	£m	£m	£m
Revenue recognised over time							
Income from social housing lettings	374.8	26.2	-	3.9	-	-	**404.9**
Home ownership and managed properties	7.1	-	-	-	-	-	**7.1**
Supported registered services	-	11.5	-	-	-	-	**11.5**
Supporting People contract income	0.2	23.5	-	-	-	-	**23.7**
Other social housing income	-	5.1	-	-	-	-	**5.1**
Student lettings, facilities management and commercial	1.5	-	-	54.0	-	-	**55.5**
Care homes	-	-	185.5	-	-	-	**185.5**
External maintenance services	3.6	-	-	-	-	-	**3.6**
Domiciliary	-	6.6	-	-	-	-	**6.6**
Non-social housing development contracts	-	-	-	-	-	3.7	**3.7**
Other development income	-	-	-	-	-	0.2	**0.2**
Other non-social housing income	1.7	-	-	-	-	0.9	**2.6**
Total revenue over time	**388.9**	**72.9**	**185.5**	**57.9**	**-**	**4.8**	**710.0**
Revenue at a point in time							
Shared ownership first tranche sales	-	-	-	-	13.7	-	**13.7**
Non-social housing property sales	-	-	-	-	11.7	-	**11.7**
Total revenue at a point in time	**-**	**-**	**-**	**-**	**25.4**	**-**	**25.4**
Total revenue from external customers	**388.9**	**72.9**	**185.5**	**57.9**	**25.4**	**4.8**	**735.4**
Less lease income	-	(5.1)	-	(6.3)	-	-	(11.4)
Revenue from contracts with customers	**388.9**	**67.8**	**185.5**	**51.6**	**25.4**	**4.8**	**724.0**

Year ended 31 March 2020 - Association	Affordable housing	Supported living	Care	Student & market rented	Development property sales	All other segments	Total
	£m	£m	£m	£m	£m	£m	£m
Revenue recognised over time							
Income from social housing lettings	320.3	26.7	-	4.2	-	-	**351.2**
Home ownership and managed properties	6.3	-	-	-	-	-	**6.3**
Supporting People contract income	0.2	12.9	-	-	-	-	**13.1**
Other social housing income	1.1	4.6	-	0.2	-	-	**5.9**
Student lettings, facilities management and commercial	-	-	-	31.8	-	-	**31.8**
Non-social housing development contracts	-	-	-	-	-	0.5	**0.5**
Other development income	-	-	-	-	-	0.3	**0.3**
Management charges (intra-Group)	-	-	-	-	-	27.1	**27.1**
Other non-social housing income	-	-	-	-	-	8.8	**8.8**
Total revenue over time	**327.9**	**44.2**	**-**	**36.2**	**-**	**36.7**	**445.0**
Revenue at a point in time							
Shared ownership first tranche sales	-	-	-	-	1.6	-	**1.6**
Non-social housing property sales	-	-	-	-	7.5	-	**7.5**
Total revenue at a point in time	**-**	**-**	**-**	**-**	**9.1**	**-**	**9.1**
Total revenue from external customers	**327.9**	**44.2**	**-**	**36.2**	**9.1**	**36.7**	**454.1**
Less lease income	-	(4.6)	-	(1.3)	-	-	(5.9)
Revenue from contracts with customers	**327.9**	**39.6**	**-**	**34.9**	**9.1**	**36.7**	**448.2**

Year ended 31 March 2019 - Association	Affordable housing	Supported living	Care	Student & market rented	Development property sales	All other segments	Total
	£m	£m	£m	£m	£m	£m	£m
Revenue recognised over time							
Income from social housing lettings	321.3	24.8	-	3.9	-	-	**350.0**
Home ownership and managed properties	6.1	-	-	-	-	-	**6.1**
Supporting People contract income	0.1	13.8	-	-	-	-	**13.9**
Other social housing income	-	5.0	-	-	-	-	**5.0**
Student lettings, facilities management and commercial	-	-	-	31.5	-	-	**31.5**
Non-social housing development contracts	-	-	-	-	-	3.7	**3.7**
Other development income	-	-	-	-	-	0.2	**0.2**
Management charges (intra-Group)	-	-	-	-	-	27.3	**27.3**
Other non-social housing income	-	-	-	-	-	7.0	**7.0**
Total revenue over time	**327.5**	**43.6**	**-**	**35.4**	**-**	**38.2**	**444.7**
Revenue at a point in time							
Shared ownership first tranche sales	-	-	-	-	0.7	-	**0.7**
Non-social housing property sales	-	-	-	-	10.4	-	**10.4**
Total revenue at a point in time	**-**	**-**	**-**	**-**	**11.1**	**-**	**11.1**
Total revenue from external customers	**327.5**	**43.6**	**-**	**35.4**	**11.1**	**38.2**	**455.8**
Less lease income	-	(5.0)	-	(2.9)	-	-	(7.9)
Revenue from contracts with customers	**327.5**	**38.6**	**-**	**32.5**	**11.1**	**38.2**	**447.9**

Contract Balances

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

	Group 2020 £m	Group 2019 £m	Association 2020 £m	Association 2019 £m
Contract receivables (included in trade and other receivables)				
Tenant rental receivables (note 16)	12.6	13.0	9.8	11.0
Other trade receivables (note 16)	20.1	18.8	7.0	5.5
Accrued income (note 16)	10.5	6.1	3.0	0.7
	43.2	37.9	19.8	17.2
Contract assets				
Amounts recoverable on construction contracts	0.3	0.3	0.3	0.3
	0.3	0.3	0.3	0.3
Contract liabilities				
Payments received in advance	(21.9)	(18.1)	(15.9)	(14.2)
Deferred income	(8.9)	(7.7)	(3.8)	(2.1)
Other contract liabilities	-	(1.0)	-	(1.0)
	(30.8)	(26.8)	(19.7)	(17.3)

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

3. Other Income

	Group 2020 £m	Group 2019 £m	Association 2020 £m	Association 2019 £m
Gift aid	-	-	19.8	14.4
	-	-	19.8	14.4

4. Surplus for the Year

Cost of sales relates to the cost of properties sold in the ordinary course of business as well as costs associated with construction contracts revenue. Expenditure relating to the provision of services, which forms the majority of the Group's activities, is shown within operating expenditure.

	Group 2020 £m	Group 2019 £m	Association 2020 £m	Association 2019 £m
The surplus is arrived at after charging/(crediting):				
Cost of sales				
Cost of inventories recognised as an expense	29.7	17.3	7.5	7.6
Cost of construction contracts	0.4	4.2	0.4	4.2
Operating expenditure				
Rented and sheltered bad debts (note 23)	3.3	1.8	2.9	1.4
Other bad debts (note 23)	2.5	(0.2)	0.9	0.2
Depreciation of property, plant and equipment (note 12)	59.7	52.5	46.6	41.8
Impairment of property, plant and equipment (note 12)	-	1.0	-	1.0
Depreciation of investment property (note 13)	2.8	4.1	1.9	1.6
Impairment of investment property (note 13)	0.7	0.1	-	0.1
Amortisation of intangible assets (software) (note 11)	9.8	9.3	9.8	9.3
Impairment of assets classified as held for sale (note 19)	-	0.3	-	-
Other gains and losses				
Surplus on sale of property, plant and equipment (note 7)	6.2	22.1	5.8	20.7
Surplus on sale of investments (note 7)	-	0.6	-	0.6

5. Auditor's Remuneration

Auditor's remuneration for audit and non-audit services comprises:

	Group 2020 £m	Group 2019 £m	Association 2020 £m	Association 2019 £m
Fees payable to the Association's auditor and its associates for the audit of these Financial Statements	0.4	0.4	0.4	0.3
Fees payable to the Association's auditor and its associates for other services to the Group:				
The audit of the Association's subsidiaries	0.2	0.2	-	-
Total audit fees	**0.6**	**0.6**	**0.4**	**0.3**
Other assurance services	0.2	0.2	0.2	0.4
Total non-audit fees	**0.2**	**0.2**	**0.2**	**0.4**
Total audit and non-audit fees	**0.8**	**0.8**	**0.6**	**0.7**

The above shows fees paid to the Group's external statutory auditor.

Amounts receivable by the Association's auditor and its associates in respect of the audit of Financial Statements of associated pension schemes totals £11,000 (2019: £10,000).

Other assurance services relate to regulatory reviews, a bond issue and the audit of service charge accounts.

6. Operating Segments

The Group's reportable segments are based on its operational divisions which offer distinguishable services, are managed separately and are regularly assessed by the chief operating decision maker, identified as the Executive Committee, comprising the Group Chief Executive, the Group Finance Director and the Group Director – Corporate Services.

Operating division results include items directly attributable to the segment, together with apportioned centralised costs. Central costs are allocated based on a number of factors including headcounts, desk spaces, asset values and turnover within each of the respective operations.

Information relating to each reportable segment is set out below:

2020	Affordable housing £m	Supported living £m	Care £m	Student & market rented £m	Development sales £m	All other segments* £m	Intra-Group eliminations £m	Total £m
Revenue from external customers	392.8	76.0	194.1	56.7	40.4	3.0	-	763.0
Internal maintenance income	140.7	-	-	-	-	-	(140.7)	-
Internal maintenance costs	(140.7)	-	-	-	-	-	140.7	-
Cost of sales	-	-	-	-	(29.7)	(0.4)	-	(30.1)
Operating costs	(190.7)	(72.8)	(172.4)	(27.6)	-	(9.3)	-	(472.8)
Divisional EBITDA**	**202.1**	**3.2**	**21.7**	**29.1**	**10.7**	**(6.7)**	**-**	**260.1**
Depreciation	(41.5)	(6.1)	(8.0)	(7.6)	-	(1.4)	-	(64.6)
Impairment	-	-	-	(0.7)	-	-	-	(0.7)
Reportable segment surplus	**160.6**	**(2.9)**	**13.7**	**20.8**	**10.7**	**(8.1)**	**-**	**194.8**
Corporate central overheads								(16.6)
Share of profits of joint ventures								4.4
Underlying Group operating surplus								**182.6**
Restructuring costs								(2.6)
Other gains and losses								6.2
Total Group operating surplus								**186.2**

2019	Affordable housing £m	Supported living £m	Care £m	Student & market rented £m	Development sales £m	All other segments* £m	Intra-Group eliminations £m	Total £m
Revenue from external customers	388.9	72.9	185.5	57.9	25.4	4.8	-	735.4
Internal maintenance income	136.1	-	-	-	-	-	(136.1)	-
Internal maintenance costs	(136.1)	-	-	-	-	-	136.1	-
Cost of sales	-	-	-	-	(17.3)	(4.2)	-	(21.5)
Operating costs	(184.7)	(68.5)	(162.8)	(29.4)	-	(7.7)		(453.1)
Divisional EBITDA**	**204.2**	**4.4**	**22.7**	**28.5**	**8.1**	**(7.1)**	**-**	**260.8**
Depreciation	(38.3)	(6.6)	(8.5)	(6.7)	-	(0.6)	-	(60.7)
Impairment	-	-	(1.3)	(0.1)	-	-	-	(1.4)
Reportable segment surplus	**165.9**	**(2.2)**	**12.9**	**21.7**	**8.1**	**(7.7)**	**-**	**198.7**
Corporate central overheads								(20.8)
Share of profits of joint ventures								3.1
Underlying Group operating surplus								**181.0**
Other gains and losses								22.7
Total Group operating surplus								**203.7**

Divisional EBITDA %	Affordable housing	Supported living	Care	Student & market rented	Development sales	Total
2020	51.5%	4.2%	11.2%	51.3%	26.5%	34.1%
2019	52.5%	6.0%	12.2%	49.2%	31.9%	35.5%

*Other segments comprises sundry external income and associated costs and development administration costs.

**Divisional EBITDA is defined as segment surplus with office and equipment depreciation and software amortisation costs removed. Other gains and losses have not been attributed across divisions.

Further details of the Group's operating divisions are included in the business reviews on pages 30 to 49.

7. Other Gains and Losses

Group

2020	Right to buy/ acquire £m	Subsequent staircasing £m	Disposal of surplus properties £m	Other fixed assets £m	Fixed asset investments £m	Total 2020 £m
Proceeds	11.3	5.5	2.1	0.8	0.8	20.5
Cost of disposals	(8.0)	(2.7)	(1.8)	(1.0)	(0.8)	(14.3)
	3.3	2.8	0.3	(0.2)	-	6.2

2019	Right to buy/ acquire £m	Subsequent staircasing £m	Disposal of surplus properties £m	Other fixed assets £m	Fixed asset investments £m	Total 2019 £m
Proceeds	5.9	5.0	28.4	1.2	8.3	48.8
Cost of disposals	(5.3)	(2.4)	(10.2)	(0.5)	(7.7)	(26.1)
	0.6	2.6	18.2	0.7	0.6	22.7

Association

2020	Right to buy/ acquire £m	Subsequent staircasing £m	Disposal of surplus properties £m	Other fixed assets £m	Fixed asset investments £m	Total 2020 £m
Proceeds	11.1	4.0	0.9	0.9	0.8	17.7
Cost of disposals	(7.8)	(1.7)	(0.5)	(1.1)	(0.8)	(11.9)
	3.3	2.3	0.4	(0.2)	-	5.8

2019	Right to buy/ acquire £m	Subsequent staircasing £m	Disposal of surplus properties £m	Other fixed assets £m	Fixed asset investments £m	Total 2019 £m
Proceeds	5.8	2.8	24.5	1.6	8.3	43.0
Cost of disposals	(5.2)	(1.1)	(6.8)	(0.9)	(7.7)	(21.7)
	0.6	1.7	17.7	0.7	0.6	21.3

Cost of disposals includes the carrying amount of assets prior to disposal and other related disposal costs.

Subsequent staircasing relates to shared ownership properties, where the tenant owners have purchased an additional stake in the property from the Group/Association. This is treated as a gain or loss on asset disposal based on guidance from the SORP that does not conflict with IFRS.

8. Key Management Remuneration and Employee Information

Key Management Personnel

Members of the Board of Directors and Executive Committee are deemed to be key management personnel.

Emoluments of the Group Board for the financial year was as follows:

	2020 £'000	2019 £'000
Salary and benefits in kind – Executive Board Directors	684	745
Pension contributions and payments in lieu of pension contributions – Executive Board Directors	64	86
	748	831
Salary – Non-Executive Board Directors	194	193
Benefits in kind – Non-Executive Board Directors	-	-
	942	1,024

The emoluments (excluding pension contributions and analogous payments) of the Group Board Directors and Executive Committee were:

		Salary £'000	Benefits excluding pension contributions and payments in lieu of pension contributions £'000	Total £'000	Pension contributions and payments in lieu of pension contributions £'000
Executive Board Members at 31 March 2020 and those served during the year					
Craig Moule	Group Chief Executive	300	16	316	45
Ed Lunt	Group Finance Director (appointed 22 May 2019)	195	12	207	8
Nicole Seymour	Group Director – Corporate Services	150	11	161	11

		Salary £'000	Other benefits £'000	Total £'000
Non-Executive Board Members				
Andrew Manning-Cox (appointed Chair 25 September 2019)	Group Chair	33	-	33
Jonathan Lander (resigned 25 September 2019)	Group Chair	23	-	23
Robert McComb	Vice Chair	25	-	25
Trudi Elliott	Non-Executive Board Director	23	-	23
Denise Plumpton	Non-Executive Board Director	20	-	20
Elwyn Roberts	Non-Executive Board Director	25	-	25
Thelma Stober (resigned 25 September 2019)	Non-Executive Board Director	10	-	10
Gareth Tuckwell	Non-Executive Board Director	25	-	25
Arvinda Gohil (appointed 25 September 2019)	Non-Executive Board Director	10	-	10
Other members of the Executive				
Operating division Directors		902	66	968

The emoluments of the highest paid Executive Group Board Director (excluding payments in lieu of pension contributions) were £316,000 (2019: £320,000).

Key Management Personnel – Expenses

In addition to the emoluments detailed on page 120, key management personnel were reimbursed for expenses necessarily incurred in the conduct of their duties amounting to £14,365 (2019: £7,793).

Employee Information

	Group 2020 £m	Group 2019 £m	Association 2020 £m	Association 2019 £m
Employee (including Directors) costs charged during the year amounted to:				
Wages and salaries	270.7	261.3	64.1	61.8
Social security costs	23.1	21.8	6.3	5.8
Other pension costs	10.5	7.9	3.8	3.2
	304.3	291.0	74.2	70.8

	Group 2020 Number	Group 2019 Number	Association 2020 Number	Association 2019 Number
The average monthly number of persons (including Directors) employed during the year expressed in full-time equivalents was:				
Site-based staff	7,162	7,145	641	664
Office-based staff	2,940	2,841	1,371	1,228
	10,102	9,986	2,012	1,892

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.

Loans totalling £15,251 (2019: £8,765) have been made to employees for tools and travel season tickets. All loans are interest bearing at a commercial rate with terms varying between one and five years.

Senior Pay Banding

In the year, the following number of staff within the social housing part of the business, expressed in full-time equivalents, were paid remuneration (including pensions) of over £60,000:

	2020 Number	2019 Number
£60,000-£69,999	72	53
£70,000-£79,999	50	32
£80,000-£89,999	26	30
£90,000-£99,999	18	15
£100,000-£109,999	4	5
£110,000-£119,999	7	4
£120,000-£129,999	1	3
£130,000-£139,999	2	3
£140,000-£149,999	2	-
£150,000-£159,999	-	2
£160,000-£169,999	-	1
£170,000-£179,999	2	-
£180,000-£189,999	-	1
£190,000-£199,999	2	1
£200,000-£209,999	1	-
£210,000-£219,999	1	2
£220,000-£229,999	2	1
£300,000-£309,999	-	1
£350,000-£359,999	-	1
£360,000-£369,999	1	-
	191	155

9. Finance Income and Costs

a) Finance Income

	Group		Association	
	2020 £m	2019 £m	2020 £m	2019 £m
Interest received and receivable from:				
Short-term cash deposits	1.9	1.7	1.4	1.3
Listed investments	0.4	0.5	0.4	0.5
Other interest	1.3	1.3	5.4	5.2
	3.6	3.5	7.2	7.0

b) Finance Costs

	Group		Association	
	2020 £m	2019 £m	2020 £m	2019 £m
Bank loans, overdrafts and other loans:				
Repayable within five years by instalments	26.1	13.7	21.3	9.5
Repayable wholly or partly in more than five years	105.9	111.1	76.2	81.1
Interest in respect of right-of-use assets	10.4	8.9	3.2	1.6
Less: amounts transferred to housing properties in the course of construction within PPE and inventory	(6.0)	(4.5)	(0.9)	(0.9)
	136.4	129.2	99.8	91.3
Fair value loss on derivative financial instruments	0.1	0.1	-	-
Finance costs of defined benefit pension schemes	0.9	1.0	0.9	0.9
	137.4	130.3	100.7	92.2

Included within bank loans, overdrafts and other loans repayable wholly or partly in more than five years is £1.5 million (2019: £1.4 million) in respect of premium and discount amortisation for the Group and £1.1 million (2019: £1.1 million) for the Association.

During the year the Group has recorded £8.6 million (2019: £nil) and the Association has recorded £8.6 million (2019: £nil) in respect of loan break and associated costs.

10. Taxation on Surplus on Ordinary Activities

	Group		Association	
	2020 £m	2019 £m	2020 £m	2019 £m
Corporation tax:				
Current year	-	-	-	-
Adjustments in respect of prior year	-	-	-	(0.1)
Current tax charge	-	-	-	(0.1)
Deferred tax credits:				
Increase in tax rate from 17% to 19%	(0.5)	-	-	-
Temporary timing differences	(0.3)	(0.6)	-	-
	(0.8)	(0.6)	-	-
Total tax credit	(0.8)	(0.6)	-	(0.1)

A significant proportion of the Group's activities occurs in Group entities recognised by Her Majesty's Revenue and Customs as exempt charities for tax purposes and is therefore not liable to corporation tax on surpluses.

The current tax result for the year is lower (2019: lower) than the standard rate of corporation tax in the UK of 19 per cent (2019: 19 per cent) for the Group and Association. The differences are explained below:

	Group		Association	
	2020 £m	2019 £m	2020 £m	2019 £m
Surplus before tax	52.4	76.9	42.4	68.5
	52.4	76.9	42.4	68.5
Surplus before tax multiplied by the main rate of corporation tax in the UK of 19% (2019: 19%)	10.0	14.6	8.1	13.0
Effects of:				
Activities which are exempt from taxation	(10.0)	(14.6)	(8.1)	(13.0)
Prior year taxation adjustment	-	-	-	(0.1)
Total current tax charge	-	-	-	(0.1)

Factors affecting future tax charge:

Following the introduction of the Finance Bill 2020, the rate of corporation tax is set to remain at 19 per cent for 2020/2021. When passed into law, the Finance Act 2020 will override previous legislation that enacted a reduction in the rate to 17 per cent from April 2020.

11. Intangible Assets

Group	Goodwill £m	Software (external) £m	Software (internal) £m	Total £m
Cost				
At 1 April 2018	5.6	89.7	1.3	96.6
Additions	-	2.8	1.8	4.6
Transfer to property, plant and equipment		(0.1)	-	(0.1)
At 31 March 2019	5.6	92.4	3.1	101.1
At 1 April 2019	5.6	92.4	3.1	101.1
Additions	0.3	3.0	3.6	6.9
Transfer from property, plant and equipment	-	0.6	-	0.6
At 31 March 2020	5.9	96.0	6.7	108.6
Amortisation and impairment				
At 1 April 2018	-	27.5	-	27.5
Amortisation for the year	-	9.2	0.1	9.3
Disposals	-	-	-	-
At 31 March 2019	-	36.7	0.1	36.8
At 1 April 2019	-	36.7	0.1	36.8
Amortisation for the year	-	9.8	-	9.8
At 31 March 2020	-	46.5	0.1	46.6
Net book amount at 31 March 2020	5.9	49.5	6.6	62.0
Net book amount at 31 March 2019	5.6	55.7	3.0	64.3
Net book amount at 1 April 2018	5.6	62.2	1.3	69.1

Association	Goodwill £m	Software (external) £m	Software (internal) £m	Total £m
Cost				
At 1 April 2018	-	89.7	1.3	91.0
Additions	-	2.8	1.8	4.6
Transfer to property, plant and equipment	-	(0.1)	-	(0.1)
At 31 March 2019	-	92.4	3.1	95.5
At 1 April 2019	-	92.4	3.1	95.5
Additions	-	2.9	3.6	6.5
Transfer from property, plant and equipment	-	0.6	-	0.6
At 31 March 2020	-	95.9	6.7	102.6
Amortisation and impairment				
At 1 April 2018	-	27.5	-	27.5
Amortisation for the year	-	9.2	0.1	9.3
At 31 March 2019	-	36.7	0.1	36.8
At 1 April 2019	-	36.7	0.1	36.8
Amortisation for the year	-	9.8	-	9.8
At 31 March 2020	-	46.5	0.1	46.6
Net book amount at 31 March 2020	-	49.4	6.6	56.0
Net book amount at 31 March 2019	-	55.7	3.0	58.7
Net book amount at 1 April 2018	-	62.2	1.3	63.5

In accordance with the policies set out in note 1, goodwill was tested for impairment at the year end. No impairment was found or recorded in respect of goodwill.

12. Property, Plant and Equipment

Group	Land and buildings £m	Land and buildings shared ownership £m	Plant and equipment £m	Offices £m	Under construction £m	Shared ownership under construction £m	Total £m
Cost							
Balance at 1 April 2018	4,961.4	127.7	87.2	60.2	191.0	15.5	5,443.0
Additions	82.4	-	24.7	0.8	60.3	22.8	191.0
Transfer to completed land and buildings	122.8	13.6	0.1	8.7	(131.6)	(13.6)	-
Transfer to investment property	(2.7)	-	-	-	-	-	(2.7)
Disposals	(13.6)	(2.5)	(6.2)	(1.1)	-	-	(23.4)
Transfer from intangible assets	-	-	0.1	-	-	-	0.1
Balance at 31 March/1 April 2019	5,150.3	138.8	105.9	68.6	119.7	24.7	5,608.0
Recognition of right-of-use assets on initial application of IFRS 16	19.8	-	-	4.6	-	-	24.4
Adjusted balance at 1 April 2019	5,170.1	138.8	105.9	73.2	119.7	24.7	5,632.4
Right-of-use assets recognised	0.3	-	-	0.1	-	-	0.4
Acquisitions	70.6	-	-	-	-	-	70.6
Additions	72.1	-	18.4	0.3	114.4	27.5	232.7
Transfer to completed land and buildings	63.8	11.8	-	-	(63.8)	(11.8)	-
Transfer to investment property	(16.4)	-	-	-	-	-	(16.4)
Transfer to intangible assets	-	-	(0.6)	-	-	-	(0.6)
Right-of-use assets derecognised	(3.6)	-	-	-	-	-	(3.6)
Disposals	(15.2)	(2.8)	(5.3)	(0.2)	-	-	(23.5)
Balance at 31 March 2020	5,341.7	147.8	118.4	73.4	170.3	40.4	5,892.0
Depreciation and impairment							
Balance at 1 April 2018	276.9	2.4	47.3	19.1	-	-	345.7
Depreciation charge for the year	38.7	0.3	11.3	2.2	-	-	52.5
Impairment	1.0	-	-	-	-	-	1.0
Transfer to investment property	(0.2)	-	-	-	-	-	(0.2)
Disposals	(7.3)	(0.1)	(4.5)	(0.9)	-	-	(12.8)
Balance at 31 March/1 April 2019	309.1	2.6	54.1	20.4	-	-	386.2
Depreciation charge for the year	42.5	0.5	13.5	3.2	-	-	59.7
Disposals	(8.0)	(0.1)	(4.4)	(0.2)	-	-	(12.7)
Balance at 31 March 2020	343.6	3.0	63.2	23.4	-	-	433.2
Social Housing Grant							
Balance at 1 April 2018	1,302.8	36.9	-	-	8.8	3.9	1,352.4
Additions	-	-	-	-	8.5	2.8	11.3
Transfer to other grant	(2.6)	-	-	-	-	-	(2.6)
Transfer to completed land and buildings	5.4	1.6	-	-	(5.4)	(1.6)	-
Transfer to investment property	(0.3)	-	-	-	-	-	(0.3)
Disposals	(3.1)	(0.3)	-	-	-	-	(3.4)
Balance at 31 March/1 April 2019	1,302.2	38.2	-	-	11.9	5.1	1,357.4
Additions	-	-	-	-	18.8	0.8	19.6
Transfer to completed land and buildings	8.8	0.8	-	-	(8.8)	(0.8)	-
Disposals	(2.1)	(0.8)	-	-	-	-	(2.9)
Balance at 31 March 2020	1,308.9	38.2	-	-	21.9	5.1	1,374.1
Other grant							
Balance at 1 April 2018	404.0	4.0	-	-	73.8	-	481.8
Additions	0.5	-	-	-	20.4	-	20.9
Transfer from Social Housing Grant	2.6	-	-	-	-	-	2.6
Transfer to completed land and buildings	46.0	-	-	-	(46.0)	-	-
Transfer to investment property	(0.3)	-	-	-	-	-	(0.3)
Disposals	(0.1)	-	-	-	-	-	(0.1)
Balance at 31 March/1 April 2019	452.7	4.0	-	-	48.2	-	504.9
Additions	-	-	-	-	20.9	-	20.9
Transfer to completed land and buildings	13.0	-	-	-	(13.0)	-	-
Disposals	(0.1)	-	-	-	-	-	(0.1)
Balance at 31 March 2020	465.6	4.0	-	-	56.1	-	525.7
Net book value							
31 March 2020	3,223.6	102.6	55.2	50.0	92.3	35.3	3,559.0
31 March 2019	3,086.3	94.0	51.8	48.2	59.6	19.6	3,359.5
1 April 2018	2,977.7	84.4	39.9	41.1	108.4	11.6	3,263.1

Included in the amounts disclosed above is care property with a carrying value of £299.5 million (2019: £245.9 million).

Association	Land and buildings £m	Land and buildings shared ownership £m	Plant and equipment £m	Offices £m	Under construction £m	Shared ownership under construction £m	Restated total £m
Cost							
Balance at 1 April 2018	3,880.0	84.8	78.4	47.8	27.5	1.7	4,120.2
Additions	66.8	-	22.1	0.2	7.4	1.2	97.7
Transfer to completed land and buildings	16.7	1.2	0.1	8.7	(25.5)	(1.2)	-
Transfer from inventory	0.5	-	-	-	-	-	0.5
Transfer to investment property	(0.5)	-	-	-	-	-	(0.5)
Disposals	(13.5)	(1.1)	(5.4)	(1.0)	-	-	(21.0)
Transfer from intangible assets	-	-	0.1	-	-	-	0.1
Balance at 31 March/1 April 2019	3,950.0	84.9	95.3	55.7	9.4	1.7	4,197.0
Recognition of right-of-use assets on initial application of IFRS 16	19.5	-	-	4.4	-	-	23.9
Adjusted balance at 1 April 2019	3,969.5	84.9	95.3	60.1	9.4	1.7	4,220.9
Right-of-use assets recognised	0.3	-	-	0.1	-	-	0.4
Acquisitions	6.2	-	-	-	-	-	6.2
Additions	56.9	-	16.6	0.2	0.2	0.4	74.3
Transfer to completed land and buildings	3.3	1.1	-	-	(3.3)	(1.1)	-
Transfer to investment property	(2.3)	-	-	-	-	-	(2.3)
Transfer to intangible assets	-	-	(0.6)	-	-	-	(0.6)
Right-of-use assets derecognised	(3.6)	-	-	-	-	-	(3.6)
Disposals	(14.4)	(1.7)	(5.4)	(0.2)	-	-	(21.7)
Balance at 31 March 2020	4,015.9	84.3	105.9	60.2	6.3	1.0	4,273.6
Depreciation and impairment							
Balance at 1 April 2018	219.2	2.0	44.5	14.7	-	-	280.4
Depreciation charge for the year	30.2	0.1	9.9	1.6	-	-	41.8
Impairment	1.0	-	-	-	-	-	1.0
Disposals	(8.0)	-	(4.1)	(0.9)	-	-	(13.0)
Balance at 31 March/1 April 2019	242.4	2.1	50.3	15.4	-	-	310.2
Depreciation charge for the year	31.3	0.3	12.3	2.7	-	-	46.6
Disposals	(8.7)	-	(4.4)	(0.2)	-	-	(13.3)
Balance at 31 March 2020	265.0	2.4	58.2	17.9	-	-	343.5
Social Housing Grant							
Balance at 1 April 2018	1,214.3	31.8	-	-	0.5	0.6	1,247.2
Additions	-	-	-	-	0.9	-	0.9
Transfer to other grant	(2.3)	-	-	-	-	-	(2.3)
Transfer to completed land and buildings	1.1	-	-	-	(0.5)	(0.6)	-
Transfer to investment property	(0.3)	-	-	-	-	-	(0.3)
Disposals	(3.5)	-	-	-	-	-	(3.5)
Balance at 31 March/1 April 2019	1,209.3	31.8	-	-	0.9	-	1,242.0
Additions	-	-	-	-	-	0.5	0.5
Transfer to completed land and buildings	0.6	0.5	-	-	(0.6)	(0.5)	-
Disposals	(2.1)	(0.7)	-	-	-	-	(2.8)
Balance at 31 March 2020	1,207.8	31.6	-	-	0.3	-	1,239.7
Other grant							
Balance at 1 April 2018	157.5	3.3	-	-	-	-	160.8
Additions	-	-	-	-	-	-	-
Transfer from Social Housing Grant	2.3	-	-	-	-	-	2.3
Disposals	(0.1)	-	-	-	-	-	(0.1)
Balance at 31 March/1 April 2019	159.7	3.3	-	-	-	-	163.0
Additions	-	-	-	-	-	-	-
Disposals	(0.1)	-	-	-	-	-	(0.1)
Balance at 31 March 2020	159.6	3.3	-	-	-	-	162.9
Net book value							
31 March 2020	2,383.5	47.0	47.7	42.3	6.0	1.0	2,527.5
31 March 2019	2,338.6	47.7	45.0	40.3	8.5	1.7	2,481.8
1 April 2018	2,289.0	47.7	33.9	33.1	27.0	1.1	2,431.8

Included in the amounts disclosed above is care property with a carrying value of £121.6 million (2019: £91.9 million).

Annual Impairment Review

The Group 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 Group has determined that for the purposes of impairment testing, each property, together with associated operating assets, 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 Group or Association and so further impairment tests were not deemed necessary.

Care homes are assessed for indicators of impairment based on a balanced scorecard that encapsulates measurement of regulatory ratings, occupancy, fee types and other metrics that relate to quality or operational performance. For the year ended 31 March 2020 several (2019: several) care homes were identified as having indicators of potential impairment and so further tests were carried out for these assets.

Impairment is recognised when the carrying amount exceeds the recoverable amount. Recoverable amounts are the higher of fair value less costs of disposal, and value-in-use.

For care homes, where there was an indicator of impairment, value-in-use was calculated from cash flow projections based on detailed five-year forecasts; the forecasts were then extrapolated to perpetuity using long-term growth rates of two per cent. Management used a discount rate of 6.5 per cent (2019: 7.5 per cent) which reflects the current market assessment of the time value of money and the risks specific to the assets. Fair value was determined with the assistance of independent, professional valuers, where appropriate; valuations were calculated using sustainable EBITDARM and an EBITDARM multiple. Independent valuations included a material uncertainty regarding the impact that Covid-19 might have on the future real estate market. Consequently, less certainty should be attached to the valuation than would normally be the case.

To the extent possible, cash flows incorporate the effects of Covid-19, though as these effects are considered to be constrained to the relatively short-term no adjustment has been made to discount rates or long-term growth rates.

Following these reviews, the aggregate amount by which carrying value exceeded recoverable amount was deemed immaterial and so no impairment was recognised for care homes within the Group and Association during the year (2019: £1.0 million impairment recognised for the Group and Association).

Value-in-use calculations require a number of assumptions to be made. The impact of changes in these primary assumptions in isolation is set out below for the care homes where detailed testing was carried out due to indicators of impairment.

Change in estimate	(Increase)/decrease in impairment risk £m
Discount rate – increase of 2 basis points	(1.0)
Discount rate – decrease of 2 basis points	0.7
Operating cash flows – increase of 5%	0.3
Operating cash flows – decrease of 5%	(0.4)
Terminal growth rate – increase of 2 basis points	0.7
Terminal growth rate – decrease of 2 basis points	(0.9)

To mitigate risk of impairment the Group continually reinvests in its assets. Where instances of under-performance or under-utilisation are evident, focused initiatives are employed to improve operational effectiveness and increase occupancy levels.

Assets Pledged as Security

Property with a pre-grant carrying amount of £3,379.3 million (2019: £2,905.6 million) in the Group and £2,490.7 million (2019: £2,333.0 million) in the Association has been pledged to secure borrowings.

13. Investment Property

	Group £m	Association £m
Cost		
Balance at 1 April 2018	295.6	163.9
Additions	1.4	0.3
Transfer from property, plant and equipment	2.7	0.5
Disposals	-	-
Balance at 31 March/1 April 2019	299.7	164.7
Recognition of right-of-use assets on initial application of IFRS 16	12.4	4.8
Adjusted balance at 1 April 2019	312.1	169.5
Additions	8.2	4.8
Transfer from property, plant and equipment	16.4	2.3
Disposals	-	-
Balance at 31 March 2020	336.7	176.6
Depreciation and impairment		
Balance at 1 April 2018	57.0	13.7
Depreciation charge for the year	4.1	1.6
Impairment	0.1	0.1
Transfer from property, plant and equipment	0.2	-
Disposals	-	-
Balance at 31 March/1 April 2019	61.4	15.4
Depreciation charge for the year	2.8	1.9
Impairment	0.7	-
Disposals	-	-
Balance at 31 March 2020	64.9	17.3
Social Housing Grant		
Balance at 1 April 2018	5.7	5.7
Additions	0.3	-
Transfer from property, plant and equipment	0.3	0.3
Balance at 31 March/1 April 2019	6.3	6.0
Additions	-	-
Disposals	-	-
Balance at 31 March 2020	6.3	6.0
Other grant		
Balance at 1 April 2018	4.9	4.5
Transfer from property, plant and equipment	0.3	-
Disposals	-	-
Balance at 31 March/1 April 2019	5.2	4.5
Additions	-	-
Disposals	-	-
Balance at 31 March 2020	5.2	4.5
Net book value		
31 March 2020	260.3	148.8
31 March 2019	226.8	138.8
1 April 2018	228.0	140.0

Included in the amounts disclosed above is student property with a carrying value of £236.0 million for the Group (2019: £204.5 million) and £127.8 million for the Association (2019: £118.5 million).

Annual Impairment Review

The Group annually reviews investment properties for indicators of potential impairment. Assets that reveal indicators are then subjected to further review. The Group has determined that for the purposes of impairment testing, each property, together with associated operating assets and any asset-specific provisions, is a cash-generating unit.

Commercial property is considered to have indicators of impairment if it is vacant or if there has been a significant decline in market value. For the year ended 31 March 2020 no commercial property was identified as having indicators of potential impairment.

Student accommodation is considered to have indicators of impairment when there are low levels of occupancy or where there has been a decline in occupancy during the year. For the year ended 31 March 2020 several (2019: several) student properties were identified as having indicators of potential impairment.

Impairment is recognised when the carrying amount exceeds the recoverable amount. Recoverable amounts are the higher of fair value less costs of disposal, and value in use.

Where there was an indicator of impairment, value in use was calculated from cash flow projections based on detailed three-year forecasts; the forecasts were then extrapolated using long-term growth rates of two per cent. Management used region specific discount rates ranging between 4.5 and 7.0 per cent (2019: single rate of 7.5 per cent) which reflects the current market assessment of the time value of money and the risks specific to the assets. Fair value was determined with the assistance of independent, professional valuers where appropriate. Independent valuations included a material uncertainty regarding the impact that Covid-19 might have on the future real estate market. Consequently, less certainty should be attached to the valuation than would normally be the case.

To the extent possible, cash flows incorporate the effects of Covid-19, though as these effects are considered to be constrained to the relatively short-term no adjustment has been made to discount rates or long-term growth rates.

As a result of these reviews, impairment of £0.7 million was recognised for student accommodation within the Group during the year (2019: £nil); no impairment was recognised in the Association (2019: £nil). No impairment was recognised in the Group or Association in relation to commercial property (2019: £0.1 million).

Value-in-use calculations require a number of assumptions to be made. The impact of changes in these primary assumptions in isolation is set out below for the investment properties where detailed testing was carried out due to indicators of impairment.

Change in estimate	(Increase)/decrease in impairment risk £m
Discount rate – increase of 2 basis points	(3.2)
Discount rate – decrease of 2 basis points	0.1
Operating cash flows – increase of 5%	0.1
Operating cash flows – decrease of 5%	(0.4)
Terminal growth rate – increase of 2 basis points	0.1
Terminal growth rate – decrease of 2 basis points	(2.3)

To mitigate risk of impairment the Group continually reinvests in its assets. Where instances of under-performance or under-utilisation are evident, focused initiatives are employed to improve operational effectiveness and increase occupancy levels.

Fair Value of Investment Property

The estimated fair value of the investment property is £470.4 million (2019: £456.2 million) for the Group and £294.1 million (2019: £282.0 million) for the Association. Of this fair value, £441.8 million (2019: £299.4 million) for the Group and £270.1 million (2019: £256.3 million) for the Association has been determined by Directors' valuations and may contain a material uncertainty regarding the impact that Covid-19 might have on the future real estate market.

Restrictions

At 31 March 2020, there were no restrictions on the realisability of investment property or the remittance of income and proceeds of disposal for the Group or Association (2019: none).

Assets Pledged as Security

Investment property with a pre-grant carrying amount of £46.1 million (2019: £45.5 million) in the Group and £20.7 million (2019: £20.7 million) in the Association has been pledged to secure borrowings.

Items Recognised in the Statement of Comprehensive Income

Rental income from investment property during the year amounted to £40.3 million (2019: £41.1 million) for the Group and £20.8 million (2019: £20.5 million) for the Association.

The majority of the rental income detailed above relates to student property which is let on a short-term basis. The Group and Association, as lessors, do not therefore have any material future minimum lease payments receivable in respect of non-cancellable operating leases.

Direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the year amounted to £29.2 million (2019: £29.8 million) for the Group and £15.8 million (2019: £15.0 million) for the Association.

Direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental income during the year amounted to £nil (2019: £nil) for both the Group and Association.

14. Other Investments

	Group		Association	
	2020 £m	2019 £m	2020 £m	2019 £m
FVOCI – equity investment				
Listed investments	10.7	11.1	10.5	11.0
	10.7	11.1	10.5	11.0
Carried at amortised cost				
Unlisted investments	13.6	15.9	13.6	15.8
Homebuy				
- Investment	1.5	1.5	-	-
- Grant	(1.5)	(1.5)	-	-
	13.6	15.9	13.6	15.8
Total other investments	**24.3**	**27.0**	**24.1**	**26.8**

The Directors believe that the carrying value of other investments is supported by their underlying net assets. The historical cost of the Group's listed investments is £10.6 million (2019: £9.9 million). The historical cost of the Association's listed investments is £10.4 million (2019: £9.8 million). These investments comprise gilt edged stock and other Registered Provider debenture stocks, which are held in accordance with the terms of certain Group loans. The security trustee has a charge over these investments.

The unlisted investments represent cash reserves held as security against borrowings either as required under the terms of the loan agreements or as substitutes for charges on stock. These reserves cannot be utilised for any purpose other than servicing the associated debt.

Reconciliation of Movement in Listed Investments

	Group £m	Association £m
As at 1 April 2018	17.4	17.3
Additions	2.0	2.0
Disposal	(7.7)	(7.7)
Revaluations	(0.6)	(0.6)
As at 31 March 2019	11.1	11.0
As at 1 April 2019	11.1	11.0
Additions	0.9	0.8
Disposal	(0.8)	(0.8)
Revaluations	(0.5)	(0.5)
As at 31 March 2020	10.7	10.5

See note 23 for further details.

15. Derivative Financial Instruments

Fair value of derivative assets	Group and Association 2020 £m	2019 £m
US Private Placement foreign exchange swap	41.5	22.3
	41.5	22.3

The derivative financial instrument represents the fair value of the currency related swap in place to hedge the foreign currency risk arising from interest and principal payments. It relates to $80 million 5.83 per cent senior notes issued in April 2007 and due in 2037 (US private placement).

Fair value of derivative liabilities	Group		Association	
	2020 £m	2019 £m	2020 £m	2019 £m
Interest rate swap	(3.5)	(3.4)	-	-
	(3.5)	(3.4)	-	-

The derivative financial instrument represents the fair value of an interest rate swap drawn under a facility agreement dated September 2002; this was put in place to hedge the interest rate risk arising from a variable rate loan.

Further details of derivative financial instruments are provided in note 23.

16. Trade and Other Receivables

	Group 2020 £m	Group 2019 £m	Association 2020 £m	Association 2019 £m
Current:				
Tenant rental receivables (note 23d)	12.6	13.0	9.8	11.0
Other trade receivables (note 23d)	20.1	18.8	7.0	5.5
Amounts due from subsidiary undertakings	-	-	126.7	40.5
Prepayments	19.1	16.4	12.7	14.0
Accrued income	10.5	6.1	3.0	0.7
Amounts due under lease receivable (note 17)	0.9	0.8	-	-
Other receivables	20.0	20.4	18.2	18.4
	83.2	75.5	177.4	90.1
Non-current:				
Amounts due under lease receivable (note 17)	12.5	13.3	-	-
Amounts due from subsidiary undertakings	-	-	31.8	94.6
Amounts due from joint venture	33.0	29.3	33.1	29.3
	45.5	42.6	64.9	123.9
Total trade and other receivables	**128.7**	**118.1**	**242.3**	**214.0**

Tenant rental receivables are stated net of a provision of £3.5 million for the Group (2019: £6.1 million) and £3.0 million for the Association (2019: £5.1 million). Further information on rental receivables is contained in note 23d.

Other trade receivables are stated net of a provision of £5.4 million for the Group (2019: £3.0 million) and £1.6 million for the Association (2019: £0.7 million). Further information on other trade receivables is contained in note 23d.

17. Lease Receivable

	Group 2020 £m	Group 2019 £m	Association 2020 £m	Association 2019 £m
Land and buildings:				
Under one year	0.9	0.8	-	-
In the second to fifth year inclusive	2.4	3.1	-	-
In more than five years	10.1	10.2	-	-
	13.4	14.1	-	-

The amounts receivable in respect of leases relate to an agreement between ASK (Greenwich) Limited and the Royal Borough of Greenwich. The amounts to be received are based upon repayment schedules agreed by the relevant parties. All amounts are expected to be received over the next 15 years.

18. Inventory

	Group 2020 £m	Group 2019 £m	Association 2020 £m	Association 2019 £m
Materials and consumables	1.6	1.4	-	-
Properties held for sale – completed	9.3	12.7	2.3	8.1
Properties held for sale – under construction	101.4	96.5	16.5	13.4
Total inventory	**112.3**	**110.6**	**18.8**	**21.5**

	Group £m	Association £m
Properties held for sale as at 1 April 2019	109.2	21.5
Additions	38.3	5.6
Transfer to assets classified as held for sale	(0.2)	(0.2)
Transfer to subsidiaries	-	(0.6)
Disposals – property sales	(29.7)	(7.5)
Disposals – NSSE handover	(6.9)	-
Properties held for sale as at 31 March 2020	**110.7**	**18.8**

Within the Group and Association, no inventories have been written off or written-down to net realisable value during the year (2019: none).

Included within properties held for sale for the Group are £2.6 million completed shared ownership properties and £26.6 million shared ownership properties under construction.

Included within properties held for sale for the Association are £0.8 million completed shared ownership properties and £0.7 million shared ownership properties under construction.

A detailed year end review of all development projects was carried out, taking into account the effects of Covid-19, to assess the carrying value of property inventories and identify if there were any instances where this was in excess of net realisable value.

On the basis of both third-party commentary and an internal view on sales values and build costs, the following baseline sensitivities were adopted, reflecting the different perceived risks attached to projects dependent on their build status:

- -5 per cent on selling price and +0 per cent on build cost for schemes on-site; and
- -5 per cent on selling price and +3 per cent on build cost for schemes not yet on-site.

Based on this review, with the adopted sensitivities, the indicated impairment was £0.6 million. It was concluded that no adjustment to the carrying value of inventory was required, based on materiality. If selling prices were to fall by 10 per cent, then potential impairment would increase to £4.0 million.

19. Assets Classified as Held for Sale

	Group £m	Association £m
At 1 April 2019	1.3	-
Additions	0.2	0.2
Disposals	(1.3)	-
At 31 March 2020	0.2	0.2

20. Trade and Other Payables

	Group 2020 £m	Group 2019 £m	Association 2020 £m	Association 2019 £m
Current:				
Trade payables	16.3	18.6	8.0	10.3
Amounts owed to subsidiary undertakings	-	-	6.7	6.8
Other taxation and social security payable	5.2	5.3	2.0	1.6
Other payables	12.2	13.2	3.1	2.7
Accruals	96.7	88.3	33.6	38.0
Future maintenance on home ownership schemes	19.7	19.3	19.2	18.9
Recycled capital grant fund (a)	5.3	2.5	5.1	2.5
Disposals proceeds fund (b)	-	0.5	-	0.5
	155.4	147.7	77.7	81.3
Non-current:				
Recycled capital grant fund (a)	5.6	8.2	5.3	7.8
Disposals proceeds fund (b)	-	0.8	-	0.8
Other payables	1.7	1.7	-	-
	7.3	10.7	5.3	8.6
Total Trade and Other Payables	**162.7**	**158.4**	**83.0**	**89.9**

All social housing and other capital grants are potentially repayable to the issuing body. The potential liability is recognised through the balances held as the recycled capital grant fund.

(a) Recycled Capital Grant Fund

	Group £m	Association £m
Recycled capital grant fund at 1 April 2019	10.7	10.3
Grants recycled	2.9	2.8
Transfers from other Private Registered Providers	2.1	-
New build	(2.1)	-
Major repairs and works to existing stock	(0.6)	(0.6)
Transfers to other Private Registered Providers	(2.1)	(2.1)
Recycled capital grant fund at 31 March 2020	10.9	10.4

(b) Disposals Proceeds Fund

	Group £m	Association £m
Disposals proceeds fund at 1 April 2019	1.3	1.3
Transfers from other Private Registered Providers	1.3	-
New build	(1.3)	-
Transfers to other Private Registered Providers	(1.3)	(1.3)
Disposals proceeds fund at 31 March 2020	-	-

The recycled capital grant fund balance relates to grants received from Homes England.

The disposal proceeds fund was withdrawn with the removal of Homes England's constitutional consents regime on 6 April 2017. Providers who had a balance before this date were required to operate the fund until the balance was exhausted or until 6 April 2020. The Group and Association's balances were exhausted during the year ending 31 March 2020.

21. Loans and Borrowings

	Group		Association	
	2020 £m	2019 £m	2020 £m	2019 £m
Current:				
Senior notes and debenture stock	5.7	5.5	5.7	5.5
Bank loans and overdrafts	38.5	68.0	27.2	7.8
Net lease liability (note 22)	3.7	1.2	1.5	0.2
Amounts owed to Group companies	-	-	5.9	25.4
	47.9	74.7	40.3	38.9
Non-current:				
Senior notes and debenture stock	1,476.9	1,406.1	590.7	593.6
Bank loans and mortgages	1,408.1	1,185.8	365.7	457.6
Net lease liability (note 22)	172.8	144.3	46.6	24.6
Amounts owed to Group companies	-	-	786.3	663.2
	3,057.8	2,736.2	1,789.3	1,739.0
Total loans and borrowings	**3,105.7**	**2,810.9**	**1,829.6**	**1,777.9**

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

Group	Leases £m	Other borrowings £m	Total £m
Due within one year	3.7	44.2	47.9
Due in more than one year but less than two years	3.7	183.6	187.3
Due in more than two years but less than five years	10.3	439.8	450.1
Due in more than five years	158.8	2,261.6	2,420.4
	176.5	2,929.2	3,105.7

Association	Leases £m	Other borrowings £m	Total £m
Due within one year	1.5	38.8	40.3
Due in more than one year but less than two years	1.5	35.8	37.3
Due in more than two years but less than five years	3.3	228.3	231.6
Due in more than five years	41.8	1,478.6	1,520.4
	48.1	1,781.5	1,829.6

The Group recorded security on loans with charges on property totalling £2,716.2 million (2019: £2,425.2 million) at the reporting date. It also recorded security for the one year's interest payments and final principal instalment in the form of debt service reserves for loans totalling £202.2 million (2019: £244.8 million). Borrowings are stated net of £14.8 million set up costs (2019: £15.2 million). Further details on interest rates are contained in note 23a.

The Association recorded security on loans with charges on property totalling £1,436.8 million (2019: £1,388.3 million) at the reporting date. It also recorded security for the one year's interest payments and final principal instalment in the form of debt service reserves for loans totalling £202.2 million (2019: £244.8 million). Borrowings are stated net of £11.1 million set up costs (2019: £11.4 million).

22. Leases

The Group applied IFRS 16 Leases from 1 April 2019, replacing the previous leasing standard, IAS 17 Leases. Full details of the transition can be found in Appendix 3.

Lessee Arrangements

The Group leases a significant number of residential and commercial properties. Typical residential leases most commonly run from periods of between 100 and 999 years. Commercial leases typically run on shorter leases up to 99 years in duration. 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 12).

Right-of-Use Assets Included Within Property, Plant and Equipment

Group	Land and buildings £m	Offices £m	Total £m
Cost			
Balance as at 1 April 2019	-	-	-
IFRS 16 transition adjustment	19.8	4.6	24.4
Transfer of lease premiums previously held as property, plant and equipment	12.1	1.3	13.4
Additions to right-of-use assets	0.3	0.1	0.4
Derecognition of right-of-use assets	(3.6)	-	(3.6)
Balance as at 31 March 2020	28.6	6.0	34.6
Depreciation and impairment			
Balance as at 1 April 2019	-	-	-
Depreciation charge for the year	1.3	0.8	2.1
Balance as at 31 March 2020	1.3	0.8	2.1
Net Book Value			
31 March 2020	27.3	5.2	32.5
31 March 2019	-	-	-

Association	Land and buildings £m	Offices £m	Total £m
Cost			
Balance as at 1 April 2019	-	-	-
IFRS 16 transition adjustment	19.5	4.4	23.9
Transfer of lease premiums previously held as property, plant and equipment	12.1	1.3	13.4
Additions to right-of-use assets	0.3	0.1	0.4
Derecognition of right-of-use assets	(3.6)	-	(3.6)
Balance as at 31 March 2020	28.3	5.8	34.1
Depreciation and impairment			
Balance as at 1 April 2019	-	-	-
Depreciation charge for the year	1.2	0.8	2.0
Balance as at 31 March 2020	1.2	0.8	2.0
Net Book Value			
31 March 2020	27.1	5.0	32.1
31 March 2019	-	-	-

The Group and Association derecognised a right-of-use asset during the year following the purchase of the freehold of the property. A loss of £0.1 million has been recognised in respect of the derecognition of the lease and right-of-use asset.

Amounts Recognised in the Statement of Comprehensive Income

	Group 2020 £m	Association 2020 £m
Interest on lease liabilities	10.4	3.2
Depreciation charge for right-of-use assets	2.1	2.0
	12.5	5.2

Amounts Recognised in the Statement of Cash Flows

	Group 2020 £m	Association 2020 £m
Total cash outflow for leases	13.8	5.5
	13.8	5.5

Rent Reviews

Around 40 per cent of the Group's leases have rent reviews within their terms. These reviews rely on information such as inflation indexes and market rates at the time of the review. These future increases (and occasional decreases) in rents payable will not be recognised in the right-of-use assets and lease liabilities until they become effective.

Lease Liabilities

Undiscounted lease payments to be made under lease arrangements fall due as shown below. 2020 figures are disclosed under IFRS 16 Leases, while 2019 figures are disclosed under the previous accounting standard, IAS 17 Leases.

	Group 2020 £m	Group 2019 £m	Association 2020 £m	Association 2019 £m
Land and buildings:				
Under one year	12.9	9.0	4.6	1.6
In the second to fifth year inclusive	50.3	36.8	16.2	6.8
In more than five years	341.6	205.9	111.5	48.2
Total gross payments	404.8	251.7	132.3	56.6
Financing costs	(228.3)	(106.2)	(84.2)	(31.8)
Net lease liability	176.5	145.5	48.1	24.8

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

	Group 2020 £m	Group 2019 £m	Association 2020 £m	Association 2019 £m
Land and buildings:				
Under one year	3.7	1.2	1.5	0.2
In the second to fifth year inclusive	14.0	5.4	4.8	0.9
In more than five years	158.8	138.9	41.8	23.7
	176.5	145.5	48.1	24.8

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 and student licences, 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 Group'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 Group 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.

The Group has operating leases in both its Supported Living and Student and Market Rented divisions. During the year ended 31 March 2020, income from operating leases was £11.5 million for the Group (2019: £11.4 million) and £5.9 million for the Association (2019: £7.9 million).

Amounts receivable under operating leases are due as follows:

	Group		Association	
	2020	2019	2020	2019
	£m	£m	£m	£m
Under one year	8.4	3.7	4.9	3.4
Between one and two years	7.9	3.3	4.5	2.9
Between two and three years	5.9	4.4	4.3	2.8
Between three and five years	8.3	5.2	7.9	4.7
In more than five years	50.1	43.9	49.0	42.7
	80.6	60.5	70.6	56.5

23. 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 tenant rental arrears, are the responsibility of other teams within 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. There is further explanation of the Group's approach to risk management in the Strategic Report and Directors' Report.

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 Group's financial instruments include:

Financial Assets

Financial assets at amortised cost	Group		Association	
	2020	2019	2020	2019
	£m	£m	£m	£m
Unlisted investments (note 14)	13.6	15.9	13.6	15.8
Rental receivables (note 16)	12.6	13.0	9.8	11.0
Other trade receivables (note 16)	20.1	18.8	7.0	5.5
Other receivables (note 16)	20.0	20.4	18.2	18.4
Amounts due on construction contracts (note 2)	0.3	0.3	0.3	0.3
Amounts due from subsidiary undertakings (note 16)	-	-	158.5	135.1
Amounts due from joint venture (note 16)	33.0	29.3	33.1	29.3
Lease receivable (note 17)	13.4	14.1	-	-
Cash and cash equivalents	261.5	150.1	1.9	15.1
	374.5	261.9	242.4	230.5

The Group's investments in the Statement of Financial Position were £24.3 million at 31 March 2020 (2019: £27.0 million). Of this value, £10.7 million (2019: £11.1 million) was classed as FVOCI and £13.6 million (2019: £15.9 million) was classed as held at amortised cost. The Association's investments in the Statement of Financial Position were £24.1 million at 31 March 2020 (2019: £26.8 million). Of this value, £10.5 million (2019: £11.0 million) was classed as FVOCI and £13.6 million (2019: £15.8 million) was classed as held at amortised cost.

Of the above balance held at amortised cost, rental receivables, finance lease receivables, amounts due from subsidiary undertakings, amounts due from joint venture and other receivables totalling £99.1 million (2019: £95.6 million) for the Group and £226.6 million (2019: £199.3 million) for the Association derive from current and non-current trade and other receivables balances on the Statement of Financial Position.

Trade and other receivables totalled £128.7 million at 31 March 2020 (2019: £118.1 million) for the Group and £242.3 million at 31 March 2020 (2019: £214.0 million) for the Association. Prepayments and accrued income balances of £29.6 million (2019: £22.5 million) for the Group and £15.7 million (2019: £14.7 million) for the Association are not considered to fall within the definition of a financial asset.

Financial assets at FVOCI	Group		Association	
	2020	2019	2020	2019
	£m	£m	£m	£m
Listed investments (note 14)	10.7	11.1	10.5	11.0

All significant inputs required to value investments held at FVOCI are observable and, as such, the Group has classified them as Level 1.

Financial Liabilities

As at 31 March 2020, the Group and Association's financial liability balances were as follows:

Financial liabilities at amortised cost – current	Group 2020 £m	Group 2019 £m	Association 2020 £m	Association 2019 £m
Debt finance excluding set up costs	45.9	75.4	39.7	39.6
Trade payables (note 20)	16.3	18.6	8.0	10.3
Net lease liability (note 22)	3.7	1.2	1.5	0.2
Amounts due to subsidiary undertakings (note 20)	-	-	6.7	6.8
Other payables (note 20)	37.1	37.8	24.3	23.2
	103.0	133.0	80.2	80.1

Other payables include other tax and social security, other payables, future maintenance on home ownership schemes and Social Housing Grant and other grants in advance. Current trade and other payables as disclosed in the Statement of Financial Position totalled £155.4 million (2019: £147.7 million) for the Group and £77.7 million (2019: £81.3 million) for the Association. The difference between the Statement of Financial Position and the amounts disclosed above is £102.0 million (2019: £91.3 million) for the Group and £38.7 million (2019: £41.0 million) for the Association and relates to balances that are not considered to fall within the definition of a financial liability. Debt finance consists of loans and borrowings and is presented above before deduction of set up costs.

Financial liabilities at amortised cost – non-current	Group 2020 £m	Group 2019 £m	Association 2020 £m	Association 2019 £m
Debt finance excluding set up costs	2,898.1	2,605.2	1,752.9	1,724.9
Net lease liability (note 22)	172.8	144.3	46.6	24.6
Other payables (note 20)	1.7	1.7	-	-
	3,072.6	2,751.2	1,799.5	1,749.5

Non-current trade and other payables as disclosed in the Statement of Financial Position totalled £7.3 million (2019: £10.7 million) for the Group and £5.3 million (2019: £8.6 million) for the Association. Of these amounts, £1.7 million (2019: £1.7 million) in the Group is considered to fall within the definition of a financial liability while £nil (2019: £nil) is considered to fall within this definition in the Association.

Total current and non-current other financial liabilities at 31 March 2020 were £3,175.6 million (2019: £2,884.2 million) for the Group and £1,879.7 million (2019: £1,829.6 million) for the Association. All significant inputs required to value the above instruments are observable and, as such, the Group has classified them as Level 2.

Financial liabilities at FVPL	Group 2020 £m	Group 2019 £m	Association 2020 £m	Association 2019 £m
Derivative financial instruments – interest rate swap (note 15)	3.5	3.4	-	-
	3.5	3.4	-	-

The derivative financial instrument relating to an interest rate swap valued at FVPL was entered into by the Group under a facility agreement dated September 2002. Fair value movements totalling £0.1 million (2019: £0.1 million movement) for the Group and £nil (2019: £nil) for the Association are shown as a debit to the Income Statement (note 9).

The purpose of the derivative financial instrument is to hedge the interest rate risk associated with the variability of cash flows on variable rate loans.

All significant inputs required to value the above interest rate swap are observable and, as such, the Group has classified them as Level 2.

Valuation

Balances are valued in accordance with note 1 Principal Accounting Policies – Financial Instruments. Fair value equates to book value except in the following cases:

Derivative financial instruments are measured at fair value.

The fair value of the cross currency derivative financial instruments is arrived at by discounting future cash flows associated with each swap and comparing, for each swap, the cumulative total discounted sterling future cash flows with the total discounted dollar future cash flows translated at the year end exchange rate. The swap rate data used for discounting the flows is provided to the Group by external advisors.

The fair value of the interest rate swap is arrived at by discounting the fixed leg and variable leg cash flows using interpolated yield curves provided to the Group by external advisors.

Listed investments are measured at fair value. The fair value equates to the market value of these listed investments at the reporting date.

Senior notes and debenture stock, bank loans and mortgages, and net lease liabilities are measured at book value. However, fair value can be calculated and these are disclosed in note 23a. The variance between the fair value and the book value of the Group and Association's long-term borrowings is driven by the discount rates and weighted average life of the fixed rate financial liabilities, which is 17.2 years (2019: 19.2 years) for the Group and 16.5 years (2019: 17.6 years) for the Association.

Loans denominated in foreign currency are translated at year end exchange rates.

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 Group's liabilities and cash flows. The interest rate exposure of the Group and Association net debt at 31 March 2020 after hedging instruments was:

	Group £m	Group %	Association £m	Association %
Fixed rate financial liabilities	2,569.4	82.7	1,733.3	94.7
Floating rate financial liabilities	536.3	17.3	96.3	5.3
	3,105.7	100.0	1,829.6	100.0

The cost of borrowing of the Group fixed rate financial liabilities is 4.81 per cent (2019: 5.01 per cent) and for the Association 5.20 per cent (2019: 5.27 per cent). The cost of borrowing of the Group's total financial liabilities is 4.16 per cent (2019: 4.56 per cent) and for the Association 4.90 per cent (2019: 5.05 per cent). The weighted average life of fixed rate financial liabilities for the Group is 17.2 years (2019: 19.2 years) and for the Association is 16.5 years (2019: 17.6 years). The Group operates an interest rate policy designed to minimise interest cost and reduce volatility in cash flow and debt service costs. Group borrowings currently comprise 82.7 per cent fixed rate debt (2019: 87.0 per cent) and 17.3 per cent floating rate debt (2019: 13.0 per cent). Association borrowings comprise 94.7 per cent fixed rate debt (2019: 93.7 per cent) and 5.3 per cent floating rate debt (2019: 6.3 per cent).

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

- Variable rate financial instruments which are subject to rate changes – a 10 per cent increase in interest costs would result in an additional charge to the Statement of Comprehensive Income of £0.9 million (2019: £0.7 million).
- Fixed rate financial instruments where benefits of interest rate reductions are lost – a 0.25 per cent rate reduction would result in a lost benefit of £6.3 million (2019: £6.0 million).

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

	Group		Association	
	2020 Book value £m	2020 Fair value £m	2020 Book value £m	2020 Fair value £m
Senior notes and debenture stock (note 21)	1,476.9	2,274.7	590.7	794.5
Bank loans and mortgages (note 21)	1,408.1	1,719.8	365.7	573.1
Net lease liability (notes 21, 22)	172.8	172.4	45.1	45.1
Amounts owed to Group companies (note 21)	-	-	786.3	1,161.7
	3,057.8	4,166.9	1,787.8	2,574.4

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 not been included in the above table.
(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.

For the balances at 31 March 2020, the range of discount rates used was 1.19 per cent to 1.34 per cent (2019: 1.68 per cent to 2.12 per cent).

The fair values of the swaps at the year end would decrease by the following amounts, if an increase of one per cent occurred:

Group	Liability £m	Statement of Comprehensive Income £m
In sterling swap rates only	(0.8)	0.8

Interest rate risk applies to debt finance.

Management considers the sensitivity analysis in relation to the remaining interest rate swaps not included above to be not material.

b) Currency Rate Risk and Exposure

Currency rate risk is the risk that foreign currency arrangements that the Group has entered into will be adversely affected by exchange rate movements. Hedging is defined as the practice of offsetting such risks and the organisation applies such practices. The hedge put in place by the organisation removes completely the currency risk, as explained below.

In 2007 the Group borrowed $80 million through an issue of senior notes at an interest rate of 5.83 per cent repayable in 2037. The foreign currency funds have been swapped through derivative financial instruments with the counterparty of the arrangement described above.

The amounts at the reporting date relating to items designated as hedged items were as follows.

	Carrying value of hedging instrument £m	Line item in the Statement of Financial Position where the hedging instrument is located	Change in value of the hedging instrument recognised in OCI £m	Costs of hedging recognised in OCI £m
Foreign currency risk	41.5	Derivative financial assets	16.3	-

The fair values of the swaps and loans at the year end, if an increase in interest rates of one per cent occurred, are:

Group	Asset £m	Income Statement £m	Cash flow hedge reserve £m
In both dollar and sterling swap rates	(4.7)	-	(4.7)
In sterling swap rates only	8.9	-	8.9
In dollar swap rate only	(13.6)	-	(13.6)
In the year end exchange rate	(1.2)	-	(1.2)
In the year end exchange rate and in the dollar and sterling swap rates	(5.8)	-	(5.8)

Association	Asset £m	Income Statement £m	Cash flow hedge reserve £m
In both dollar and sterling swap rates	(4.7)	-	(4.7)
In sterling swap rates only	8.9	-	8.9
In dollar swap rate only	(13.6)	-	(13.6)
In the year end exchange rate	(1.2)	-	(1.2)
In the year end exchange rate and in the dollar and sterling swap rates	(5.8)	-	(5.8)

Currency rate risk applies to the derivative financial instruments balance and underlying loans denominated in dollars.

c) Liquidity Risk

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

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

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

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

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

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

Liquidity risk applies to cash and all payables balances.

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 the Group and Association's financial liabilities on an undiscounted basis. For the purpose of this table, debt is defined as bank loans, mortgages, deferred finance, bonds and debenture stock. Interest is calculated based on debt held at 31 March.

At 31 March 2020 – Group	Debt £m	Interest on debt £m	Lease liabilities £m	Other liabilities not in net debt £m	Interest on hedge accounted derivatives £m	Total £m
Due less than one year	(44.3)	(127.8)	(12.9)	(53.4)	(2.9)	(241.3)
Between one and two years	(183.2)	(124.3)	(12.8)	(1.7)	(2.8)	(324.8)
Between two and three years	(83.6)	(120.6)	(12.5)	-	(2.8)	(219.5)
Between three and four years	(190.5)	(111.4)	(12.5)	-	(2.7)	(317.1)
Between four and five years	(163.2)	(111.0)	(12.5)	-	(2.7)	(289.4)
Greater than five years	(2,206.8)	(1,409.1)	(341.6)	-	(30.0)	(3,987.5)
Gross contractual cash flows	**(2,871.6)**	**(2,004.2)**	**(404.8)**	**(55.1)**	**(43.9)**	**(5,379.6)**

At 31 March 2019 – Group	Debt £m	Interest on debt £m	Lease liabilities £m	Other liabilities not in net debt £m	Interest on hedge accounted derivatives £m	Total £m
Due less than one year	(73.8)	(130.2)	(9.0)	(56.4)	(3.0)	(272.4)
Between one and two years	(61.1)	(124.8)	(9.1)	(1.7)	(2.9)	(199.6)
Between two and three years	(100.5)	(122.3)	(9.1)	-	(2.8)	(234.7)
Between three and four years	(36.7)	(119.3)	(9.2)	-	(2.8)	(168.0)
Between four and five years	(195.6)	(110.2)	(9.4)	-	(2.7)	(317.9)
Greater than five years	(2,142.0)	(1,501.5)	(205.9)	-	(32.8)	(3,882.2)
Gross contractual cash flows	**(2,609.7)**	**(2,108.3)**	**(251.7)**	**(58.1)**	**(47.0)**	**(5,074.8)**

At 31 March 2020 – Association	Debt £m	Interest on debt £m	Lease liabilities £m	Other liabilities not in net debt £m	Interest on hedge accounted derivatives £m	Total £m
Due less than one year	(38.6)	(91.4)	(4.6)	(39.0)	(2.3)	(175.9)
Between one and two years	(35.5)	(90.0)	(4.5)	-	(2.3)	(132.3)
Between two and three years	(25.5)	(88.0)	(4.1)	-	(2.3)	(119.9)
Between three and four years	(120.3)	(81.4)	(3.8)	-	(2.3)	(207.8)
Between four and five years	(80.8)	(80.3)	(3.8)	-	(2.3)	(167.2)
Greater than five years	(1,438.7)	(915.5)	(111.5)	-	(28.3)	(2,494.0)
Gross contractual cash flows	**(1,739.4)**	**(1,346.6)**	**(132.3)**	**(39.0)**	**(39.8)**	**(3,297.1)**

At 31 March 2019 – Association	Debt £m	Interest on debt £m	Lease liabilities £m	Other liabilities not in net debt £m	Interest on hedge accounted derivatives £m	Total £m
Due less than one year	(38.6)	(95.2)	(1.6)	(40.3)	(2.3)	(178.0)
Between one and two years	(44.4)	(91.1)	(1.7)	-	(2.3)	(139.5)
Between two and three years	(55.7)	(89.5)	(1.7)	-	(2.3)	(149.2)
Between three and four years	(30.4)	(87.0)	(1.7)	-	(2.3)	(121.4)
Between four and five years	(107.8)	(79.7)	(1.7)	-	(2.3)	(191.5)
Greater than five years	(1,436.1)	(970.9)	(48.2)	-	(30.6)	(2,485.8)
Gross contractual cash flows	**(1,713.0)**	**(1,413.4)**	**(56.6)**	**(40.3)**	**(42.1)**	**(3,265.4)**

d) Credit Risk

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

Financial

It is the Group's policy not to take or place funds with any financial institution which is not accepted as a counterparty in the Group'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 funder is £338.0 million as at 31 March 2020 (2019: £341.0 million).

The Group manages credit risk by carrying out monthly credit checks on all counterparties from which the Group either sources funds or places deposits, also allowing the Group to assess whether there has been a significant increase in credit risk at the reporting date. The financial credit risk is mitigated to some extent by the existence of borrowing facilities with such counterparties.

Twelve-month probabilities of default (PD) are based on historical credit loss data supplied by the rating agency Moody's. Assets measured at amortised cost or FVOCI were subject to a 12-month ECL allowance, none of these assets were credit impaired. Largely due to the low credit risk of the financial assets held, there has been no impairment allowance recognised at 31 March 2020.

Operational

The majority of the operational debt at any given time relates to tenants and non-tenants of the Group. These debts are reported to management on a weekly basis and recovery of debts is coordinated through subsidiary and regional management teams. Performance of debt recovery is reviewed monthly by the Executive Committee.

Tenant Rental Receivable Arrears

Gross tenant rental arrears due as at 31 March 2020 totalled £16.1 million (2019: £19.1 million) for the Group and £12.8 million (2019: £16.1 million) for the Association. 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:

	Group 2020 £m	Group 2019 £m	Association 2020 £m	Association 2019 £m
Less than 30 days	8.4	8.3	6.7	7.0
30 to 60 days	1.5	2.1	1.2	1.9
60 to 90 days	1.0	1.7	0.7	1.5
More than 90 days	5.2	7.0	4.2	5.7
Balance as at 31 March	16.1	19.1	12.8	16.1

In the Group there is an impairment loss allowance against £3.5 million (2019: £6.1 million) of this balance leaving a net rental arrears balance of £12.6 million (2019: £13.0 million) (see note 16). In the Association there is an impairment loss allowance against £3.0 million (2019: £5.1 million) of this balance leaving a net rental arrears balance of £9.8 million (2019: £11.0 million) (see note 16).

Tenant Rental Receivable Arrears Loss Allowance

	Group 2020 £m	Group 2019 £m	Association 2020 £m	Association 2019 £m
Balance as at 1 April	6.1	9.7	5.1	8.6
Provided in the year	5.0	6.2	4.3	5.1
Released in the year	(1.7)	(4.4)	(1.4)	(3.7)
Amounts written off	(5.9)	(5.4)	(5.0)	(4.9)
Balance as at 31 March	3.5	6.1	3.0	5.1

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

Other Trade Receivables

Gross other trade receivables balances as at 31 March 2020 totalled £25.5 million (2019: £21.8 million) for the Group and £8.6 million (2019: £6.2 million) for the Association. The age of gross other trade receivables balances was as follows:

	Group		Association	
	2020 £m	2019 £m	2020 £m	2019 £m
Less than 30 days	13.0	5.7	4.2	1.9
30 to 60 days	5.7	3.1	1.1	1.0
60 to 90 days	1.3	0.9	0.8	0.5
More than 90 days	5.5	12.1	2.5	2.8
Balance as at 31 March	25.5	21.8	8.6	6.2

In the Group there is an impairment loss allowance against £5.4 million (2019: £3.0 million) of this balance leaving a net other trade receivables balance of £20.1 million (2019: £18.8 million) (see note 16). In the Association there is an impairment loss allowance against £1.6 million (2019: £0.7 million) of this balance leaving a net other trade receivables balance of £7.0 million (2019: £5.5 million) (see note 16).

Other Trade Receivables Loss Allowance

	Group		Association	
	2020 £m	2019 £m	2020 £m	2019 £m
Balance as at 1 April	3.0	3.3	0.7	0.5
Provided in the year	3.5	1.3	1.2	0.6
Released in the year	(1.0)	(1.5)	(0.3)	(0.4)
Amounts written off	(0.1)	(0.1)	-	-
Balance as at 31 March	5.4	3.0	1.6	0.7

The Group provides for specific categories of sundry receivable balances and specific sundry receivable balances where the likelihood of settlement in full or in part is unlikely.

Contract Assets

Contract assets of £0.3 million do not have any associated impairment losses.

Summary of Credit Risk

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

	Group		Association	
	2020 £m	2019 £m	2020 £m	2019 £m
Investments (note 14)	24.3	27.0	24.1	26.8
Derivative financial instruments (note 15)	41.5	22.3	41.5	22.3
Receivables	99.4	95.9	226.9	199.6
Cash and cash equivalents	261.5	150.1	1.9	15.1
	426.7	295.3	294.4	263.8

e) 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 Strategic Report and Directors' Report.

Management considers the Group'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
- Care homes
- Students
- Commercial tenants
- Shared ownership
- Home ownership.

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

The maximum exposure to this risk is equal to the tenant rental arrears balance (net of impairment loss allowance) at 31 March 2020, £12.6 million (2019: £13.0 million) for the Group and £9.8 million (2019: £11.0 million) for the Association.

Information on the Group's spread of lenders is explained in note 23d.

f) Market Rate Risk

Market risk applies to listed investments. Listed investments are exposed to fluctuations in market values that are outside the Group's control. Listed investments at 31 March 2020 totalled £10.7 million (2019: £11.1 million) in the Group and £10.5 million (2019: £11.0 million) in the Association. The Group mitigates this risk by carrying out credit checks on all counterparties and investing only in those counterparties that achieve the desired credit agency rating. This is also explained in note 23d.

g) Collateral Pledged

The Group holds debt servicing reserves if, and as, required by the various lenders. These are disclosed and described in note 14.

h) Collateral Held

The Group does not hold any significant collateral.

i) Capital

The Group considers its capital balances to be share capital (note 27) and reserves (note 28). The revaluation reserve balance is entirely governed by market rates for listed investments. The revenue reserve is formed of Group surpluses and deficits from each year since the Group's formation and it also contains gains on business combinations that have arisen following the acquisition of subsidiaries. Acquisitions of social housing businesses that are in substance the gift of one business to another are treated as non-exchange transactions. The fair value of the gift of the recognised assets and liabilities is treated as a gain or loss in the Statement of Comprehensive Income.

None of these capital balances has a significant degree of active management, other than in the case of current year Income Statement movement that contributes to revenue reserves. There are restrictions on the Group in the use £0.2 million (2019: £0.2 million) in relation to Carr-Gomm which was acquired by the Group in 2010 and then transferred its engagements to the Association on 31 March 2011, and £2.0 million (2019: £nil) relating to Voluntary Right to Buy scheme surpluses (see note 28 regarding restricted reserves).

24. Deferred Tax

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Deferred Tax Assets

	Group		Association	
	2020 £m	2019 £m	2020 £m	2019 £m
As at 1 April	4.3	3.8	-	-
Increase in tax rate from 17% to 19%	0.5	-	-	-
Temporary timing differences	0.3	0.5	-	-
As at 31 March	5.1	4.3	-	-
Comprising:				
Trading losses carried forward	4.5	3.7	-	-
Interest rate swap derivative	0.6	0.6	-	-
	5.1	4.3	-	-

The interest rate swap derivative is held in ASK (Greenwich) Limited.

Deferred Tax Liabilities

A deferred tax liability exists within ASK (Greenwich) Limited, a 100 per cent owned subsidiaries of the Association.

	Group		Association	
	2020 £m	2019 £m	2020 £m	2019 £m
As at 1 April	0.6	0.7	-	-
Credit to Income Statement	-	(0.1)	-	-
As at 31 March	0.6	0.6	-	-

This balance relates to timing differences on taxation of a unitary charge. Unitary charge refers to amounts due from the Royal Borough of Greenwich under the terms of a project agreement.

25. Provisions for Liabilities and Charges

Group	Onerous contracts £m	Property related £m	Total £m
At 1 April 2019	2.7	5.6	8.3
Provided in the year	1.6	4.6	6.2
Utilised during the year	-	(2.2)	(2.2)
Released during the year	(1.4)	(2.3)	(3.7)
At 31 March 2020	2.9	5.7	8.6
Ageing of provisions – expected utilisation			
At 31 March 2020			
Under one year	0.2	4.6	4.8
Over one year	2.7	1.1	3.8
At 31 March 2019			
Under one year	0.2	4.4	4.6
Over one year	2.5	1.2	3.7

Association	Onerous contracts £m	Property related £m	Total £m
At 1 April 2019	0.8	4.4	5.2
Provided in the year	-	2.1	2.1
Utilised during the year	-	(1.8)	(1.8)
Released during the year	(0.8)	(2.3)	(3.1)
At 31 March 2020	-	2.4	2.4
Ageing of provisions – expected utilisation			
At 31 March 2020			
Under one year	-	2.4	2.4
Over one year	-	-	-
At 31 March 2019			
Under one year	-	4.4	4.4
Over one year	0.8	-	0.8

Onerous Contract Provisions

Provisions have been made for onerous lease contracts on leased buildings and other onerous contracts. The provisions are being unwound over the remaining term of the contracts, the last of which will be fully utilised by 31 March 2047.

Property Related Provisions

Property provisions relate to the running and maintenance of buildings owned and leased; they have not been discounted because the difference between the balances above and discounted equivalents are not material.

26. Share Capital

	Group and Association	
Each member holds one share of £1 in the Association	2020 £	2019 £
Allotted, issued and fully paid:		
At 1 April	28	30
Issued during the year	2	-
Redeemed during the year	(1)	(2)
At 31 March	29	28

Each share carries voting rights but not rights to dividends, distributions on winding up or rights of redemption. Share issues and redemptions are as a result of changes to the membership of the Association.

27. Reserves

Group	Revenue reserve £m	Restricted reserves £m	Revaluation reserve £m	Cash flow hedge reserve £m	Cost of hedging reserve £m	Total £m
At 1 April 2018	959.6	0.2	1.8	(1.3)	-	960.3
Adjustment on initial application of IFRS 9	(2.1)	-	-	(1.0)	1.0	(2.1)
Adjustment on initial application of IFRS 15	(0.9)	-	-	-	-	(0.9)
Restated balance at 1 April 2018	956.6	0.2	1.8	(2.3)	1.0	957.3
Surplus for the year	77.5	-	-	-	-	77.5
Actuarial gain on pension schemes	(0.3)	-	-	-	-	(0.3)
Revaluation of listed investments	-	-	(0.6)	-	-	(0.6)
Gain on hedge instrument	-	-	-	3.7	-	3.7
Cost of hedging – fair value changes	-	-	-	-	0.1	0.1
At 31 March 2019	1,033.8	0.2	1.2	1.4	1.1	1,037.7
At 1 April 2019	1,033.8	0.2	1.2	1.4	1.1	1,037.7
Surplus for the year	53.2	-	-	-	-	53.2
Actuarial gain on pension schemes	14.8	-	-	-	-	14.8
Revaluation of listed investments	-	-	(0.5)	-	-	(0.5)
Gain/(loss) on hedge instrument	-	-	-	16.3	(0.1)	16.2
Transfer of VRTB proceeds	(2.0)	2.0	-	-	-	-
Transfer of gain on disposal of equity investments	0.6	-	(0.6)	-	-	-
At 31 March 2020	1,100.4	2.2	0.1	17.7	1.0	1,121.4

Association	Revenue reserve £m	Restricted reserves £m	Revaluation reserve £m	Cash flow hedge reserve £m	Cost of hedging reserve £m	Total £m
At 1 April 2018	1,045.8	0.2	1.8	(1.5)	-	1,046.3
Adjustment on initial application of IFRS 9	(1.1)	-	-	(1.0)	1.0	(1.1)
Restated balance at 1 April 2018	1,044.7	0.2	1.8	(2.5)	1.0	1,045.2
Surplus for the year	68.6	-	-	-	-	68.6
Actuarial loss on pension schemes	(0.6)	-	-	-	-	(0.6)
Revaluation of listed investments	-	-	(0.6)	-	-	(0.6)
Gain on hedge instrument	-	-	-	3.8	-	3.8
Cost of hedging – fair value changes	-	-	-	-	0.1	0.1
At 31 March 2019	1,112.7	0.2	1.2	1.3	1.1	1,116.5
At 1 April 2019	1,112.7	0.2	1.2	1.3	1.1	1,116.5
Surplus for the year	42.4	-	-	-	-	42.4
Actuarial gain on pension schemes	16.0	-	-	-	-	16.0
Revaluation of listed investments	-	-	(0.5)	-	-	(0.5)
Gain/(loss) on hedge instrument	-	-	-	16.3	(0.1)	16.2
Transfer of VRTB proceeds	(2.0)	2.0	-	-	-	-
Transfer of gain on disposal of equity investments	0.6	-	(0.6)	-	-	-
At 31 March 2020	1,169.7	2.2	0.1	17.6	1.0	1,190.6

Restricted Reserves

Within both the Group and the Association, £0.2 million (2019: £0.2 million) of the reserves acquired with Carr-Gomm remain restricted in application.

For the year ending March 2020, £2.0 million of revenue reserves (2019: £nil) has been restricted relating to surpluses made on asset sales as part of the Voluntary Right to Buy scheme. Funds are made up of the receipts from the discounted sale, plus compensation for the discount given. These funds are restricted in use and must be spent on new supply social housing properties on a one-for-one replacement basis.

Revaluation Reserve

The revaluation reserve comprises cumulative net changes in fair value of equity securities designated at fair value through other comprehensive income (FVOCI).

Cash Flow Hedge Reserve

The cash flow hedge reserve comprises the effective portion of cumulative net changes in the fair value of hedging instruments used in cash flow hedges.

Cost of Hedging Reserve

The cost of hedging reserve reflects gains or losses on the portion excluded from the designated hedging instrument that relates to the forward element of forward contracts. It is initially recognised in OCI and accounted for similarly to gains or losses in the cash flow hedge reserve.

28. Retirement Benefits

The Group participates in 15 (2019: 15) funded defined benefit pension schemes. All schemes' assets are held in separate funds administered by the trustees of each scheme.

Local Government Pension Schemes

Where the underlying assets and liabilities of the defined benefit schemes can be separately identified the Group recognises in full the schemes' surpluses or deficits on the Statement of Financial Position. Where it is not possible to separately identify the share of the underlying assets and liabilities of a defined benefit scheme, an amount is charged to the Statement of Comprehensive Income that represents the contributions payable in the year.

The Association and its subsidiaries are admitted bodies into the below local Government pension schemes, participation in which is accounted for on a defined benefit pension scheme basis:

Scheme name	Group admitted body	Employer contributions	Range of member contributions	Liability recognised
Cambridgeshire County Council Pension Fund	Sanctuary Housing Association	31.1%	5.5% to 8.5%	Yes
London Borough of Greenwich Pension Fund	Sanctuary Housing Association	18.5%	5.5% to 8.5%	Yes
Oxfordshire County Council Pension Fund	Sanctuary Housing Association	Between 15.0% and 15.6%	5.5% to 8.5%	Yes
Essex County Council Pension Fund	Sanctuary Housing Association	17.9%	5.5% to 8.5%	Yes
Devon County Council Pension Fund	Sanctuary Housing Association	17.4%	5.5% to 8.5%	Yes
Strathclyde Pension Fund	Sanctuary Scotland Housing Association	22.0%	5.5% to 12.0%	Yes
Warwickshire County Council Pension Fund	Sanctuary Care Property (1) Limited	24.4%	5.5% to 8.5%	Yes
North East Scotland Pension Fund	Sanctuary Scotland Housing Association	24.8%	5.5% to 12.0%	Yes
Cheshire County Council Pension Fund	Sanctuary Housing Association	21.9%	5.5% to 11.4%	Yes

In October 2018, the High Court published its judgement on the case of Lloyds Banking Group and the equalisation of Guaranteed Minimum Pensions (GMP). This has consequently been assessed against the Group's defined benefit schemes. The impact of GMP equalisation in respect of the Sanctuary Final Salary Pensions Scheme and the Sanctuary North West Housing Association Pension Scheme have been recognised in the previous year. The impact of GMP equalisation in respect of the 10 Local Government Pension Schemes has been recognised in the year, the effect is not considered material.

The Group has reviewed the impact of GMP equalisation in respect of its 10 local Government pension schemes and identified that a range of approaches has been adopted by the three scheme actuaries for those schemes. These approaches range from a detailed assessment of the impact of the requirements, through to limited recognition of the impact, as the scheme actuaries wait for guidance from the Government on the methodology to be applied in calculating the full liability. No further adjustments have been made to the present value of obligations as the effect is not considered material.

In December 2018, the Court of Appeal ruled that transitional arrangements protection in respect of benefit changes to the Judicial and Fire Fighter Pension Scheme amounted to unlawful discrimination (McCloud case). Due to similar protection arrangements in the local Government pension schemes, the judgement is expected to be applicable to these schemes. Whilst the judgement might be appealed by the Government in the Supreme Court, it is generally considered unlikely that this will be successful. There is no impact from this ruling on the non-local Government schemes (Sanctuary Final Salary Pensions Scheme and the Sanctuary North West Housing Association Pension Scheme), as there were no equivalent changes to pensioner benefits.

The Board have considered the potential impact of the McCloud case on the Group and Association's defined benefit liability as at 31 March 2020. No additional liability has been recognised given the profile of the scheme members and assuming a very cautious outcome on the local Government pension scheme liability (gross obligation: £129m). The Board are satisfied that when fully accounted for, the impact will not be material to the Group or Association's Financial Statements as at 31 March 2020.

Participation in the following local Government pension schemes is accounted for on a defined contribution pension scheme basis:

Scheme name	Group admitted body	Employer contributions	Range of member contributions	Liability recognised
North Yorkshire County Council Pension Fund	Sanctuary Housing Association	7.0%	5.5% to 8.5%	Contributions only
Shropshire County Council Pension Fund	Sanctuary Housing Association	19.2%	5.5% to 8.5%	Contributions only
City of Westminster Local Government Pension Scheme	Sanctuary Housing Association	32.2%	5.5% to 8.5%	Contributions only
Merseyside Pension Fund	Sanctuary Housing Association	19.9%	5.5% to 8.5%	Contributions only

The contribution rates above are applicable to both 2020 and 2019 for all local Government schemes.

IAS 19 Employee Benefits

The financial assumptions used to calculate scheme liabilities under IAS 19 Employee Benefits in respect of defined benefit schemes are as follows:

All schemes	2020 %	2019 %
Inflation	2.60	3.30
Rate of increase in salaries for next two years	1.70	2.30
Rate of increase in salaries thereafter	1.70	2.30
Rate of increase for pensions in payment	1.70	2.30
Rate of increase for deferred pensions	2.60	3.30
Discount rate	2.35	2.30

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

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

The fair value of assets in the scheme, split between quoted and unquoted investments, is as follows:

Group

	2020 £m Quoted	2020 £m Unquoted	2020 £m Total	2020 %	2019 £m Quoted	2019 £m Unquoted	2019 £m Total	2019 %
Equities	86.2	5.6	91.8	22.7	181.3	26.0	207.3	51.2
Bonds	174.5	8.0	182.5	45.0	148.4	9.9	158.3	39.1
Property	11.8	6.5	18.3	4.5	9.2	6.6	15.8	3.9
Other	94.3	18.4	112.7	27.8	2.4	20.9	23.3	5.8
Total value of assets	366.8	38.5	405.3	100.0	341.3	63.4	404.7	100.0

Association

	2020 £m Quoted	2020 £m Unquoted	2020 £m Total	2020 %	2019 £m Quoted	2019 £m Unquoted	2019 £m Total	2019 %
Equities	72.6	3.3	75.9	20.0	166.8	23.7	190.5	50.3
Bonds	171.8	7.4	179.2	47.1	145.4	9.3	154.7	40.9
Property	10.9	5.1	16.0	4.2	8.2	5.2	13.4	3.5
Other	92.7	16.6	109.3	28.7	0.6	19.2	19.8	5.3
Total value of assets	348.0	32.4	380.4	100.0	321.0	57.4	378.4	100.0

Property investments of £18.3 million in the Group and £16.1 million in the Association are based on an open market valuation from independent valuers. In light of the negative impact of Covid-19, the independent valuers have included a material uncertainty clause in respect of the valuations. The Group still consider these to be the best estimate of the property investment values. A 10 per cent increase/decrease in the valuation would increase/reduce the Group asset valuation by £1.8 million and the Association asset valuation by £1.6 million.

Reconciliation of the effect of the asset ceiling:

	Group 2020 £m	Group 2019 £m	Association 2020 £m	Association 2019 £m
Net asset ceiling at 1 April	(0.3)	(0.4)	-	-
Restriction of Strathclyde Pension Fund surplus	(0.7)	0.4	-	-
Restriction of Warwickshire County Council Pension Fund surplus	(0.4)	(0.3)	-	-
Restriction of the Sanctuary Housing Association Final Salary Scheme surplus	(15.7)	-	(15.7)	-
Restriction of the Cheshire Pension Fund surplus	(2.2)	-	(2.2)	-
Restriction of the Essex Pension Fund surplus	(0.1)	-	(0.1)	-
Net asset ceiling at 31 March	**(19.4)**	**(0.3)**	**(18.0)**	**-**

Five of the Group's schemes – the Strathclyde Pension Fund, the Warwickshire County Council Pension Fund, the Sanctuary Housing Final Salary Scheme, the Cheshire Pension Fund and the Essex Pension Fund – have been valued at a net asset position. It has been determined that the Group will not benefit from reduced future contributions to these schemes, so an asset ceiling has been applied to reduce the value of the net assets to nil in accordance with IAS 19. In addition, because the Group has a commitment to make future contributions to the Warwickshire County Council Pension Fund, the Sanctuary Housing Final Salary Scheme and the Cheshire Pension Fund scheme, it has recognised a liability in respect of minimum funding requirements. The Strathclyde Pension Fund was also valued in a net asset position in 2018/2019 and it was determined, based on information available at the time, that the Group would derive economic benefit from reduced future contributions to the fund. An asset ceiling was therefore not applied to this scheme. The Warwickshire County Council Pension Fund was also valued in a net asset position in 2018/2019 and the asset ceiling was applied. All other pension schemes were valued in a net liability position in 2018/2019.

Scheme assets/(liabilities) are reflected in the Statement of Financial Position:

	Group 2020 £m	Group 2019 £m	Association 2020 £m	Association 2019 £m
Present value of employer assets	405.3	404.7	380.4	378.4
Present value of funded liabilities	(402.5)	(445.1)	(378.3)	(418.3)
Net funding in funded plans	2.8	(40.4)	2.1	(39.9)
Present value of unfunded liabilities	(0.2)	(0.2)	(0.2)	(0.2)
Pension asset/(liability) before restrictions	2.6	(40.6)	1.9	(40.1)
Effect of net asset ceiling	(19.4)	(0.3)	(18.0)	-
Recognition of minimum funding requirements	(9.1)	(0.5)	(7.7)	-
Net pension liability	**(25.9)**	**(41.4)**	**(23.8)**	**(40.1)**

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

	Group 2020 £m	Group 2019 £m	Association 2020 £m	Association 2019 £m
Amount charged to operating surplus:				
Current service cost	(2.1)	(2.1)	(2.0)	(2.1)
Past service cost	-	(0.5)	-	(0.3)
Expenses	(0.4)	(0.3)	(0.4)	(0.3)
Effect of settlements	-	1.3	-	1.3
Total charged to operating surplus	(2.5)	(1.6)	(2.4)	(1.4)
Amount charged to finance cost:				
Interest income on plan assets	9.2	9.7	8.6	9.1
Interest cost on defined benefit obligations	(10.1)	(10.7)	(9.5)	(10.0)
Total amount charged to finance cost	(0.9)	(1.0)	(0.9)	(0.9)
Total amount charged to the Income Statement	(3.4)	(2.6)	(3.3)	(2.3)
Amounts recognised in other comprehensive income:				
Remeasurement gains and losses:				
Return on plan assets excluding interest	2.0	13.5	3.2	12.8
Experience gains	8.9	1.5	8.9	1.5
Other remeasurement (losses)/gains	(0.3)	0.4	-	-
Changes in financial assumptions	42.0	(16.3)	39.3	(15.7)
Changes in demographic assumptions	(10.1)	1.0	(9.7)	0.8
Effect of movement in net asset ceiling	(19.1)	0.1	(18.0)	-
Movement in IFRIC 14 minimum funding obligation	(8.6)	(0.5)	(7.7)	-
Total remeasurement gains/(losses)	14.8	(0.3)	16.0	(0.6)
Total amounts recognised in other comprehensive income	14.8	(0.3)	16.0	(0.6)

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

	Group 2020 £m	Group 2019 £m	Association 2020 £m	Association 2019 £m
Opening defined benefit obligation	445.3	433.1	418.5	406.8
Current service cost	2.1	2.1	2.0	2.1
Past service cost	-	0.5	-	0.3
Effect of settlements	-	(3.5)	-	(3.5)
Interest cost	10.1	10.7	9.5	10.0
Contributions by employees	0.3	0.4	0.3	0.3
Experience gains	(8.9)	(1.5)	(8.9)	(1.5)
Changes in financial assumptions	(42.0)	16.3	(39.3)	15.7
Changes in demographic assumptions	10.1	(1.0)	9.7	(0.8)
Net benefits paid (including expenses)	(14.3)	(11.8)	(13.3)	(10.9)
Closing defined benefit obligation	402.7	445.3	378.5	418.5

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

	Group 2020 £m	Group 2019 £m	Association 2020 £m	Association 2019 £m
Opening fair value of the scheme assets	404.7	390.9	378.4	366.1
Expenses	(0.4)	(0.3)	(0.4)	(0.3)
Effect of settlements	-	(2.2)	-	(2.2)
Interest income on plan assets	9.2	9.7	8.6	9.1
Return on plan assets excluding interest	2.0	13.5	3.2	12.8
Other remeasurement (losses)/gains	(0.3)	0.4	-	-
Contributions by employer	4.1	4.1	3.6	3.5
Contributions by employees	0.3	0.4	0.3	0.3
Net benefits paid (including expenses)	(14.3)	(11.8)	(13.3)	(10.9)
Closing fair value of the scheme assets	405.3	404.7	380.4	378.4

The total and cumulative remeasurements recognised in other comprehensive income:

	Group 2020 £m	Group 2019 £m	Association 2020 £m	Association 2019 £m
Net actuarial remeasurements recognised in year	42.5	0.1	41.7	(0.6)
Net cumulative actuarial remeasurements	(11.9)	(54.4)	(7.8)	(49.5)

Remeasurement gains and losses are broken down as follows:

	Group 2020 £m	Group 2019 £m	Association 2020 £m	Association 2019 £m
Return on plan assets excluding interest	2.0	13.5	3.2	12.8
Experience gains	8.9	1.5	8.9	1.5
Other remeasurement (losses)/gains	(0.3)	0.4	-	-
Changes in financial assumptions	42.0	(16.3)	39.3	(15.7)
Changes in demographic assumptions	(10.1)	1.0	(9.7)	0.8
Total remeasurement gains/(losses)	42.5	0.1	41.7	(0.6)

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

Group	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Defined benefit obligations	(402.7)	(445.3)	(433.1)	(471.7)	(335.9)
Scheme assets	405.3	404.7	390.9	343.7	274.3
Surplus/(deficit)	2.6	(40.6)	(42.2)	(128.0)	(61.6)

Association	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Defined benefit obligations	(378.5)	(418.5)	(406.8)	(443.6)	(300.8)
Scheme assets	380.4	378.4	366.1	319.5	246.0
Deficit	1.9	(40.1)	(40.7)	(124.1)	(54.8)

The Group expects to contribute the following amounts to the defined benefit schemes during the year ended 2021:

	£m
Cheshire County Council Pension Fund	1.9
Sanctuary North West Housing Association	0.8
Cambridgeshire County Council	0.6
Warwickshire County Council	0.5
North East Scotland	0.1
London Borough of Greenwich	0.1
Strathclyde Pension Fund	0.1
Essex County Council Pension Fund	0.1
	4.2

Assumption Sensitivity Analysis

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

2020	Group Movement £m	Association Movement £m
Discount rate +0.1%	(8.3)	(7.9)
Discount rate -0.1%	7.9	7.5
Rate of inflation +0.1%	7.7	7.3
Rate of inflation -0.1%	(7.3)	(7.2)
Life expectancy +1 year	13.7	12.8
Life expectancy -1 year	(13.7)	(12.8)

The above sensitivity analyses are based on isolated changes in each assumption, while 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 above 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 Statement of Financial Position values, and have not changed compared to the previous period.

The Group's share of total assets in participating Local Government Pension Schemes ranges from between less than 0.05 per cent to less than 0.95 per cent of fund value.

The Asset values of the Group 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 Sanctuary Group pay to the Funds are allocated entirely to their identified asset share and are not spread in any way. Asset allocations are also produced using bid values where necessary.

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

A sensitivity analysis to reflect a plus or minus 5 per cent movement in asset values in Local Government Pension schemes equates to plus or minus £5,965,000.

Defined Benefit Schemes – Risk Factors

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

Asset volatility: Plan 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 Group's various pension plans 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 schemes mature, with a shorter time horizon to cope with volatility, the scheme trustees and administering authorities will gradually reduce holdings of growth assets in favour of increased matching assets (bonds and similar). In the meantime, the Group 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 Group 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 Group'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 Group'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).

National Health Service Pension Scheme

The Association is a direction body employer of the National Health Service Pension Scheme (NHS Pension Scheme). The NHS Pension Scheme is an unfunded occupational scheme backed by the Exchequer, which is open to all NHS staff and qualifying employees of other approved organisations.

Employers and employees pay contributions based on a percentage of pensionable pay. Every four years the Government Actuary conducts a full actuarial review and recommends contribution rates in their valuation report to the Secretary of State for Health.

The Association contributes at a rate of 14.3 per cent of pensionable salaries (2019: 14.3 per cent). Members contribute at a rate of between 5.6 per cent and 9.3 per cent of pensionable salary.

Defined Contribution Schemes

The Group participates in defined contribution schemes for members of staff. The cost of the defined contribution schemes amounts to £8.1 million (2019: £5.8 million). As at the year end there was £0.9 million of accrued contributions due for payment after the year end (2019: £0.6 million).

29. Capital Commitments

	Group		Association	
	2020 £m	2019 £m	2020 £m	2019 £m
Expenditure contracted	321.9	83.2	91.0	8.3
Authorised expenditure not contracted	463.8	687.5	69.7	93.9
	785.7	770.7	160.7	102.2

For the Group, of the £785.7 million (2019: £770.7 million) of capital commitments at 31 March 2020, £137.1 million (2019: £103.4 million) will be financed by grant and other public finance.

For the Association, of the £160.7 million (2019: £102.2 million) of capital commitments at 31 March 2020, £26.3 million (2019: £13.7 million) will be financed by grant and other public finance.

The Group is confident its financial strength will allow it to refinance existing loans and finance the current business plan commitments at competitive rates. The Group anticipates funding this through a mix of fixed and variable interest rate facilities, cash generated from property sales, operating activities and Government grants.

30. Agreements to Improve Existing Properties

Where the Group and Association have entered into agreements to purchase property from a third party and subsequently enter into a sub-contracting agreement to carry out improvement works to the properties, the related assets and liabilities are shown at gross values unless the right of net settlement exists.

The Group has, in recent years, received a number of stock transfers from local authorities. As part of these transfers, each local authority has made a commitment to the Group to have the properties refurbished and modernised and brought into a good state of repair. Immediately prior to the transfer, each local authority contracted with the Group to carry out the refurbishment works on its behalf. Each local authority's obligation to carry out the works is in effect matched by the Group's obligation to carry out the works. As a specific right of set off exists, a net basis has been adopted in respect of these obligations and neither the asset nor the liability has been recognised. At 31 March 2020, the net value of balances that have been offset is £4.9 million (2019: £4.9 million).

31. Notes to the Statement of Cash Flows

Cash and Cash Equivalents

	Group		Association	
	2020 £m	2019 £m	2020 £m	2019 £m
Cash and cash equivalents per Statement of Financial Position	261.5	150.1	1.9	15.1
Cash and cash equivalents per Statement of Cash Flows	261.5	150.1	1.9	15.1

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 Financing Activities

Group	At 1 April 2019	Cash flows	Non-cash changes Foreign exchange movement	Fair value changes	Other non-cash changes	At 31 March 2020
	£m	£m	£m	£m	£m	£m
Short-term borrowings	(73.5)	224.7	-	-	(195.4)	(44.2)
Long-term borrowings	(2,591.9)	(485.0)	(3.0)	-	194.9	(2,885.0)
Lease liabilities	(145.5)	2.5	-	-	(33.5)	(176.5)
Derivative financial instruments	18.9	-	-	19.1	-	38.0
Total liabilities from financing activities	(2,792.0)	(257.8)	(3.0)	19.1	(34.0)	(3,067.7)

Non-cash movements on derivative financial instruments relate to the fair value movement of foreign exchange (£19.2 million positive movement) and interest rate derivatives (£0.1 million negative movement).

Group	At 1 April 2018	Cash flows	Non-cash changes Foreign exchange movement	Fair value changes	Other non-cash changes	At 31 March 2019
	£m	£m	£m	£m	£m	£m
Short-term borrowings	(103.5)	88.9	-	-	(58.9)	(73.5)
Long-term borrowings	(2,478.9)	(167.2)	(4.5)	-	58.7	(2,591.9)
Lease liabilities	(146.2)	0.2	-	-	0.5	(145.5)
Derivative financial instruments	10.6	-	-	8.3	-	18.9
Total liabilities from financing activities	(2,718.0)	(78.1)	(4.5)	8.3	0.3	(2,792.0)

Non-cash movements on derivative financial instruments relate to the fair value movement of foreign exchange (£8.4 million positive movement) and interest rate derivatives (£0.1 million negative movement).

Other non-cash changes reflect progression in the ageing of borrowings due after more than one year to less than one year, the amortisation of premiums and discounts recognised on issue of bonds and in the case of lease liabilities, the transition to IFRS 16 and the recognition of right-of-use assets and corresponding lease liabilities. Foreign exchange movement relates to the retranslation of dollar denominated loan notes at the year end spot rate.

Association	At 1 April 2019	Cash flows	Non-cash changes Foreign exchange movement	Fair value changes	Other non-cash changes	At 31 March 2020
	£m	£m	£m	£m	£m	£m
Short-term borrowings	(38.7)	167.4	-	-	(167.5)	(38.8)
Long-term borrowings	(1,714.4)	(193.0)	(2.9)	-	167.6	(1,742.7)
Lease liabilities	(24.8)	2.4	-	-	(25.7)	(48.1)
Derivative financial instruments	22.3	-	-	19.2	-	41.5
Total liabilities from financing activities	(1,755.6)	(23.2)	(2.9)	19.2	(25.6)	(1,788.1)

Non-cash movements on derivative financial instruments relate to the fair value movement of foreign exchange (£19.2 million positive movement) derivatives.

Association	At 1 April 2018	Cash flows	Non-cash changes Foreign exchange movement	Fair value changes	Other non-cash changes	At 31 March 2019
	£m	£m	£m	£m	£m	£m
Short-term borrowings	(38.4)	38.4	-	-	(38.7)	(38.7)
Long-term borrowings	(1,694.9)	(53.7)	(4.5)	-	38.7	(1,714.4)
Lease liabilities	(25.0)	0.2	-	-	-	(24.8)
Derivative financial instruments	13.9	-	-	8.4	-	22.3
Total liabilities from financing activities	(1,744.4)	(15.1)	(4.5)	8.4	-	(1,755.6)

Non-cash movements on derivative financial instruments relate to the fair value movement of foreign exchange (£8.4 million positive movement) derivatives.

Other non-cash changes reflect progression in the ageing of borrowings due after more than one year to less than one year and the amortisation of premiums and discounts recognised on issue of bonds. Foreign exchange movement relates to the retranslation of dollar denominated loan notes at the year end spot rate.

32. Related Party Transactions

Related party transactions between members of the Board and the entities within the Group are disclosed in the Board's Report and note 8.

Trading

During the year, the Association recharged costs incurred on behalf of other Group undertakings. Such costs include the Group audit fees and the recharging of Central Services costs including finance, information systems, human resources, office costs and management.

These recharges are agreed by management and are based on relevant information such as occupancy of offices, asset base and employee details.

The Association received gift aid from its subsidiary undertakings during the year of:

Entity	2020 £m	2019 £m
ASK (Greenwich) Limited	(0.3)	1.2
Beech Grove Homes Limited	4.0	-
Sanctuary Care Limited	7.9	8.7
Sanctuary Care (R) Limited	2.9	0.2
Sanctuary Maintenance Contractors Limited	0.7	0.7
Sanctuary Management Services	-	0.2
Sanctuary Treasury Limited	0.1	0.1
Spiral Developments Limited	4.5	3.3

The Association also receives capital grants on behalf of other Group undertakings. These are transferred through intra-Group transactions into the relevant entity which owns the property the grant relates to.

At the reporting date, the Association had the following trading balances with non-RSH regulated Group undertakings:

Entity	2020 £m	2019 £m
ASK (Greenwich) Limited	1.1	1.2
Avenue Services Limited	0.2	-
Beech Grove Homes Limited	4.3	
Sanctuary Care Limited	8.0	0.7
Sanctuary Care Property (1) Limited	0.7	0.4
Sanctuary Care Property (2) Limited	0.1	0.1
Sanctuary Care (Combined) Limited	0.3	-
Sanctuary Care (Derby) Limited	0.1	-
Sanctuary Care (England) Limited	0.3	-
Sanctuary Care (Geffen) Limited	0.1	-
Sanctuary Care (Kler) Ltd	0.2	-
Sanctuary Care (Queens) Limited	0.1	(0.2)
Sanctuary Care (North) Limited	0.6	(0.4)
Sanctuary Care (North) 2 Limited	0.1	-
Sanctuary Care (South West) Limited	0.4	-
Sanctuary Care (UK) Limited	0.3	-
Sanctuary Care (Wellcare) Limited	0.1	-
Sanctuary Care (Wellcare) 2 Limited	0.2	-
Sanctuary Home Care Limited	1.4	2.5
Sanctuary Housing Services Limited	1.3	(1.2)
Sanctuary Maintenance Contractors Limited	(0.4)	0.1
Sanctuary Management Services Limited	(0.5)	0.1
Sanctuary (NW Management) Limited	1.7	1.7
Sanctuary Scotland Housing Association Limited	4.3	0.5
Sanctuary Student Homes Limited	0.2	3.2
Sanctuary Treasury Limited	0.1	0.1
Spiral Developments Limited	4.3	3.0

At the reporting date, the Association had the following trading balances with RSH regulated Group undertakings:

Entity	2020 £m	2019 £m
Sanctuary Affordable Housing Limited	(0.1)	0.2

Loans

The Association has loan balances with other Group undertakings at the reporting date.

The Association both receives and allocates funds to other Group undertakings. These loans are arranged at commercial terms and, as appropriate, secured against the assets of each entity.

At the reporting date, the Association had the following loan and lease balances with non-RSH regulated Group undertakings:

Entity	2020 £m	2019 £m
Loans		
ASK (Holdings) Limited	1.1	1.2
Sanctuary Care Property (2) Limited	27.5	28.5
Sanctuary Scotland Housing Association Limited	0.9	1.1
Sanctuary Student Homes Limited	32.2	23.7
Sanctuary Student Properties Limited	61.5	61.5
Sanctuary Treasury Limited*	(768.7)	(664.4)
Leases		
Sanctuary Student Properties Limited	(4.6)	(4.3)
Sanctuary Student Homes Limited	2.6	2.6

*Sanctuary Treasury Limited raises finance (including bond issues by Sanctuary Capital PLC) for onward lending to Registered Providers within the Group, including the Association.

At the reporting date, the Association had no loan balances with RSH regulated Group undertakings.

Accrued Interest

Related party loan net interest accrued in the Association with non-RSH regulated Group entities at the reporting date is as follows:

Entity	2020 £m	2019 £m
ASK (Holdings) Limited	0.1	-
Sanctuary Care Property (2) Limited	1.7	1.8
Sanctuary Student Properties Limited	0.3	0.4
Sanctuary Treasury Limited*	(5.7)	(6.8)

*Accrued interest payable on loan balances owed to Sanctuary Treasury Limited.

There was no related party loan net interest accrued in the Association with RSH regulated Group entities.

Related party transactions between members of the Board and the entities within the Group are disclosed in the Board's Report and note 8. Transactions between the Group and joint ventures, associates and trade investments are disclosed on the following pages.

The Association carries investments in subsidiaries, associates and jointly-controlled entities at cost, less provision for impairment.

	£m
At 1 April 2018	67.6
Increase in subsidiary investments in the year	-
At 31 March 2019	67.6
At 1 April 2019	67.6
Increase in subsidiary investments in the year	20.3
At 31 March 2020	87.9

The increase in subsidiary investments in the year ended 31 March 2020 relates to the acquisition of Lorimer Care Homes Limited, Mull Hall Holdings Limited and Dornoch Medical Care Limited and their subsidiaries. Further information is contained in note 35.

33. Investments in Subsidiaries, Associates and Jointly-Controlled Entities

Details of the Association's subsidiaries and joint arrangements as at 31 March 2020 are shown below:

Entities registered in England and Wales with registered office at Sanctuary House, Chamber Court, Castle Street, Worcester, WR1 3ZQ:

Company	Nature of business	RSH regulated	Ownership (direct and indirect)
Subsidiaries			
ASK (Greenwich) Limited (i)	Care home development and management	Non-RSH regulated	100%
ASK (Holdings) Limited	Holding company	Non-RSH regulated	100%
Avenue Services (NW) Limited	Property maintenance services	Non-RSH regulated	50%
Bateman Memorial Almshouses Charity	Registered almshouse	Registered Charity	100%
Beech Grove Homes Limited	Property development	Non-RSH regulated	100%
Beech Grove Homes 2017 Limited	Property development	Non-RSH regulated	100%
Riverside Apartments Management Limited	Property management	Non-RSH regulated	78%
Sanctuary Affordable Housing Limited	Supplier of social housing	Registered Provider	100%
Sanctuary Capital PLC (i)	Group financing	Non-RSH regulated	100%
Sanctuary Care Limited	Care home management	Non-RSH regulated	100%
Sanctuary Care Property (1) Limited	Care home development and management	Non-RSH regulated	100%
Sanctuary Care Property (2) Limited	Care home development and management	Non-RSH regulated	100%
Sanctuary Home Care Limited	Domiciliary care	Non-RSH regulated	100%
Sanctuary Housing Services Limited	Management services	Non-RSH regulated	100%
Sanctuary Maintenance Contractors Limited	Property maintenance services	Non-RSH regulated	100%
Sanctuary Management Services Limited	Management services	Non-RSH regulated	100%
Sanctuary (NW Management) Limited	Provider of market rented property	Non-RSH regulated	100%
Sanctuary Student Homes Limited	Student accommodation	Non-RSH regulated	100%
Sanctuary Student Properties Limited	Student accommodation	Non-RSH regulated	100%
Sanctuary Treasury Limited	Group financing	Non-RSH regulated	100%
Spiral Developments Limited	Property development	Non-RSH regulated	100%
Spon Lane Trust Almshouses	Registered almshouse	Registered Charity	100%
St Albans Mount Management Limited	Property management	Non-RSH regulated	66.7%
The Hertford Housing Company Limited	Non-trading	Non-RSH regulated	100%
Sanctuary Care (Kler) Limited	Care home management	Non-RSH regulated	100%
Sanctuary Care (Combined) Limited	Care home management	Non-RSH regulated	100%
Sanctuary Care (Derby) Limited	Care home management	Non-RSH regulated	100%
Sanctuary Care (England) Limited	Care home management	Non-RSH regulated	100%
Sanctuary Care (South West) Limited	Care home management	Non-RSH regulated	100%
Sanctuary Care (UK) Limited	Care home management	Non-RSH regulated	100%
Sanctuary Care (North) Limited	Care home management	Non-RSH regulated	100%
Sanctuary Care (R) Derby Limited	Non-trading	Non-RSH regulated	100%
Sanctuary Care (R) Geffen Limited	Non-trading	Non-RSH regulated	100%
Sanctuary Care (R) UK Limited	Non-trading	Non-RSH regulated	100%
Sanctuary Care (R) Wellcare Limited	Care home development and management	Non-RSH regulated	100%
Sanctuary Care (R) Limited	Care home development and management	Non-RSH regulated	100%
Sanctuary Care (Wellcare) 2 Limited	Care home management	Non-RSH regulated	100%
Sanctuary Care (Wellcare) Limited	Care home management	Non-RSH regulated	100%
Sanctuary Care (HCP Stonelea) Limited	Non-trading	Non-RSH regulated	100%
Sanctuary Care (CP Oxford) Limited	Non-trading	Non-RSH regulated	100%
Sanctuary Care (Geffen) Limited	Care home management	Non-RSH regulated	100%

Entities registered in Scotland with registered office at Sanctuary House, 7 Freeland Drive, Glasgow, G53 6PG:

Company	Nature of business	RSH regulated	Ownership (direct and indirect)
Subsidiaries			
Donside Limited (i)	Property development	Non-RSH regulated	100%
Glasgow Student Villages Limited	Student accommodation	Non-RSH regulated	100%
Sanctuary Homes (Scotland) Limited (i)	Supplier of mid-market rent housing	Non-RSH regulated	100%
Sanctuary Scotland Housing Association Limited	Supplier of social housing	Registered Social Landlord (Scotland)	100%
Sanctuary Care (North) 2 Limited	Care home management	Non-RSH regulated	100%
Sanctuary Care (Allanbank) Limited	Care home management	Non-RSH regulated	100%
Sanctuary Care (R) Scotland Limited	Care home development and management	Non-RSH regulated	100%
Sanctuary Care (Queens) Limited	Care home management	Non-RSH regulated	100%
Sanctuary Care (Scotland) Limited	Care home development and management	Non-RSH regulated	100%
Lorimer Care Homes Limited	Holding company	Non-RSH regulated	100%
Gate Healthcare Limited	Care home management	Non-RSH regulated	100%
Glenfain Limited	Care home management	Non-RSH regulated	100%
Tayside Care Limited	Care home management	Non-RSH regulated	100%
Mull Hall Holdings Limited	Holding company	Non-RSH regulated	100%
Mull Hall Care Limited	Care home management	Non-RSH regulated	100%
Dornoch Medical Care Limited	Care home management	Non-RSH regulated	100%

These entities are controlled or wholly-owned subsidiaries of wholly-owned subsidiaries of the Association.

Non-Controlling Interests

The following parties have interests in the entities not wholly-owned by the Association or its subsidiaries:

- Avenue Services (NW) Limited – 50 per cent owned by Cheshire West and Chester Council.
- Riverside Apartments Management Limited – 22 per cent owned by the tenants of the company.
- St Albans Mount Management Limited – 33.3 per cent owned by the tenants of the company.

Joint Ventures

The Group has the following investments in joint ventures which are registered in England and Wales with registered offices at 11 Tower View, Kings Hill, West Malling, Kent, England, ME19 4UY:

Name	Country of incorporation	Date of incorporation	Nature of incorporation	Voting rights	Carrying amount Group 2020 £m	Carrying amount Group 2019 £m
Linden (Biddenham) LLP	England	24 June 2015	Limited Liability Partnership	50%	1.3	0.8
Linden (Brampton) LLP	England	27 July 2016	Limited Liability Partnership	50%	1.0	1.1
Linden (Avery Hill) LLP	England	1 August 2016	Limited Liability Partnership	50%	1.5	1.3
Europa Way JV LLP	England	7 December 2017*	Limited Liability Partnership	50%	0.6	-
Glen Parva JV LLP	England	7 December 2017**	Limited Liability Partnership	50%	-	-
					4.4	3.2

*Spiral Developments Limited was appointed as a member on 20 December 2018.

**Spiral Developments Limited was appointed as a member on 28 June 2019.

The Group controls 50 per cent of the joint ventures via Spiral Developments Limited, a wholly-owned subsidiary of the Association. The remaining 50 per cent is controlled by Vistry Linden Limited, a wholly-owned subsidiary of Vistry Group PLC.

The joint ventures have been established to acquire, develop, manage and dispose of properties on specific development sites, including an element of affordable housing.

The Association and Vistry Linden Limited have provided equal amounts of loan finance to the joint ventures; these loans are on an arms length basis at a commercial rate of interest. Amounts due to the Association, including capitalised interest, at 31 March 2020 totalled £33.0 million (2019: £29.3 million), see note 16. The recoverability of the loans is supported by the appraisal work performed by the Group prior to entering into the joint ventures.

The following table summarises the financial information of the joint ventures as included in their own Financial Statements:

	2020 £m	2019 £m
Cash and cash equivalents	2.7	0.3
Other current assets	78.0	74.7
Loans and borrowings – short-term	(54.7)	(41.1)
Other current liabilities	(17.2)	(27.6)
Loans and borrowings – long-term	-	-
Other non-current liabilities	-	-
Net assets 100%	**8.8**	**6.3**
Net assets 50%	4.4	3.2
Losses not recognised	-	-
Group's recognised share of net assets	**4.4**	**3.2**
Revenue	67.6	46.3
Depreciation and amortisation	-	-
Cost of sales and other operating costs	(56.1)	(37.6)
Interest income	-	-
Interest expense	(2.7)	(2.3)
Profit 100%	**8.8**	**6.4**
Profit 50%	4.4	3.2
Losses previously not recognised	-	(0.1)
Group's recognised share of profits	**4.4**	**3.1**
Dividends received by the Group	**3.2**	**0.5**

34. Acquisitions

On 9 January 2020 the Association purchased 100 per cent of the ordinary share capital of Lorimer Care Homes Limited, Mull Hall Holdings Limited and Dornoch Medical Care Limited for a consideration of £20.3 million, satisfied in cash. The companies, and their subsidiaries, own and manage seven care homes. The acquisition is in line with Sanctuary's charitable objectives and enables expansion of its care offering in Scotland, contributing towards sustainable growth within the Group.

Goodwill of £0.3 million has been recognised comprising the value of expected synergies arising from the acquisition.

In the post-acquisition period since 9 January 2020 the acquired entities contributed revenue of £2.8 million and a net loss of £0.2 million to the Group's results for the year. If the acquisition had occurred on 1 April 2019, Group revenue would have been an estimated £772.8 million and net profit would have been an estimated £56.1 million.

In accordance with the measurement principles of IFRS 3 Business Combinations, all identifiable assets acquired and liabilities assumed have been measured at their fair values at the date of acquisition. Property values have been determined by an independent valuation conducted in accordance with RICS Valuation Professional Standards.

	Book value £m	Fair value adjustments £m	Fair value £m
Assets			
Property, plant and equipment	18.1	2.4	20.5
Trade and other receivables	1.1	(0.2)	0.9
Cash and cash equivalents	0.3	-	0.3
Liabilities			
Trade and other payables	(1.5)	(0.2)	(1.7)
Deferred tax	(1.2)	1.2	-
Net assets	16.8	3.2	20.0
Consideration			20.3
Goodwill			0.3

In line with the provisions of IFRS 3 Business Combinations, the amounts shown above are provisional. Values may change during the measuring period, which will not exceed one year from the acquisition date.

On 30 March 2020 Sanctuary Affordable Housing Limited, a subsidiary of the Association, purchased a portfolio of over 800 units of social housing accommodation from Notting Hill Genesis for a consideration of £41.0 million, satisfied in cash. The acquisition, which includes an organised workforce, has been deemed a business combination under IFRS 3.

The portfolio includes a significant number of supported housing units and enables growth of the Group's supported living activities within new geographic areas. The acquisition is aligned to the Group's commitments in its Corporate Strategy and confirms Sanctuary's continued focus of supporting as many vulnerable people as possible through supported housing services.

In the post-acquisition period since 30 March 2020, the acquired portfolio contributed revenue of £nil and a net profit of £nil to the Group's results for the year. If the acquisition had occurred on 1 April 2019, Group revenue would have been an estimated £772.6 million and net profit would have been an estimated £58.6 million.

In accordance with the measurement principles of IFRS 3 Business Combinations, all identifiable assets acquired and liabilities assumed have been measured at their fair values at the date of acquisition. Property values have been determined by an independent valuation conducted in accordance with RICS Valuation Professional Standards.

	Book value £m	Fair value adjustments £m	Fair value £m
Assets			
Property, plant and equipment	41.0	2.9	43.9
Liabilities			
Provisions	-	(2.9)	(2.9)
Net assets	41.0	-	41.0
Consideration			41.0
Goodwill			-

Provisions relate to an onerous contract, dilapidations for leased properties and contingent liabilities. The onerous contract provision will be unwound over a period of seven years. All other provisions are expected to be utilised within the next 12 months.

Other than the onerous contract provision, amounts have not been discounted because the difference between the balances above and the discounted equivalents are not material.

In line with the provisions of IFRS 3 Business Combinations, the amounts shown above are provisional. Values may change during the measuring period, which will not exceed one year from the acquisition date.

35. Events After the Reporting Period

In April 2020 the Group issued a £350 million 30-year secured bond at a coupon of 2.375 per cent.

36. Contingent Liabilities

The Association has provided a guarantee under a Security Trust Deed amounting to £nil at fair value in respect of subsidiary undertakings. Where the Association enters into financial contracts to guarantee the indebtedness of other companies within the Group, the Association considers these to be insurance arrangements, and accounts for them as such. In this respect, the Association treats the guarantee contract as a contingent liability until such time as it becomes probable that the Association will be required to make a payment under the guarantee.

The Association has entered into counter-indemnities in respect of Surety Bonds for £10.6 million of pension liabilities. The Association considers these Surety Bonds to be insurance arrangements and accounts for them as such. The Association treats the counter-indemnities as a contingent liability and, until such time as it becomes probable that the company is required to claim, any accompanying payment for the counter-indemnity has a fair value of £nil.

Appendix 1

Prepared to meet the requirements of The Accounting Direction for private registered providers of social housing 2019.

Turnover, Cost of Sales, Operating Costs and Operating Surplus - Group

	2020 Turnover £m	2020 Cost of sales £m	2020 Operating costs £m	2020 Operating surplus/ (deficit) £m	2019 Operating surplus/ (deficit) £m
Social housing lettings					
Housing accommodation	300.8	-	(166.7)	134.1	139.3
Sheltered and supported housing	98.3	-	(86.0)	12.3	11.7
Key worker accommodation	3.5	-	(2.1)	1.4	0.9
Shared ownership	8.4	-	(2.6)	5.8	4.1
	411.0	**-**	**(257.4)**	**153.6**	**156.0**
Other social housing activities					
Development administration	-	-	(6.7)	(6.7)	(8.0)
Home ownership and managed properties	7.3	-	(4.1)	3.2	3.0
Supported registered services	11.0	-	(11.0)	-	-
Supporting People contract income	25.5	-	(25.5)	-	-
Shared ownership first tranche sales	17.1	(12.1)	-	5.0	4.7
Community/neighbourhood services	-	-	(0.8)	(0.8)	-
Other	5.8	-	(5.8)	-	-
	66.7	**(12.1)**	**(53.9)**	**0.7**	**(0.3)**
Non-social housing activities					
Student accommodation and market rented	54.4	-	(43.3)	11.1	9.8
Care homes	194.1	-	(187.1)	7.0	9.4
External maintenance services	3.3	-	(2.6)	0.7	0.5
Domiciliary care	6.5	-	(7.1)	(0.6)	(0.4)
Non-social housing property sales	23.3	(17.6)	-	5.7	3.4
Non-social housing development	0.5	(0.4)	-	0.1	(0.5)
Development administration (non-social housing)	0.3	-	(3.0)	(2.7)	-
Other	2.9	-	(2.9)	-	-
	285.3	**(18.0)**	**(246.0)**	**21.3**	**22.2**
Totals	**763.0**	**(30.1)**	**(557.3)**	**175.6**	**177.9**
Other gains and losses				6.2	22.7
Share of profit of joint ventures				4.4	3.1
Operating surplus				**186.2**	**203.7**
Finance income				3.6	3.5
Finance costs				(128.8)	(130.3)
Loan break costs				(8.6)	-
Surplus for the year before taxation				**52.4**	**76.9**
Taxation on surplus on ordinary activities				0.8	0.6
Surplus for the year after taxation				**53.2**	**77.5**

During the year, wages and salaries totalling £13.0 million (2019: £8.1 million) were capitalised in the Group and the costs transferred to housing properties in the course of construction within PPE and inventory.

Prepared to meet the requirements of The Accounting Direction for private registered providers of social housing 2019.

Turnover, Cost of Sales, Operating Costs and Operating Surplus - Association

	2020 Turnover £m	2020 Cost of sales £m	2020 Operating costs £m	2020 Operating surplus/ (deficit) £m	2019 Operating surplus/ (deficit) £m
Social housing lettings					
Housing accommodation	252.4	-	(159.2)	93.2	101.3
Sheltered and supported housing	90.0	-	(77.8)	12.2	12.0
Key worker accommodation	3.5	-	(2.1)	1.4	0.9
Shared ownership	5.3	-	(2.0)	3.3	2.5
	351.2	**-**	**(241.1)**	**110.1**	**116.7**
Other social housing activities					
Development administration	-	-	(4.3)	(4.3)	(7.0)
Home ownership and managed properties	6.3	-	(3.6)	2.7	2.8
Supporting People contract income	13.1	-	(13.1)	-	-
Shared ownership first tranche sales	1.6	(1.1)	-	0.5	0.1
Community/neighbourhood services	-	-	(0.8)	(0.8)	-
Other	5.9	-	(5.9)	-	-
	26.9	**(1.1)**	**(27.7)**	**(1.9)**	**(4.1)**
Non-social housing activities					
Student accommodation and market rented	31.8	-	(28.4)	3.4	2.5
Non-social housing property sales	7.5	(6.4)	-	1.1	3.4
Non-social housing development	0.5	(0.4)	-	0.1	(0.5)
Development administration (non-social housing)	0.3	-	(2.8)	(2.5)	-
Management recharges	27.1	-	(27.1)	-	-
Other	8.8	-	(8.8)	-	-
	76.0	**(6.8)**	**(67.1)**	**2.1**	**5.4**
Totals	**454.1**	**(7.9)**	**(335.9)**	**110.3**	**118.0**
Other gains and losses				19.8	21.3
Other income – gift aid and distribution of reserves				5.8	14.4
Operating surplus				**135.9**	**153.7**
Finance income				7.2	7.0
Finance costs				(92.1)	(92.2)
Loan break costs				(8.6)	-
Surplus for the year before taxation				**42.4**	**68.5**
Taxation on surplus on ordinary activities				-	0.1
Surplus for the year after taxation				**42.4**	**68.6**

During the year, wages and salaries totalling £0.7 million (2019: £3.9 million) were capitalised in the Association and the costs transferred to housing properties in the course of construction within PPE and inventory.

Appendix 2

Prepared to meet the requirements of The Accounting Direction for private registered providers of social housing 2019.

Income and Expenditure from Social Housing Lettings

Group	Housing accommodation £m	Sheltered and supported housing £m	Key worker accommodation £m	Shared ownership £m	2020 Total £m	2019 Total £m
Income from lettings						
Rents	287.1	63.2	3.5	7.3	361.1	358.2
Service charges	13.1	31.2	-	1.1	45.4	46.5
Total rent and service charge income	300.2	94.4	3.5	8.4	406.5	404.7
Other income	0.6	3.9	-	-	4.5	0.2
Turnover from social housing lettings	**300.8**	**98.3**	**3.5**	**8.4**	**411.0**	**404.9**
Expenditure on lettings						
Management	(40.9)	(15.3)	(0.3)	(1.4)	(57.9)	(58.5)
Services	(15.7)	(37.3)	(0.8)	(0.6)	(54.4)	(52.1)
Routine maintenance	(65.6)	(20.1)	(0.5)	(0.1)	(86.3)	(79.3)
Planned maintenance	(15.9)	(4.7)	(0.1)	-	(20.7)	(26.6)
Rent losses from bad debts	(2.8)	(1.3)	-	-	(4.1)	0.4
Property lease charges	-	-	-	-	-	(2.4)
Depreciation of properties	(25.8)	(7.3)	(0.4)	(0.5)	(34.0)	(30.4)
Other costs	-	-	-	-	-	-
Operating costs from social housing lettings	**(166.7)**	**(86.0)**	**(2.1)**	**(2.6)**	**(257.4)**	**(248.9)**
Operating surplus from social housing lettings	**134.1**	**12.3**	**1.4**	**5.8**	**153.6**	**156.0**
Voids	**(1.7)**	**(2.6)**	**(0.2)**	**-**	**(4.5)**	**(4.6)**

Income and Expenditure from Social Housing Lettings

Association	Housing accommodation £m	Sheltered and supported housing £m	Key worker accommodation £m	Shared ownership £m	2020 Total £m	2019 Total £m
Income from lettings						
Rents	240.1	58.4	3.5	4.6	306.6	307.9
Service charges	11.7	27.9	-	0.7	40.3	41.9
Total rent and service charge income	251.8	86.3	3.5	5.3	346.9	349.8
Other income	0.6	3.7	-	-	4.3	0.2
Turnover from social housing lettings	**252.4**	**90.0**	**3.5**	**5.3**	**351.2**	**350.0**
Expenditure on lettings						
Management	(43.9)	(13.6)	(0.4)	(1.2)	(59.1)	(59.0)
Services	(14.2)	(33.9)	(0.8)	(0.4)	(49.3)	(48.2)
Routine maintenance	(62.1)	(18.4)	(0.4)	(0.1)	(81.0)	(73.4)
Planned maintenance	(14.9)	(4.2)	(0.1)	-	(19.2)	(25.5)
Rent losses from bad debts	(2.3)	(1.1)	-	-	(3.4)	0.5
Property lease charges	-	-	-	-	-	(2.4)
Depreciation of properties	(21.8)	(6.6)	(0.4)	(0.3)	(29.1)	(25.3)
Other costs	-	-	-	-	-	-
Operating costs from social housing lettings	(159.2)	(77.8)	(2.1)	(2.0)	(241.1)	**(233.3)**
Operating surplus from social housing lettings	**93.2**	**12.2**	**1.4**	**3.3**	**110.1**	**116.7**
Voids	**(1.3)**	**(2.4)**	**(0.2)**	**-**	**(3.9)**	**(4.1)**

Appendix 3

Initial Application of IFRS 16 Leases

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

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

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

The transitional provisions adopted are as follows:

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

The practical expedients that have been adopted are as follows:

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

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

The Group has taken the decision to apply the modified retrospective approach with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group considers that applying the standard to each prior reporting period is impracticable for a portfolio of well over 1,000 leases with commencement and assignment dates throughout the Group's history:

- Implicit interest rates would require calculation for each lease;
- All historic rent changes would require identification;
- The direct costs of arranging every lease would be necessary.

Note 22 contains quantitative information showing how leases have been accounted for in the year ending 31 March 2020, along with comparative information where applicable.

Appendix 4

Alternative Performance Measures (APMs)

The general nature of APMs and the reasons for their use are explained within note 1 to the Financial Statements. Further information about the specific APMs used by the Group is shown below, including reconciliations to line items within the primary Financial Statements and accompanying notes.

Value for Money Metrics

In April 2018, the Regulator of Social Housing introduced a new Value for Money Standard and accompanying Code of Practice. The Standard introduced a requirement for providers to publish performance against their own Value for Money targets, and a series of common metrics with which to measure economy, efficiency and effectiveness set by the Regulator. The Regulator defined these metrics in the publication Value for Money metrics – technical note feedback and responses. These seven metrics remain the most appropriate set of measures to capture performance across the sector in a fair and comparable way.

The seven metrics, which are analysed in the Value for Money report on pages 50 to 64, are:

- Metric 1 – Reinvestment %
- Metric 2 – New supply delivered (social and non-social)
- Metric 3 – Gearing %
- Metric 4 – Earnings Before Interest, Tax, Depreciation, Amortisation, Major Repairs Included (EBITDA MRI) Interest Cover %
- Metric 5 – Headline social housing cost per unit
- Metric 6 – Operating margin % (social housing and overall)
- Metric 7 – Return on capital employed (ROCE) %

Current guidance on these metrics (published June 2020), which includes details of how they are calculated, can be found at:

https://www.gov.uk/government/publications/value-for-money-metrics-technical-note

Other Metrics

The below metrics are referred to in the Five-Year Summary on page 25.

Profitability – Measurement of Financial Performance

Underlying operating surplus

Operating surplus, excluding other gains and losses, restructuring costs and pension exit costs.

	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Operating surplus	186.2	203.7	198.7	195.4	193.0
Adjust for:					
Restructuring costs	2.6	-	-	-	-
Pension exit costs	-	-	-	-	8.2
Other gains and losses	(6.2)	(22.7)	(9.6)	(3.0)	(17.7)
Underlying operating surplus	**182.6**	**181.0**	**189.1**	**192.4**	**183.5**

Underlying operating surplus margin

Underlying operating surplus as a percentage of revenue.

	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Revenue	763.0	735.4	708.1	670.9	669.0
Underlying operating surplus	182.6	181.0	189.1	192.4	183.5
	23.9%	**24.6%**	**26.7%**	**28.7%**	**27.4%**

Operating costs as a percentage of revenue

Operating expenditure as a percentage of revenue (excludes cost of sales, other gains and losses and joint venture income).

	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Revenue	763.0	735.4	708.1	670.9	669.0
Operating expenditure	557.3	536.0	505.7	461.1	465.8
	73.0%	**72.9%**	**71.4%**	**68.7%**	**69.6%**

Underlying surplus for the year

Surplus for the year before tax excluding other gains and losses, restructuring costs, pension exit costs and loan break costs.

	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Surplus before tax	52.4	76.9	70.8	59.1	52.8
Adjust for:					
Restructuring costs	2.6	-	-	-	-
Pension exit costs	-	-	-	-	8.2
Other gains and losses	(6.2)	(22.7)	(9.6)	(3.0)	(17.7)
Loan break costs	8.6	-	1.3	4.0	6.4
Underlying surplus for the year	**57.4**	**54.2**	**62.5**	**60.1**	**49.7**

Underlying net margin

Underlying surplus for the year as a percentage of revenue.

	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Revenue	763.0	735.4	708.1	670.9	669.0
Underlying surplus for the year	57.4	54.2	62.5	60.1	49.7
	7.5%	**7.4%**	**8.8%**	**9.0%**	**7.4%**

Total divisional EBITDA and total divisional EBITDA percentage

Total divisional EBITDA* as shown in note 6 operating segments.

Total divisional EBITDA* as a percentage of revenue as shown in note 6 operating segments.

*Divisional EBITDA is a key measure of operational performance for the Group and is regularly monitored by senior management.

Debt – Ability to Service Debt and Secure Funding

Interest cover/interest cover (excluding loan break costs)

Operating surplus plus depreciation divided by net interest payable, excluding pension finance costs/and loan break costs.

	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Operating surplus	186.2	203.7	198.7	195.4	193.0
Add back depreciation (note 4)	73.0	67.3	60.3	63.9	56.5
	259.2	271.0	259.0	259.3	249.5
Finance income	(3.6)	(3.5)	(4.1)	(4.0)	(3.2)
Finance costs	137.4	130.3	132.0	140.3	143.4
Add back pension finance costs (note 9)	(0.9)	(1.0)	(2.6)	(2.3)	(2.4)
	132.9	125.8	125.3	134.0	137.8
Add back loan break costs	(8.6)	-	(1.3)	(4.0)	(6.4)
	124.3	125.8	124.0	130.0	131.4
Interest cover	**1.95**	**2.15**	**2.07**	**1.94**	**1.81**
Interest cover (excluding loan break costs)	**2.09**	**2.15**	**2.09**	**1.99**	**1.90**

Gearing

Net debt/properties depreciated cost.

	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Liabilities from financing activities (note 23)	3,105.7	2,792.0	2,718.0	2,559.7	2,692.0
Less cash and cash equivalents	(261.5)	(150.1)	(95.7)	(177.0)	(344.7)
	2,844.2	2,641.9	2,622.3	2,382.7	2,347.3
Property (PPE) cost – land and buildings (note 12)	5,489.5	5,289.1	5,089.1	4,883.1	4,810.6
Property (PPE) accumulated depreciation – L&B (note 12)	(346.6)	(311.7)	(279.3)	(255.3)	(229.9)
Property (PPE) cost – under construction (note 12)	210.7	144.4	236.7	161.8	85.3
Investment property cost (note 13)	336.7	299.7	295.6	304.2	303.2
Investment property accumulated depreciation (note 13)	(64.9)	(61.4)	(57.0)	(55.5)	(45.8)
	5,625.4	5,360.1	5,285.1	5,038.3	4,923.4
	50.6%	**49.3%**	**49.6%**	**47.3%**	**47.7%**

Advisors and Other Information

Independent statutory auditor	KPMG LLP One Snowhill Snow Hill Queensway Birmingham B4 6GH
Internal auditor	PricewaterhouseCoopers LLP One Chamberlain Square Birmingham B3 3AX
Bankers	Barclays Bank PLC Barclays Corporate Social Housing Team Level 27 1 Churchill Place London E14 5HP
Legal advisor	Gowling WLG (UK) LLP Two Snowhill Birmingham B4 6WR
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