Sanctuary Group

Annual Report

and Financial Statements

2018/2019

2018/2019 highlights

Units in management

The number of units in management has remained stable over the past year, with the number of newly developed units being offset by care home disposals.

2019	101,218
2018	101,114
2017	99,481
2016	100,160
2015	98,900

Revenue

The acquisition of a portfolio of care homes in the year ended 2018 contributed to the increased revenue.

2019	£735.4m
2018	£708.1m
2017	£670.9m
2016	£669.0m
2015	£623.8m

Development programme

The development team continued to drive forward with an active development programme of 6,002 units as part of our aspiration to deliver 15,000 new homes, with around 1,700 plots to start on-site in the next year.

2019	6,002 units
2018	6,019 units
2017	4,686 units
2016	4,381 units
2015	3,722 units

Resident maintenance satisfaction

The Group has maintained a score of 90 per cent or over for residents' satisfaction with maintenance.

2019	93%
2018	94%
2017	92%
2016	90%
2015	96%

Net margin

Efficiencies achieved through the implementation of systems and processes across the Group have increased our net margin despite cost pressures and reductions in social rent.

2019	10.5%
2018	10.0%
2017	8.8%
2016	7.9%
2015	7.7%

Governance and financial viability

The Group has retained the maximum rating of G1 for governance and V1 for financial viability from the Regulator of Social Housing.

2019	G1/V1
2018	G1/V1
2017	G1/V1
2016	G1/V1
2015	G1/V1

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 and the Value for Money (VFM) Statement.

Contents

Icon key

Links to website

Group Chair's Statement

"At the heart of Sanctuary is its charitable purpose and our commitment to serving our tenants and residents"

This year has been significant for Sanctuary Group. In September, we announced the retirement of our long serving Group Chief Executive, David Bennett. On behalf of the Group, I would like to pay tribute to David and his achievements over 35 years at Sanctuary. I am also pleased to report the transition to our new Group Chief Executive, Craig Moule, has gone smoothly and has shown the quiet professionalism that Sanctuary has become known for. Craig began in post in January and is already building on the legacy left by David as he continues with modernising and developing the Group.

At the heart of Sanctuary is its charitable purpose and our commitment to serving our tenants and residents. Central to this is listening, and I am grateful for the work done through our Group Housing Committee and National Resident Scrutiny Panel, who so effectively ensure we hear the voices of our tenants and residents. Further enhancing our commitment, I am delighted that Sanctuary has become an early adopter of the National Housing Federation's Together with Tenants campaign.

Sanctuary Care continues to go from strength to strength. I am particularly pleased to see that our investment in our electronic care planning system, kradle, is already delivering outstanding results.

As I enter the last few months in my role as Group Chair, I reflect on all that Sanctuary has achieved. Those achievements have only been possible because of the hard work and dedication of our talented people. I would therefore like to thank all my colleagues on the Group Board and all 13,000 team members within the Group for their work over the past year.

Sanctuary has a lot to be proud of and, under Craig's leadership, it is looking to the future with energy and optimism.

Jonathan Lander
Group Chair

Group Chief Executive's Statement

"Sanctuary has commenced a conversation about the standards of our homes with tenants and residents as we shape our longer-term reinvestment plans"

This year marks 50 years since Sanctuary was established; 50 years of delivering our social purpose. I have worked at Sanctuary for 30 of those years, and recognise more than ever the importance of continuing to deliver against that purpose.

Playing our part in tackling the housing crisis remains a central part of our strategy. However, focus on our existing customers, homes and communities is of equal importance. Sanctuary has therefore commenced a conversation about the standards of our homes with tenants and residents as we shape our longer-term reinvestment plans.

Our commitment to delivering quality services has never been greater, and I am delighted to report on our success in six of our registered services, three Sanctuary Supported Living schemes and three Sanctuary Care homes, which have been rated as 'outstanding' by the Care Quality Commission. While our telecare service Sanctuary365, based in Chester, has once again exceeded all quality standards in its Telecare Services Association (TSA) audit.

This year marks a new and exciting chapter for Sanctuary and, with the dedication of our 13,000 staff, we are approaching it with ambition and drive.

Craig Moule
Group Chief Executive

Sanctuary's Business Model

What we do

Sanctuary Group is a large and diverse organisation, but at our core is a simple purpose. We are a housing association – a not-for-profit organisation set up to provide social housing that reinvests any profits (known as a surplus) in the homes it owns, its communities and services, and in building new social housing.

We own and manage 83,915 social homes in England and Scotland, including 15,250 homes which have an element of support alongside the accommodation. This means we are delivering services to some of the most vulnerable people in society and we take our responsibility to do this with respect and dignity very seriously. We also provide housing for older people to rent and buy and homes to buy through shared ownership.

Our supported living service provides a range of housing with care and support to vulnerable people, including individuals and families facing homelessness, people with learning and physical disabilities, young people, and people with mental health needs. We also provide specialist retirement properties with the option of care in people's homes, all of which are rated 'good' by the Care Quality Commission.

We carry out the vast majority of repairs to our homes ourselves; we have found this gives us much greater control over the quality and is something that residents have told us time and again that they value.

We are a leading provider of care for older people with more than 100 residential care homes in England and Scotland. Our approach is to ensure we enrich residents' lives and create communities where they can explore their passions, learn new things and build lasting friendships. Our homes provide a range of long and short-term care and support, including residential, nursing, intermediate, respite, end-of-life, and specialist dementia care.

We provide a range of commercial services. These include working with universities and National Health Service trusts to provide accommodation and facilities management services for students and key workers, managing a portfolio of direct-let student accommodation, as well as overseeing a diverse portfolio of commercial and market rent properties. We also provide telecare services to people in their own homes.

We take our role in meeting the UK's housing crisis seriously and we are committed to contributing towards meeting the Government's target of 300,000 new homes a year. The reality is that public grant funds about 25 per cent of the total cost to build a new home within our development programme. Because we believe in meeting the housing needs, we sell homes on the open market to complement the public grant and we borrow the remaining funds, usually over 30 years, which we repay from the future rental income. You can read more about our development strategy on page 40.

Sanctuary Group's legal structure is laid out in note 34 to the Financial Statements.

Investing in our people

To deliver our social purpose, we employ nearly 13,000 people, of whom around 6,300 are working in care homes and around 1,500 are maintenance operatives. We seek to engage our staff around our social purpose and values, so that wherever they work in the organisation they understand the link between their role and the wider picture.

Members of our Executive Committee spend up to 20 per cent of their time with staff on the front line 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.

Our staff are our greatest asset and it's their talent, commitment and skills that will propel us forward to make even more of a difference in the communities we serve.

Through our Staff Council framework we empower staff and make sure their voice is heard. The importance of this cannot be understated.

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.

Investing in communities

As a housing association, we are in a privileged position to work with communities to help them grow and develop in ways that make them good places to live. We work with community partners and individuals to understand the skills, strengths and facilities already available in communities and build on these to increase capacity and nurture local talent and capabilities. We prioritise projects and schemes that are community-led, driven and supported by local residents to create and embed local solutions that are sustainable for the future.

Over 2018/2019 we have invested £1.4 million in funding, time and resources to achieve our aims with projects that attracted a further £2.3 million in match funding from our community partners. One example of our community investment work is our partnership with Sport England. Our Love Sport programme was a five-year programme which concluded in March 2019 that supported residents to become more active and develop a passion for sport and fitness. We worked with 63 local partners helping 3,300 people find new ways to get active. Over 30 per cent of people who got involved have told us that they have sustained a sporting habit as a result of this project. We are delighted to continue our relationship with Sport England for the next four years as we embark on our new initiative supporting families to design sustainable programmes of physical activity.

Investing in innovation

We were the first housing association to implement SAP (known as OneSanctuary) throughout our organisation and it has provided us with a strong foundation for future growth. Now we are looking to how we can further modernise our services through our Modern Workplace initiative.

This has included implementing an app which allows our maintenance operatives to manage stock on vans dynamically, ensuring an improved service for customers. Furthermore, our housing operation has developed an app for staff to use to enable them to work with residents and set up Direct Debits more easily and quickly.

2018/2019 saw the successful pilot and initial roll-out of kradle, a new industry-leading electronic care plan system, across our care homes. We also introduced Radar, a new system to report, investigate and manage all events concerning the health, safety and welfare of our customers and staff. Both systems will be rolled out further nationally during 2019/2020.

We have also piloted iPlanit, electronic care and support planning software, across some of our supported living services that support people with disabilities, mental health needs, young people and people who face homelessness. Services which use iPlanit also have WIFI installed so that residents can access their care and support plans any time they wish. The WIFI, set up in communal areas, also enables residents to surf the internet to improve employability skills, access online courses, submit job applications, apply for housing and use online banking. Following a successful trial, we will install iPlanit and WIFI in more supported living disability services over the next year.

Within the finance teams we further invested in SAP technology that enhances accounts payable functionality to enable automation in processing invoices. The technology reads a scanned invoice and matches the details to enable it to proceed to payment if the services or goods have been confirmed as received. This removes many layers of manual intervention and enhances processing speed, resource efficiency and supplier interactions.

Our income

Our largest source of income is social housing rent, which is set by the UK Government for social housing in England and by the Scottish Government for Scottish social housing.

Between 2016 and 2020, the UK Government has reduced rent by one per cent each year. This has meant that we have had to make some difficult choices about how we continue to operate in a way that is sustainable and efficient. We recognise that many tenants in England may not have felt the benefit of the rent cut because their incomes have remained stagnant or reduced in real terms.

Around 11 per cent of our tenants have now moved onto Universal Credit. We have sought to mitigate the impact of the move by engaging proactively with them, supporting them to budget and signposting to external advice where necessary. We have also encouraged residents to consider Direct Debit as a way of ensuring priority payments are met.

The Government has confirmed that rent will be subject to index-linked increases from 2020.

Another source of income is care home fees. Income is received from local authorities and self-funded residents, who make up an increasing proportion of this income.

Other operational sources of income include:

- contracts to deliver support services in supported living accommodation;
- contracts to deliver home care services to people in their own homes;
- contracts to deliver student and key worker accommodation; and
- sales proceeds from shared ownership and outright sales.

During 2018/2019, we received £36.3 million grant funding of which £15.6 million came from Homes England to build social and shared ownership housing in England and £20.7 million came from the Scottish Government to build social housing and New Supply Shared Equity homes.

Funding sources are mainly in the form of bank facilities, bond issues and private placements. We have around £200 million of un-used borrowing capacity, which will act as a buffer in case of unanticipated costs or a downturn in the housing market.

Building more social housing

While our priority is investing in and continually improving our existing social housing, we are committed to building more social housing and believe it is critical to creating a housing market that functions for everyone.

Our current development programme has been designed to build as many new homes as possible without risking the sustainability of our business model.

We aspire to build many more homes – particularly social housing as that is our social purpose. We share the Government's ambition to fix the broken housing market and are willing to work with all partners who share our social purpose to build more social housing sustainably.

We continue to bid for grant funding from the Scottish Government and local authorities.

Our credit ratings of A2 from Moody's and A+ from Standard & Poor's, together with G1 and V1 governance and viability ratings from the Regulator of Social Housing, allow us to access funding at competitive rates.

We have a positive and productive partnership with one of the UK's largest house building and construction groups, Galliford Try PLC, which has enabled four joint ventures and will lead to 1,000 new homes being built.

Group Finance Director's Performance Review

Introduction

Sanctuary has recorded a strong financial performance, increasing both revenue and operating surplus during a period of rent reduction.

Five-Year Summary	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
Statement of Comprehensive Income					
Revenue	735.4	708.1	670.9	669.0	623.8
Cost of sales and operating expenditure	(557.5)	(519.5)	(478.6)	(485.5)	(450.3)
Other gains and losses	22.7	9.6	3.0	17.7	6.8
Share of profit of joint ventures	3.1	0.5	0.1	-	-
Operating surplus	**203.7**	**198.7**	**195.4**	**201.2**	**180.3**
Pension exit costs	-	-	-	(8.2)	-
Operating surplus after pension exit costs	**203.7**	**198.7**	**195.4**	**193.0**	**180.3**
Net gain on business combinations	-	-	-	-	0.5
Net interest payable	(125.8)	(125.3)	(134.0)	(137.8)	(128.6)
Other finance costs	(1.0)	(2.6)	(2.3)	(2.4)	(3.4)
Surplus for the year before tax	**76.9**	**70.8**	**59.1**	**52.8**	**48.8**
Operating surplus before other gains and losses	**181.0**	**189.1**	**192.4**	**183.5**	**173.5**
Statement of Financial Position					
Non-current assets	3,750.0	3,656.3	3,486.1	3,434.6	3,393.2
Current assets	337.8	286.4	283.9	434.0	260.0
	4,087.8	3,942.7	3,770.0	3,868.6	3,653.2
Current liabilities	254.1	295.0	278.2	271.4	271.1
Loans and borrowings and other payables	2,747.5	2,634.8	2,500.8	2,647.0	2,482.8
Provisions, pensions and derivatives	47.7	52.6	138.4	80.0	96.9
Reserves	1,038.5	960.3	852.6	870.2	802.4
	4,087.8	3,942.7	3,770.0	3,868.6	3,653.2
Statement of Cash Flows		**Restated**			
Operating surplus	203.7	198.7	195.4	193.0	180.3
Depreciation, amortisation and impairment	67.3	60.3	63.9	56.5	52.2
Capital adjustments	(25.8)	(10.1)	(9.6)	(26.2)	(12.0)
Working capital movements	(30.0)	(85.0)	(28.3)	(15.9)	28.3
Cash generated from operating activities	215.2	163.9	221.4	207.4	248.8
Financing and returns on investments	(133.0)	(128.8)	(143.8)	(133.4)	(133.0)
Investing - capital expenditure and investment	(191.2)	(288.1)	(253.2)	(213.3)	(422.4)
Investing - capital grants and sales proceeds	85.3	55.7	136.2	131.2	94.5
Pension deficit payment	-	(40.0)	-	-	-
Net cash flow from financing activities	78.1	156.0	(128.3)	180.0	223.9
	54.4	(81.3)	(167.7)	171.9	11.8
Cash and cash equivalents at start of year	95.7	177.0	344.7	172.8	161.0
Cash and cash equivalents at end of year	150.1	95.7	177.0	344.7	172.8

Five-Year Ratio Summary Key performance indicators	2019	2018	2017	2016	2015
Satisfaction – monitoring quality of service delivery					
Care - resident satisfaction %	96	97	98	96	96
Resident satisfaction - services %	81	83	83	81	85
Resident satisfaction - maintenance %	93	94	92	90	96
Resident satisfaction - rent is VFM %	90	87	83	81	82
First stage complaints responded to on target %	94	90	85	80	80
Compliance – measurement against standards prescribed by regulating bodies					
CQC rating %	81	82	85	80	-
Care Inspectorate rating % (Scotland)*	73	82	-	-	-
RSH governance	G1	G1	G1	G1	G1
RSH viability	V1	V1	V1	V1	V1
Operational – evaluation of operational efficiency and effectiveness					
Occupancy - Sanctuary Care %	90	95	95	94	96
Occupancy - Student %	95	97	99	96	95
Rent arrears %	3.80	4.31	4.95	2.79	3.15
Units in management	101,218	101,114	99,481	100,160	98,900
Void loss %	1.3	1.4	1.4	1.3	1.3
Group procurement savings (aggregate) £m	20.8	19.0	17.5	16.0	14.2
Social housing cost per unit £	4,584	4,208	4,172	4,314	3,744
Average weekly fee rates – Care £	761	751	682	661	618
Debt – ability to service debt and secure funding					
Interest cover	2.15	2.07	1.94	1.87	1.81
RSH EBITDA MRI interest cover %	121.3	128.4	120.9	117.9	120.6
Gearing %	49.3	49.9	47.3	47.7	47.9
RSH gearing %	51.9	52.2	50.3	50.6	48.4
% of debt under fixed interest rates	87.0	92.3	93.8	93.5	96.0
Standard & Poor's credit rating	A+	A+	A+	A+	AA-
Moody's credit rating	A2	A2	A1	A1	A1
Profitability – measurement of financial performance					
Operating margin %	24.6	26.7	28.7	27.4	27.8
RSH operating surplus (social) %	38.5	40.1	41.8	38.0	38.9
RSH operating surplus (overall) %	24.2	26.7	28.7	27.4	27.8
Operating costs as % of revenue	72.9	71.4	68.7	69.6	69.8
Net margin %	10.5	10.0	8.8	7.9	7.7
EBITDA £m	260.8	266.8	269.5	254.9	233.0
EBITDA %	35.5	37.7	40.2	38.1	37.4
Maintenance – investment in assets and how efficiently they are maintained					
Average repair cost per unit £	1,262	1,254	1,173	1,168	1,063
Reinvestment spend per unit £	827	675	691	694	571
RSH reinvestment %	3.1	6.3	4.0	3.8	7.2
Average cost per responsive repair £	119	115	118	119	114
Asset efficiency – the returns generated from the Group's assets					
RSH Return on capital employed %	3.5	3.5	3.7	3.7	5.2
Development – delivery of new properties					
Units on-site and in development	6,002	6,019	4,686	4,381	3,722
RSH new supply delivered (social) %	0.9	0.7	0.5	2.3	2.7
RSH new supply delivered (non-social) %	0.3	0.1	0.1	0.2	0.0
Housing units completed	941	773	456	1,608	2,197

*Scottish care homes acquired in June 2017

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 and the VFM Statement. VFM Metrics defined by the Regulator of Social Housing (RSH) are highlighted in grey above.

Operational growth and efficiency

Despite 2018/2019 being the third year of the one per cent social housing rent reduction in England, new development and acquisitions have generated growth in Group revenue to £735.4 million for the year. Of this, £706.3 million was attributable to non-development operations, £25.4 million to property sales and £3.7 million to construction contract revenue. The realisation of non-development efficiency gains from our OneSanctuary system and increasing numbers of self-funded residents in our care operation have also helped towards mitigating the current challenges in the housing and care sectors.

Net margin shows a 0.5 basis point improvement in the year however operating margin changes have arisen from a combination of the impact of the rent reduction, wage cost inflation and fire prevention works.

Investment in our assets

During the year, the Group spent £83.1 million to develop new properties, while capital spend on existing properties was £83.8 million. A further £26.6 million of non-capital planned maintenance was spent on social housing properties. Grant funding of £36.6 million has been received in the year for the development of new homes and 6,002 units were on-site and in development at the reporting date.

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 £245.2 million of cash from operating activities before working capital movements (2018: £248.9 million). At 31 March 2019, the Group had a cash balance of £150.1 million and had £200 million of undrawn facilities available.

Capital finance and treasury

At 31 March 2019, the Group had total borrowings of £2,810.9 million.

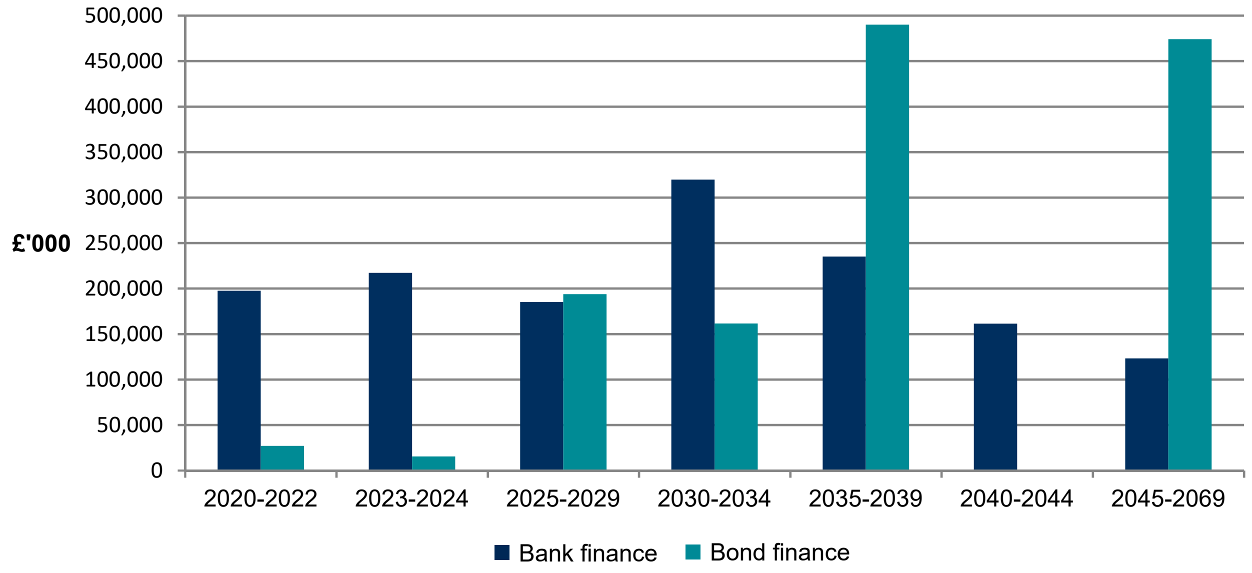
	2019 £m	2018 £m
Bank loans and mortgages	1,253.8	1,154.1
Senior notes and debenture stock	1,411.6	1,428.3
Finance leases	145.5	146.2
	2,810.9	2,728.6

Debt repayment profile and cost of borrowing

Net interest payable on loan commitments was £125.7 million (2018: £126.4 million), a decrease of £0.7 million. The Group's cost of borrowing is 4.56 per cent (2018: 4.75 per cent), while interest cover has increased to 2.15 (2018: 2.07). The weighted average duration of drawn debt across the Group is 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 will refinance 17.0 per cent (£476.7 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 grant.

Debt maturity profile



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 draw-downs are carefully managed to ensure funding is available when required and ensure debt finance costs are minimised. The Group 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 has secured an additional £75 million of loan facilities and renewed £75 million of revolving credit facilities for another three years.

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 2019, 87.0 per cent of debt was fixed (2018: 92.3 per cent) and 13.0 per cent floating (2018: 7.7 per cent). The change is due to an increased use of revolving credit facilities to fund our development programme.

The Group 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 £3.4 million liability (2018: £3.3 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.

Foreign currency management

At 31 March 2019, the Group has US dollar denominated debt with an aggregate value of $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 £22.3 million at the reporting date (2018: £13.9 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.

Other gains and losses

A review of our care home portfolio and strategic asset disposals have contributed to the £22.7 million surplus on asset disposals recognised during the year.

Divisional EBITDA

For the business reviews on pages 32 to 41, 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.

Accommodation in management

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

	Group		Association	
	2019	2018	2019	2018
Social housing accommodation:				
General needs housing	52,559	52,377	45,898	45,958
General needs housing affordable rent	5,486	5,360	3,140	3,122
Supported housing accommodation	3,714	3,776	3,570	3,607
Supported housing affordable rent	125	124	3	3
Housing for older people	10,686	10,774	10,379	10,456
Housing for older people affordable rent	542	497	105	105
Social care homes	183	196	183	196
Key worker (social lets)	510	510	510	510
Shared ownership	3,323	3,630	2,646	2,669
Home ownership	6,533	5,979	4,741	4,669
Social housing leased outside Group tenancy agreement	254	249	188	215
	83,915	**83,472**	**71,363**	**71,510**
Non-social housing accommodation:				
Student and key worker (non-social lets)	10,977	11,274	6,968	7,016
Registered care homes	5,282	5,520	2,264	2,279
Commercial	186	180	149	146
Market rented accommodation	96	97	87	88
Other non-social rental accommodation	305	171	-	-
Non-social leased housing	94	71	62	62
Non-social housing leased outside Group agreements	363	329	363	329
	17,303	**17,642**	**9,893**	**9,920**
Total units in management	**101,218**	**101,114**	**81,256**	**81,430**

At 31 March 2019 the Group had 844 (2018: 1,478) development units on-site. 1,035 owned units are managed by third parties (2018: 1,065) excluding leased out units.

Value for Money and Business Review

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 builds on our values of ambition, diversity, integrity, quality and sustainability and delivers the resources required to achieve the Group's mission.

Our objectives, roles and responsibilities

Our Group Board sets our strategic objectives and monitors progress. Our strategic objectives are set out in the business plan and form the basis of our operational plans. Our Value for Money objectives, which are agreed by the Group Board, focus on shorter-term, specific and measurable actions that help us to achieve our strategic objectives. Our Value for Money objectives are discussed in detail in the coming pages and are 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 it possesses the full range of skills required to provide this level of robust scrutiny (see page 42).

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

Risks and returns

Stringent appraisal processes ensure low performing assets are reviewed and action taken to maximise returns. The risk and return profiles of each of the Group's 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 Value for Money principles

Our reporting against Value for Money principles has been reviewed and updated in respect of current business information and relevant reporting guidance.

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?

Our performance

Monitoring our performance

In monitoring our Value for Money performance, we look at two groups of measures.

The first group consists of specific, project-based Value for Money objectives, designed to facilitate particular Value for Money outcomes. In this report, we look at how we performed against the Value for Money objectives we set ourselves at the beginning of the financial year. We also set out what our Value for Money objectives will be for the next financial year, 2019/2020.

The second group of measures consists of key performance indicators that assess the overall success of our Value for Money activities over time and in comparison to other organisations. Benchmarking to 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.

We are also obliged to provide certain key performance indicators in accordance with the latest Value for Money Standard, issued by the Regulator of Social Housing (RSH). These performance indicators, referred to as 'Value for Money metrics' (VFM metrics), are being disclosed by all Registered Providers, using prescribed methods of calculation with the aim of improving comparability. The methodology calculations for the RSH VFM metrics can be obtained from the RSH website: www.gov.uk/government/organisations/regulator-of-social-housing.

Although these performance indicators work well to compare some Registered Providers whose ranges and mix of operations are very similar, they are less ideal for large Registered Providers who have diversified operations. For instance, the Group's significant nursing and residential care activities are relatively rare within the sector, as is our student portfolio, with the result that the general performance indicators calculated in accordance with RSH requirements are not truly comparable with other 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.

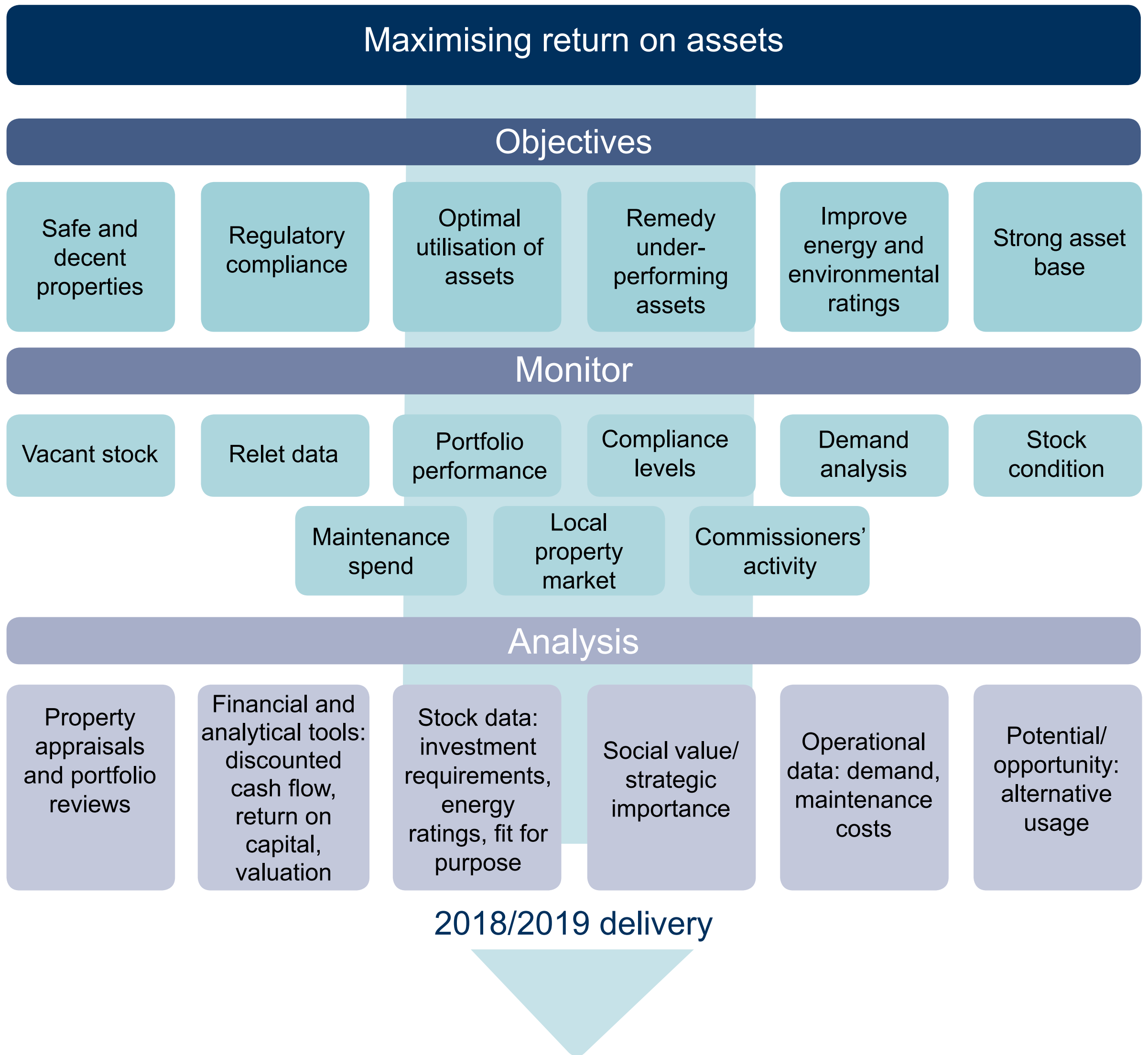
We analyse our performance in four areas: assets, resources, structures and processes, and customers.

Assets

Asset management of our residents' homes

As a provider of over 100,000 homes to our tenants and residents, our asset strategy aims to ensure that buildings are well-maintained and appropriately invested in to the benefit of our residents.

We have strong governance arrangements in place regarding our assets. 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.



Our 2018/2019 assets objectives	
We will:	**Our performance:**
• generate income from housing sales exceeding the prior year levels of £16.7 million to reinvest into the Group, enabling people to own their own homes while supporting the Group's wider charitable objectives.	We generated £25.4 million from selling 150 units.
• build over 1,000 new homes over the next 12 months, providing more customers with modern, secure and safe places to live.	At the end of the year the Group had completed 1,128 homes. 941 were built by the Group, comprising 766 affordable homes, 49 for outright sale and two care homes contributing 126 bed spaces. 119 homes were completed through our joint ventures, comprising 26 affordable homes and 93 for outright sale. 68 affordable homes were built with consortium partners.
• deliver each phase of over 40 planned sites, including show homes and sales areas, on time and aligned with the rate of sales.	The Group has completed 29 schemes in the year to date with a further 17 starting on-site. Where sites were delayed the main reasons were planning delays and tender processes.

Reinvestment

	Sanctuary Group 2019 £	Sanctuary Group 2018 £	Peer group average 2018 £
Investment per property in existing properties	827	675	661

Sanctuary invests more in its homes 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. The Group has among the highest proportion of these tenures when compared to our peers. Typically those with high proportions of sheltered and supported stock invest more as these require greater expenditure.

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

During the year ended 31 March 2019 we have invested significantly in improving social housing around the country, including a national energy efficiency programme and specific projects in the London Borough of Hackney, Chester and Rochford. We have also continued to invest in the care homes we acquired in the previous year and brought forward fire protection works across all types of properties.

Reinvestment (VFM metric)

As required by the RSH, reinvestment is also assessed through calculating investment in properties as a percentage of the value of total properties held. For the year ended 31 March 2019 this is 3.1 per cent (2018: 6.3 per cent). The 2018 peer group average for this measure was 5.8 per cent. Our target reinvestment percentage for the year ended 31 March 2020 is 6.5 per cent. This calculation considers investment in existing stock as well as new supply, including acquisitions. In 2018 this calculation included the acquisition of a portfolio of 35 care homes for £64.8 million and significant land acquisitions of £83 million.

Our target for the year ended 31 March 2019 was 5.5 per cent and anticipated a step-up in development following the numerous land acquisitions. However, starts on these newly-acquired sites have been delayed by the external planning process, leading to a shortfall against the stated target. We expect a significant increase in spend in 2020 as planning hurdles are cleared and work can begin on the related sites.

A further £25 million has been spent on land in the year ended 31 March 2019, with another £40 million of land acquisitions expected in the year ended 31 March 2020.

Future plans

Next year we intend to invest £91 million in our existing assets, compared to £80 million in the year ended 31 March 2019. The increase is due to greater investment in our social housing stock and our student accommodation.

When properties become vacant or are no longer fit for purpose, we appraise our options and consider what will best enable us to deliver our social purpose. We proactively identify properties in sufficient time to enable detailed plans to be put in place, while separate budgets and ownership provide rigour to the process.

Market conditions, together with asset performance, are continually monitored to ensure we achieve Value for Money from our asset base, particularly in non-social housing operations such as care and our student business, which operate on differing margins to social housing operations.

Delivering new homes

We completed 1,128 new homes, led by an in-house development team. We sold 150 units and generated £25 million, with a gross margin of 32 per cent. The surplus has been reinvested in further development of social homes. This compares to 38 units sold in 2018, generating £17 million alongside a margin of 35 per cent.

New supply delivered (VFM metric)

New supply delivered measurements examine 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.

For the year ended 31 March 2019, new supply delivered (social) has been calculated as 0.9 per cent (2018: 0.7 per cent). This compares to our 2018 peer group average of 1.2 per cent. Our target for the year ended 31 March 2020 is 0.9 per cent.

Our development activity has been increasing since we were awarded one of the largest grant allocations of the 2016-2021 Affordable Housing Programme.

For the same period, new supply delivered (non-social) has been calculated as 0.3 per cent (2018: 0.1 per cent). This compares to our 2018 peer group average of 0.3 per cent. Our target for the year ending 2020 is 0.2 per cent. This metric reflects a wide range of non-social development, depending on the particular activities of each organisation. Most of our peer group built more than 100 homes for outright sale during 2018 whereas our non-social development focus was mainly on two new care homes.

Our new supply delivered (social) target for the year ended 31 March 2019 had been 1.6 per cent. Similar to the Reinvestment metric, our shortfall against this target was the result of ongoing external planning delays with local authority cuts resulting in severe delays to several schemes. Our new supply delivered (non-social) target had been 0.3 per cent.

Return on Capital Employed (ROCE) (VFM metric)

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

	ROCE 2019 actual %	ROCE 2019 target %	ROCE 2018 %	Peer group average 2018 %	2020 target %
Return on Capital Employed	3.5	3.4	3.5	4.0	3.2

We have exceeded our ROCE target for the year.

The RSH's prescribed 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 2018 of 3.7 per cent, with the Group achieving its target of 3.4 per cent.

Our updated assets objectives

In 2019/2020 we will:

- make more homes available to those in need through the completion of over 900 homes for affordable rent. We will further increase housing supply and financially support affordable housing development through the completion of over 250 new homes for sale.
- generate at least £1 million of additional revenue from under occupied or poorly performing assets.
- 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.
- 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.

Resources

Our resources include our people and our operational and financing income, as described in Sanctuary's Business Model on pages 8 to 11. Our resources are also impacted by procurement processes that maximise Value for Money across the Group while maintaining fair and equitable practices.

Our 2018/2019 resources objectives	
We will:	**Our performance:**
• implement a new managed service solution for temporary staffing, to reduce the cost of agency usage by at least five per cent while improving the quality of temporary staffing arrangements.	In April 2018 we appointed a new single point of contact for all temporary recruitment needs across the Group. This has enabled us to streamline and improve how we cover our temporary staffing needs, and reduce the management fee payable by 39 per cent. This also led to improved and more accurate management information regarding all aspects of temporary staff usage.
• prepare for the impact of the exit from the European Union that could impact recruitment, the cost of goods and services and the allocation of housing.	Following the results of the referendum, we identified the risks to the business of the UK exiting the European Union. Initially these were around the availability of staff, particularly in our care home and student accommodation businesses. This risk was included on our strategic risk map and recruitment processes were enhanced to try to ensure the continued recruitment of staff to these businesses. As the risk of a no-deal exit increased, a more detailed assessment of the risks was undertaken and risks associated with our supply chain, contractors' availability and financial downturn resulting from such an exit were identified, together with actions we could put in place to mitigate such risks. A Brexit strategy was put in place, endorsed by the Group Board, which included maintaining sufficient liquidity to meet business plan requirements for the next two years with cash levels in excess of £100 million, kept under review in the lead up to leaving the European Union, and confirmation from suppliers that existing arrangements, including the provision of spare parts, would continue to be available.
• maintain relationships with key partners while continuing to increase the number of self-funding residents and occupancy levels within care where possible to ensure it continues to fund the increasing costs of the National Living Wage without reducing financial margin.	Sanctuary Care continues to maintain market-leading occupancy levels with occupancy for the year at 90 per cent. The focus on increasing self-funding residents continues and, on a like-for-like basis, the percentage of self-funding residents in the year has risen to 19 per cent from 18 per cent last year for Sanctuary Care North care homes and to 48 per cent from 47 per cent last year for all other care homes.

Financial performance

Headline social housing cost per unit (VFM metric)

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). For the year ended 31 March 2019, the prescribed calculation method suggests a cost per unit of £4,584 (2018: £4,208). Using this same method, our peer group average for 2018 was £4,340. Our target for 2020 is £4,364.

Our target for 2019 using the prescribed calculation method had been £4,448. The increases reflected in these calculations include fire protection works being brought forward.

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. If we remove non-social capitalised repairs our result for 2019 is £4,340 (2018: £4,072) and target for 2020 is £4,095. 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 (VFM metric)

Operating margin for social housing lettings for the year ended 31 March 2019 was 38.5 per cent (2018: 40.1 per cent), compared to a 2018 peer group average of 33.4 per cent. Our target operating margin for social housing lettings for the year ending 31 March 2020 is 37.9 per cent, reflecting the final year of the rent reduction. Our 2019 margin is lower than our target of 39.2 per cent due to the identification and execution of a further £5 million precautionary fire protection works in the year. The underlying decrease in operating margin from 2018 to 2019 reflects the third year of the rent reduction and no reductions in our maintenance programmes.

Our 2018 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 the peer group. Operating margins for supported and sheltered housing activities are lower due to the greater staffing and maintenance requirements associated with them.

Overall RSH operating margin for the year ended 31 March 2019 was 24.2 per cent (2018: 26.7 per cent), compared to a 2018 peer group average of 25.4 per cent. Our target overall operating margin for the year ending 31 March 2020 is 24.0 per cent. Our overall operating margin is around average for our peer group in 2018 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 2019 target of 26.6 per cent due to the additional fire protection works referenced above, along with sector-wide pressures on occupancy and fee rates in our care business.

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 social 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.

	Sanctuary Group 2019	Sanctuary Group 2018	Peer group average 2018
Void loss %	1.3	1.4	1.3
Rent arrears %	3.80	4.31	3.60
Average cost per responsive repair £	119	115	N/A
Average total repair cost per unit £	1,262	1,254	1,103
Chief Executive pay per unit £	3.76	3.61	5.00

Void loss and the average cost of a responsive repair are comparable to 2018.

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

Maintenance costs are subject to inflationary pressures around the cost of wages and materials. The Group continues to reduce its reliance on external contractors by increasing use of its internal maintenance function and in 2018/2019 launched a dedicated in-house fire safety team.

Our people

Our people are a huge asset to Sanctuary. We employ nearly 13,000 people and 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, 264 of our people completed qualifications through our in-house team. Almost 151,000 (2018: 130,000) e-learning modules were completed and 52,000 (2018: 73,000) delegates attended training courses facilitated by our internal Learning Academy or through local training events.

We supported 215 apprentices with 77 of those completing their apprenticeships during the year.

Four more graduates will join our graduate programme in September 2019 (2018: three).

We are an accredited body for City and Guilds and the Institute of Leadership and Management.

We have a variety of programmes to support aspiring managers through to becoming experienced leaders.

Treasury management

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

	Sanctuary Group 2019	Sanctuary Group 2018	Peer group average 2018
EBITDA MRI interest cover %	121.3	128.4	184.0
Interest cover (ratio)	2.15	2.07	3.07
Cost of borrowing %	4.56	4.75	4.27
Gearing %	49.3	49.9	54.3

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 Sanctuary's extensive history of development and the associated costs of financing those programmes. Sanctuary has always maintained a prudent approach to its treasury management and we therefore maintain a high level of fixed debt, reducing volatility in our cash flow and debt servicing requirements. As at 31 March 2018, the average proportion of fixed rate debt across our peer group was 82.0 per cent while the Group's proportion of fixed debt was 92.3 per cent. Further information on the Group's approach to treasury management can be found in the Group Finance Director's Performance Review and note 23 to the Financial Statements (financial instruments and risk management).

EBITDA MRI (major repairs included) interest cover (VFM metric)

This RSH measure 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. We exceeded our target for the year of 120.0 per cent. Our target for the year ending 31 March 2020 is 111.6 per cent which reflects increases in our planned investment programme as described in the Reinvestment commentary on page 21.

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 due to lower interest rates on more recently obtained debt compared to old debt, some of which has been refinanced as it reached maturity during the year.

Gearing (VFM metric)

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. As at 31 March 2019, this produces a result of 51.9 per cent (2018: 52.2 per cent). This compares to our target for the year of 51.6 per cent and a 2018 peer group average of 48.1 per cent. Under this method, our target gearing as at 31 March 2020 is 53.6 per cent.

Gearing (our metric)

We 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.

Our updated resources objectives

In 2019/2020 we will:

- 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.
- 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.
- 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.
- 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.
- exceed £1 million in annualised savings on new contracts through our Group procurement processes.
- extend consistency and efficiency of Group income collection through migration of our care home income collection systems onto OneSanctuary.

Structures and processes

Our corporate structure

As at 31 March 2019, the Group comprises 50 entities including eight used for social housing activities, five engaged in student accommodation operations and 28 related to care home management, of which 22 relate to the acquisition of a portfolio of 35 care homes in 2017. The Group has invested in four joint ventures which are building new homes. There are also a number of special purpose vehicles relating to financing.

The Group's structure ring-fences non-social housing activities, including development, to protect social housing activities from the added risks of commercial activities. Social housing entities include two English Registered Providers, one Scottish Registered Social Landlord, a maintenance company and a housing services company.

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, as defined in Sanctuary's Business Model on pages 8 to 11, 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 Shared Service Centre, maximising the benefits of our employees working in a modern office environment, while delivering a quality and cost-effective solution to the provision of back office functions.

Our technology

Our technology function is commited to building a highly productive environment where technology empowers everyone to achieve more and never gets in their way. We call this Modern Workplace and it is discussed on page 10 within Sanctuary's Business Model. There are a variety of Modern Workplace 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.

Our governance

Our Group Board regularly considers the potential Value for Money gains of alternative commercial, organisation and delivery structures. Current key initiatives during 2019 include:

- continuing the integration of 35 care homes purchased in 2017 by the Group into our existing Care operation of 68 care homes, structurally and operationally, creating an efficient, combined elderly care business managing over 100 homes. This integration has offered opportunities to gain from economies of scale with purchasing, aligned business processes and shared best practice alongside offering a more geographically dispersed service offering.

- rolling out a dedicated in-house fire safety team to ensure quality and consistency of fire control servicing, remedial works, repairs and installations across our homes.

- 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 2018/2019 structures and processes objectives	
We will:	**Our performance:**
• further implement electronic care and support planning, supporting over 50 per cent of our care homes by the end of 2019, to improve service delivery, increase market opportunities, and realise increased efficiencies.	We are rolling out kradle, our in-house electronic care planning software. The portable device enables staff to complete care recording on the go as they support residents, enabling greater person-centred care and more time spent with residents. By 31 March 2019, kradle was live in 38 homes, which equates to 39 per cent of the relevant homes. We intentionally slowed the roll-out to allow for greater testing and feedback which ensures adoption of the technology works for all.
• continue the care strategy to deliver improved ways of working, embracing technology to enhance residents' lives and staff engagement, and provide a foundation for the further growth of the business.	We have implemented Radar, an event management system, in our care business during the year, replacing multiple previous systems and offline processes such as health and safety, complaints, business continuity and safeguarding. Radar offers better risk management through its ability to report, investigate, manage and track events. We are also rolling out NHS Mail across care homes. This secure email system allows for more efficient communications, particularly between general practice surgeries and care homes, enabling the right care to be given to residents at the right time.

Our updated structures and processes objectives

In 2019/2020 we will:

- 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.

- 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.

- 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.

- generate efficiencies in our Corporate Shared Service Centre through the optimisation of technology.

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. We consider engaging with our customers, listening to their needs and responding appropriately an essential and integral part of delivering Value for Money. Not only is listening to customers the right thing to do; it makes good commercial sense.

Resident engagement

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 makes strategic decisions about housing, are residents. Reporting directly to Group Board is the National Residents Scrutiny Panel, a resident panel which scrutinises policy and performance.

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, our 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.

We have signed up to be 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.

Our 2018/2019 customers objectives	
We will:	**Our performance:**
• ensure residents are actively engaged in the shaping and design of services through insight, co-production and the scrutiny of performance.	There are 400 residents involved in resident engagement activities, with numbers constantly growing. Recent practical work of these residents has included the following: • more than 500 inspections of the condition of housing estates, alongside staff, recommending improvements. Actions have been agreed and followed up within agreed timescales. These actions include quick removal of fly-tipping and maintenance of communal gardens. • working with Group procurement on what should be included in tender specifications and selecting suppliers. So far, this has included maintenance, waste contractors and kitchen replacements.
• seek to deliver new products and services to meet the demand of the Group and stakeholders, especially in the learning and disability client group such as people with profound and multiple learning difficulties.	In December 2018 we re-opened Sussex Avenue, Canterbury, having worked with the former care provider, parents of the residents and Kent County Council to convert it from a care home to a supported living scheme. The scheme is for residents with profound and multiple learning disabilities.
• ensure contractors are delivering 0.5 per cent of community benefit for every £1 spent on scheme costs as well as meeting our employment and skills requirements.	Every contractor employed through our Framework Agreement has committed to spending £5,000 on community benefit for every £1 million in contract value (0.5 per cent). The Group’s internal construction business is also committed to the same spend. Community investment made possible through this includes training, such as in digital skills, and activities that bring members of the community together.

Our updated customers objectives

In 2019/2020 we will:

- 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.
- invest in communities by gaining 30 per cent additional commitment to community benefit from partners and our internal construction business.
- 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.
- 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 homes enquiries hub; the procurement and pilot of an electronic medication management system; and the pilot of acoustic monitoring systems within our care homes.

Business Review

Affordable housing – divisional review

Affordable housing	2019	2018
Revenue (£m)	388.9	386.4
Divisional EBITDA (£m)	204.2	212.6
Divisional EBITDA (%)	52.5	55.0
Capital investment (£m)	60.2	63.4
Units in management at the year end	79,583	79,007

Performance

Despite the continuing challenges faced by the social housing sector, including the one per cent rent reduction in England, revenue has remained stable during the year, helped by the rent generated by the new social housing properties brought into management in the year. Both divisional EBITDA in terms of money and percentage has fallen due to the increased reinvestment in our stock. The Group continues to look at new ways to expand its housing offering, with 2018/2019 seeing the first full year of its mid-market rent product in Scotland.

Sanctuary Maintenance has seen improvement in performance during the year, maintaining satisfaction levels while increasing the utilisation of the internal maintenance team to 80.7 per cent (2018: 78.1 per cent), assisted by the continued roll-out of the 'Sanctuary Way', designed to enhance customer service while ensuring the protection of the Group's assets. The maintenance service has been further expanded with the in-house fire services team, which will provide fire safety servicing and routine repairs, reducing our reliance on external contractors.

Future plans

The final year of rent reduction in England and the continued roll-out of Universal Credit will keep placing pressure on the Group's income base, emphasising the need to maximise Group resources while maintaining and improving the support, quality and value of the service given to our residents. This will be achieved by continuing the programme of efficiencies offered by 'Modern Workplace', ensuring an efficient back office function offering improved performance and self-service options, while recognising the continuing social and financial impacts of Welfare Reform on our residents.

We will maximise the use of the in-house maintenance and reinvestment service to successfully deliver our reinvestment programme to ensure compliance with Decent Homes and Scottish Housing Quality standards and that our properties continue to offer a safe, comfortable and energy-efficient place for people to live. An example of this is a proposed multi-million regeneration in Barne Barton, Plymouth.

We continue to be committed to listening to our customers, ensuring residents are actively engaged in shaping and designing of services and the safety of their homes, through insight and scrutiny of performance. We are proud to be early adopters of the National Housing Federation's Together with Tenants plan and we want to go even further, because listening to residents is not only the right thing to do as a social landlord but also because it makes good business sense. The 'Sanctuary Way' will be further embedded across the operation ensuring customer service is maximised.

Plans to respond to the United Kingdom's planned exit from the European Union (EU) and the potential effect on recruitment, the cost of goods and services and the allocation of housing have been put in place.

Business Review

Supported living – divisional review

Supported living	2019	2018
Revenue (£m)	72.9	70.7
Divisional EBITDA (£m)	4.4	2.3
Divisional EBITDA (%)	6.0	3.3
Capital investment (£m)	4.6	6.4
Units in management at the year end	4,323	4,420

Performance

While funding for social care remains under pressure, supported living has reported improved revenue in the year through growth of support hours delivered and new support contracts undertaken. While the additional support hours and new support contracts have resulted in some increase in costs, continued cost control and management has made it possible to improve EBITDA from that achieved in 2018.

In addition to the improved financial position, operational performance has seen some notable milestones in the year, with Corner House in Mansfield, Tilmore Gardens in Petersfield and Clover Court in Lowestoft all receiving an Outstanding rating from the Care Quality Commission (CQC). Sanctuary365, which provides assistive technology to support older and vulnerable people live a more independent life, exceeded quality standards in its latest audit carried out by the Telecare Services Association (TSA), while Clover Court also won the Promoting Dignity and Respect in Everyday Life Award at the Suffolk Care Awards.

There was also recognition for individual staff members at Banbury and Brighton and Hove Foyers at the national Sparks Awards organised by the Foyer Federation.

During the year we rebranded our extra care and home care services as Sanctuary Retirement Living.

Future plans

Supported living will seek to continue expanding its offering through strategically relevant acquisitions and new local authority contracts and improve customer care by maximising the use of assistive technology to support quality care delivery.

It will ensure residents are able to meaningfully engage in supporting the delivery of our care and support functions in ways that suit them. It will also make sure that the Health and Social Care Act duty of candour requirement is met by being open, explicit and transparent in the desire to realise outcomes for vulnerable people.

Business Review

Care – divisional review

Care	2019	2018
Revenue (£m)	185.5	174.1
Divisional EBITDA (£m)	22.7	24.6
Divisional EBITDA (%)	12.2	14.1
CQC rating (England) %	81	82
Care Inspectorate rating (Scotland) %	73	82
Average weekly rates (£)	761	751
Occupancy (%)	90	95
Capital investment (£m)	13.1	9.7
Number of bed spaces in management	5,023	5,235

Performance

While issues of occupancy and pressure on average weekly fees continue to make the care sector challenging, Sanctuary Care continues to make a significant contribution to the Group. Revenue continues to show growth in the year to £185.5 million, while the average weekly fee increased to £761.

In April 2018 the operational management of Sanctuary Care (North) was combined with Sanctuary Care to create one elderly care business with more than 100 homes. Throughout 2018/2019 the combined business has focused efforts on integrating systems, processes, cultures and values in order to maximise expertise and efficiency.

Sanctuary Care continues to utilise technology to improve the quality of service to its customers. 2018/2019 saw the successful pilot and initial roll-out of kradle, a new industry leading electronic care plan system as well as the introduction of Radar, a new system to report, investigate and manage all events concerning the health, safety and welfare of our customers and staff. Both systems will be rolled out further nationally during 2019/2020.

The CQC rating in England is generally consistent year-on-year, at 81 per cent compared to 82 per cent in 2018. The Care Inspectorate rating in Scotland covers 11 homes of which eight are rated good, very good or excellent; the remaining three are rated adequate.

Three homes, Lammas House in Coventry, Asra House in Leicester and Watlington and District Nursing Home in Oxfordshire, received Outstanding ratings from the Care Quality Commission in the year, while the team at Asra House were crowned Care Team of the Year at the 2018 Great British Care Awards.

A new temporary staff provider was appointed at the start of 2018/2019, improving the staff booking experience and providing improved availability and Value for Money.

Future plans

Sanctuary Care will seek to enhance occupancy performance and increase brand awareness while empowering the teams to deliver a high-quality service. Operational performance will be improved through system improvements and staff training and development. We will seek to enhance residents' lives through engaging activities, by evaluating the trial with Oomph, the United Kingdom's leading wellbeing business for older adults, ensuring all staff are trained on activities and meaningful engagement.

Back office functions will be reviewed to ensure the correct positioning of services locally and centrally to ensure optimal efficiency and service to customers.

We will continue to invest in staff training and plan to make sure staff resources are available for the future by aspiring to recruit 50 apprentice nurse practitioners in the next year, with the intention of them becoming fully qualified nurses within the next three years. This will help to mitigate the potential impact on care staff recruitment which may be caused by the United Kingdom's exit from the EU.

Business Review

Student and market rented – divisional review

Student and market rented	2019	2018
Revenue (£m)	57.9	54.8
Divisional EBITDA (£m)	28.5	27.2
Divisional EBITDA (%)	49.2	49.6
Occupancy – Student (%)	95	97
Capital investment (£m)	5.9	9.0
Units in management at the year end	12,289	12,452

Performance

The higher education environment continues to experience change, with the removal of the student number cap allowing high-quality universities to recruit more students, while presenting a potential risk to post 1995 institutions (former polytechnics). We are beginning to experience reduced demand from European students as a result of the uncertainty around Brexit.

Despite these changes, revenue showed a significant increase over 2018 due to increased commercial property rent, however, increased compliance costs and responsive maintenance costs have impacted on the EBITDA performance. Occupancy levels remain high, although slightly below that achieved in 2018.

Future plans

The focus remains to position the business for sustainable long-term financial and performance improvements. This will be achieved by continued investment in Modern Workplace initiatives to improve customer experience, business information, accountability and control. There will also be a focus on maintaining quality through retaining independently assessed quality standards, such as Accreditation Network UK (ANUK) Assured Accommodation, Occupational Health and Safety Assessment Series (OHSAS) 18001 and Investors in People.

In order to improve the quality of our student accommodation, 2019/2020 will see the completion of an extensive refurbishment of Manna Ash in London. We will also continue to reduce the carbon footprint of the business through investment in environmental upgrades across operations, such as LED lighting and self-testing emergency lighting.

During 2019/2020 a standard operating model will be introduced to ensure the effective and economically-efficient management of the market rented and commercial tenancies. The business will continue to work with the Group's asset management team to review and explore alternative uses for under-utilised assets to ensure the maximum return.

The business will continue to consider the impact of Brexit and what impact this will have for higher education beyond 2020 due to the potential loss of European Union research funding streams and the subsequent impact on the flow of students, researchers and academics.

Business Review

Development – divisional review

Development sales	2019	2018
Revenue (£m)	25.4	16.7
Cost of sales (£m)	(17.3)	(10.9)
Divisional EBITDA (£m)	8.1	5.8
Divisional EBITDA (%)	31.9	34.7
Units completed in the year	941	773
Properties sold	150	83
Units on-site and in development	6,002	6,019
Funding for development		
Expenditure contracted	83.2	113.8
Authorised expenditure not contracted	687.5	648.4
Total (£m)	770.7	762.2

Performance

The development team has continued to make progress towards the Group's aspiration to deliver 15,000 new homes. During 2018/2019 a total of 941 new units were completed, with a further 150 first tranche sales being made.

The increase in sales achieved during 2018/2019 has resulted in increased revenue and although the margin was lower than 2017/2018, it exceeded the target for the year.

2018/2019 saw the first full year of operation of two new companies, Beech Grove Homes, set up to sell our houses including open market and shared ownership sales, and Sanctuary Homes Scotland, which will manage the mid-market rent programmes.

A statue of Charles Rennie Mackintosh, commissioned by the Group, was unveiled by Scotland's First Minister, Nicola Sturgeon, to mark the completion of Sanctuary's £60 million regeneration of Anderston in Glasgow.

Future plans

The impact of Brexit on the housing market is unknown, 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.

The Group's targets for 2019/2020 include:

- to build around 1,400 homes across England and Scotland, of which over 900 will be for affordable rent, delivered by both the in-house team and contractors.
- selling around 250 properties, generating income of over £50 million.
- approximately 1,700 plots to start on-site.
- identifying and acquiring sites that meet the requirements of both the Group's affordable housing and sales programmes.
- ensuring contractors deliver £5,000 of community benefit for every £1 million of build costs.

To make sure these targets are achieved in the most effective and economic way possible, the Group will seek to increase the in-house construction function, giving the Group greater flexibility and enabling more cost-effective construction by removing external management and profit costs. The Group will also review construction methods, seeking to use Modern Methods of Construction (MMC) where suitable.

Sanctuary Homes, in conjunction with its construction partners, will seek to continue to improve the environment of the areas it operates in through its 'more' programme. The 'more' programme will provide skills and resources to make improvement to local spaces and bring local aspirations to life, as will the creation of local jobs through apprenticeships and training opportunities.

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 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 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.

Jonathan Lander BSc (Hons), FCA
Group Chair

Jonathan Lander retired as a senior partner at PricewaterhouseCoopers LLP (PwC) in 2008, having been with the organisation for over 30 years. At PwC Jonathan was lead assurance engagement partner to public companies, large private and private equity backed companies and businesses with overseas ownership, as well as being a Midlands Leadership team member responsible for strategy, marketing, communications and business development.

Craig Moule BSc (Hons)
Group Chief Executive

Craig Moule has been with Sanctuary for 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

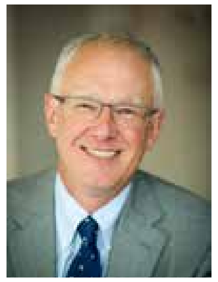
Robert McComb is a retired investment banker with experience in treasury, structured and asset finance, and debt capital markets. Prior to retiring from Dresdner Kleinwort in 2007, Robert was treasurer of the bank's $36 billion structured credit fund, issuing bonds to investors worldwide. He was a senior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

Since retiring, Robert has been a non-executive chair of a venture capital funded hospitality business and a board member of a small north London housing association. He 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; and is a Commissioner of UK2070, an inquiry into regional inequalities.



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

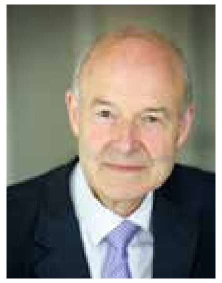
Elwyn Roberts is an engineering graduate and qualified as a Chartered Accountant with Deloitte Haskins and Sells in Cardiff. He became a partner in the audit and assurance business of PwC in 1990 and retired from the organisation in December 2011. While at PwC, Elwyn was involved in developing the firm's housing association 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.

During his time with PwC in Birmingham, Elwyn was responsible for developing and leading the firm's Risk Assurance practice in the Midlands. Focusing on governance, risk and control, he advised clients in both the private and public sector on corporate governance and risk management.

Thelma Stober BA (Hons) Law, CEDR Accredited Mediator

Thelma Stober is a Senior Public Sector Solicitor and Mediator. She is currently the Corporate Legal Adviser to the Local Government Association and its associated companies, where she delivers legal advice and company secretarial support on all aspects of law relating to public, administrative, constitutional, company, commercial, local government and corporate governance. Thelma is also a Lay Member of Herts Valley Clinical Commissioning Group and chair of its Primary Care Co-Commissioning Committee.

Prior to her present role, Thelma was Director of Corporate Law and Governance and Board Secretary at the Equality and Human Rights Commission and, before that, Director of Legal and Procurement and Monitoring Officer at the Greater London Authority and the London Development Agency.



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

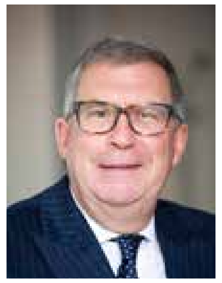
Gareth was a Trustee of Macmillan Cancer Support from 2003 to 2013 and a Trustee and subsequently chairman of Friends of Vellore (UK) from 2011 to 2016. Gareth was also Medical Director of Burrswood Hospital from 1986 to 1999. He is a Vice-President of Phyllis Tuckwell Hospice Care and, from 2017, is Chair of The M.E. Trust.

Denise Plumpton BSc (Hons), CERTIoD
Denise Plumpton is currently a non-executive of CSW Sport 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 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.

Nicole Seymour BA (Hons), MA
Group Director - Corporate Services and Co-opted Board Member
As Group Director - Corporate Services, Nicole Seymour is responsible for human resources, learning and development, public relations and communications, customer services, 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 successfully completed Sanctuary's graduate programme in 2014, and initially worked in its 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.



Andrew Manning-Cox BA Law, MA Law, CEDR Accredited Mediator, FCIArb
Co-opted Board Member
Andrew Manning-Cox retired as Senior Litigation Partner from 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 member of the Law Faculty Advisory Committee at the University of Worcester; a non-executive director at Worcestershire County Cricket Club, Malvern Hills Science Park, Thursfields Legal Limited and Central Technology Belt; and a member of the Independent Remuneration Committee of Worcestershire County Council.

Ed Lunt BA (Hons), CA
Group Finance Director and Co-opted 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 and at PwC for 15 years, where he moved through various roles to become Audit Director.

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
Jonathan Lander*	Chair	-	-	Chair	-	Chair
Craig Moule	✓	-	-	Lead officer	Lead officer	Lead officer
Robert McComb	Vice chair	✓	-	✓	Chair	✓
Trudi Elliott	✓	-	Chair	✓	-	✓
Elwyn Roberts	✓	Chair	-	✓	✓	✓
Thelma Stober	✓	-	✓	✓	✓	✓
Gareth Tuckwell	✓	-	-	✓	-	✓
Denise Plumpton	✓	✓	-	✓	-	✓
Nicole Seymour	✓	-	-	-	-	-
Andrew Manning-Cox	✓	-	-	-	-	-
Ed Lunt	✓	Lead officer	-	-	-	-

*As Group Chair, Jonathan Lander is an ex-officio member of all committees of the Board.

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.

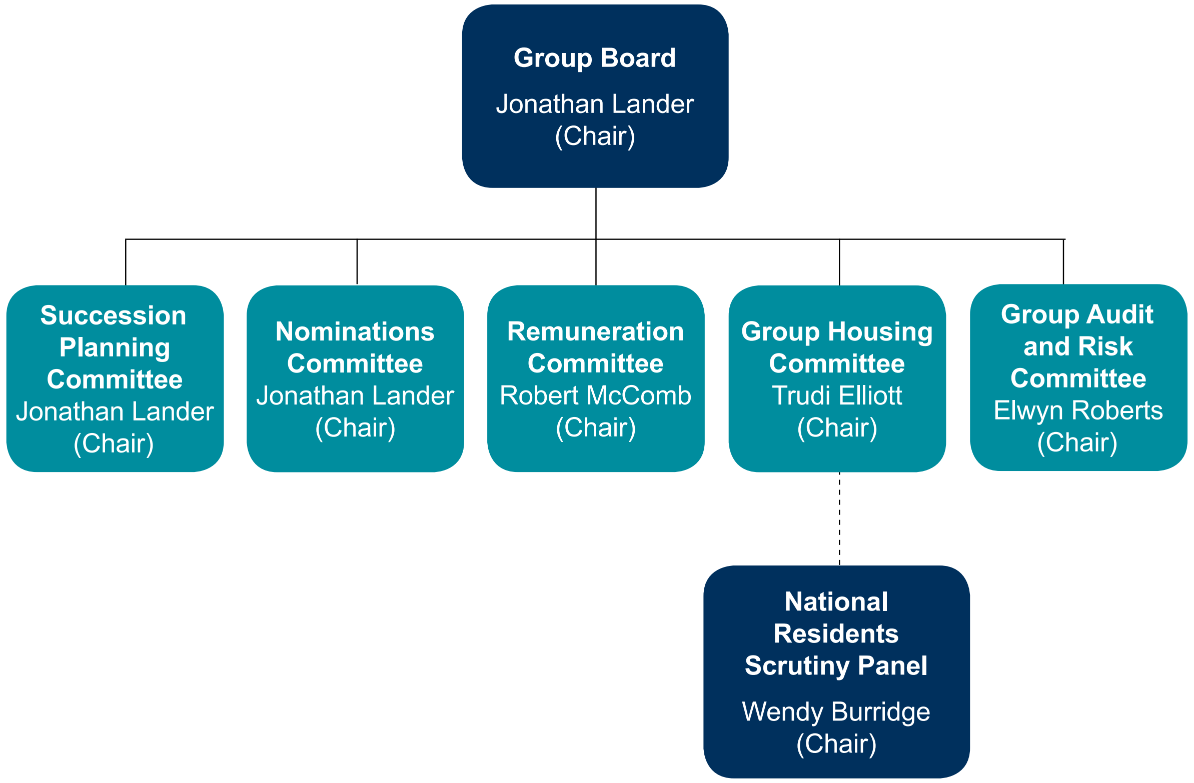
Subsidiary boards

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

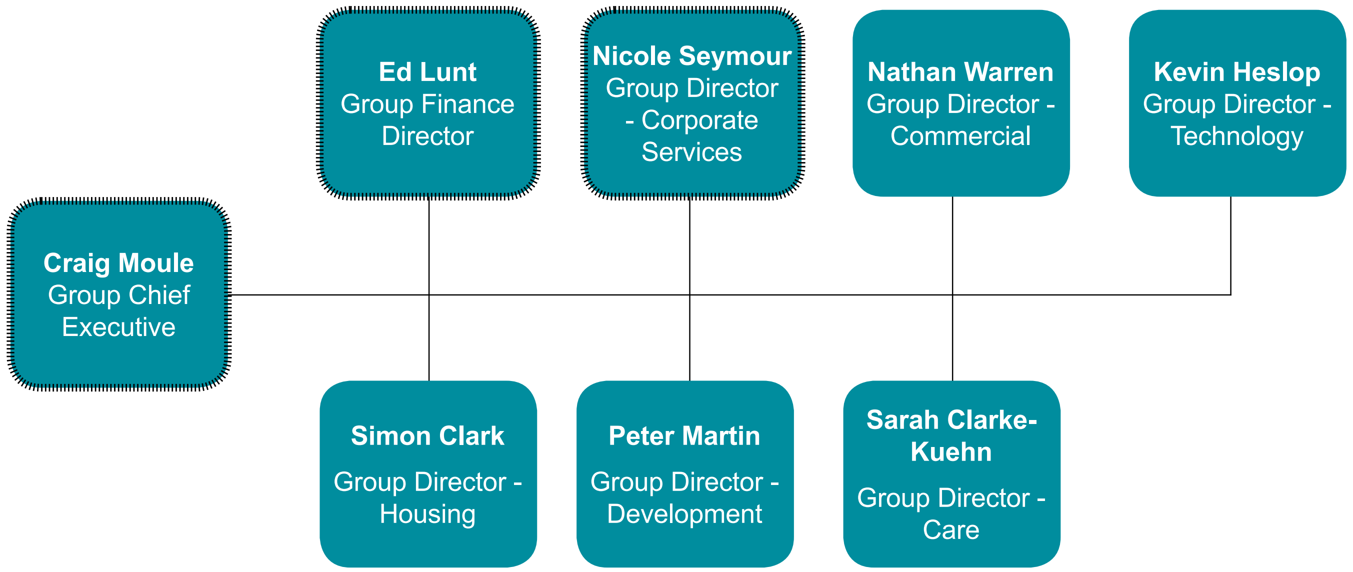
Board structure

Under the Group Board's leadership, the Group has put in place the following management structure, which is summarised in the following diagrams.

Committees of the Group Board



Direct reports to the Group Chief Executive



= Executive Directors of the Group Board

Statutory, Regulatory and Other Information

Executive management

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 Board or determination of recommendations to the 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 Business Plan agreed by the Group Board.

Audit

KPMG LLP (KPMG) provides external audit services and PricewaterhouseCooper 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 Financial Statements

The Financial Statements for the Group consist of the financial results of the Association and its subsidiary undertakings, which have been consolidated in accordance with the relevant financial reporting standards.

Rent

The Group has various different types of social housing tenancies, the rents for which are set in accordance with the regulatory framework for social housing in England and Scotland.

Health and safety

It is the clear intention of the Group to ensure, as far as reasonably practicable, the health, safety and welfare at work of all its employees. The Group undertakes to comply, as a minimum, 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.

Political and charitable donations

The Group made no donations to political organisations (2018: none). The Group made donations to charitable organisations of £500 (2018: £18,504).

Employee engagement

It is Group policy to engage all employees in matters affecting them. At a formal level, this takes place through the Staff Council, 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.

Ethical business

The Group is committed to conducting its 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 Group operations efficiently, investing in the communities where the Group works, providing training and employment opportunities, and ensuring that Group operations are run in an environmentally-friendly manner.

Slavery and human trafficking statement

The Group is 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. The Group recognises 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. The Group's full statement can be found on the Group website at www.sanctuary-group.co.uk.

Equality and diversity

The Group aims to be an open and inclusive organisation, where diversity is promoted and discrimination eliminated. The Group's 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 equality, diversity and human rights are integrated into the way the Group plans, develops and delivers services, covering internal functions as an employer and external operations as a provider of housing, care and commercial services. The Group operates an Equality and Diversity Working Group, which ensures that the requirements set out by the scheme are embedded across the Group's operations. The working group is chaired by Nathan Warren, Group Director – Commercial.

Events after the reporting period

There were no events after the reporting period.

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 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 2019 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 has a reasonable expectation that the Group has adequate resources to continue in operational existence for a period of at least 12 months from the date of this report. Accordingly, it continues to adopt the going concern basis in preparing the Group and Association's 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 51 to 53.

The Group Board has determined that the period to 2022 is an appropriate period over which to provide its viability statement. While the Board believes that the Group will be viable over a much longer period, as demonstrated by the 30 year forecast that is performed annually, this period has been chosen as it has a much greater degree of certainty and provides an appropriate longer-term outlook.

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 and uncertainty around Brexit.

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.

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 confirmed the G1 and V1 governance and financial viability ratings.

Principal Risks and Uncertainties

The Group operates a comprehensive risk mapping process both at a strategic level and with all its 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 the Group are set out below, along with their movement in the year and examples of key controls and mitigating factors.

Risk and potential impact	Change during 2018/2019	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 or health and safety changes, leading to reputational damage and financial impacts such as cash flow deterioration or additional expenditure.	↑	Income services support to our tenants has been increased. Monitoring the impact of Universal Credit roll-out on arrears and bad debts. Increase in the number of self-funders in our care homes to mitigate National Living Wage cost pressures. Updated financial projections have been prepared incorporating a revised growth strategy in line with current Government policy. Maintain high standards of compliance, particularly health and safety, and react to changes in policies or regulations. Switch some existing developments to affordable rent in line with recent Government announcements. Maintain a higher level of capacity within the Group to cover, among other things, any changes in Government policy/legislation or regulations. Bring forward fire risk assessment actions and allocate funding for water sprinkler installation for the Group's high rise properties. Policy and procedures in place to cover the increased requirements of GDPR.
Funding and financial viability		
Gearing constraints can limit the Group's capacity for further borrowing. Downgrades to the sector credit ratings may increase the cost of future borrowing. Failure to obtain funding could undermine the Group's long-term growth plans. Funding for non-core businesses impacts on the rest of the Group.	↔	The Group retains high credit quality and ratings enabling access to financial markets. The Group provides 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, and relationships with existing and potential funders are maintained to promote our activities and identify further funding sources. Development programmes have capital requirement limits and commitments are monitored against total liquidity. Committed developments are forward-funded via bond issues or bank facilities. Available funding in place including shorter-term revolving credit facilities to manage a more variable cash flow requirement for the 15,000 unit development plan to 2027. Longer-term projections, including cash flow requirements, and multi-variance stress testing are updated regularly. Unencumbered assets are monitored on a continual programme to support future funding requirements. The level of unencumbered assets has been increased from £500 million to £1,000 million to provide the Group with additional capacity if needed. Annual funding strategy is approved by Group Board at the same time as long-term projections are updated. Assets and liabilities registers are maintained to record all assets and liabilities within the Group. Non-core funding is generally ring-fenced to specific assets with recourse to the rest of the Group limited to the level of the intra-Group funding committed to.

Risk and potential impact	Change during 2018/2019	Key controls and mitigating factors
Sales risk		
The proposed development programme increases risk due to the level of new properties for sale either via shared ownership or outright sale.	↑	Key assumptions and hurdle rates are set by Group Board which all project appraisals are required to achieve. Sales performance against original appraisal assumptions is reported to senior management and Capital Committee on a monthly basis. Future sales prices included in appraisals are amended accordingly. Ability to freeze future capital commitments on new projects if expected sales are not being achieved. Ability to switch unsold properties to rent if sales performance is below expectations. Stress testing is undertaken both on individual projects and the projected development plan 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 the joint ventures with Galliford Try/ Linden Homes being used by the Group's sales teams.
Programme and structural risk		
Planned expansion or issues with an existing business leads to an impact on the overall Group from a performance, risk management or financial point of view.	↔	Appropriate governance and project management structures are in place throughout the business. All business areas operate the Group's risk management process including risk and assurance maps. Any acquisition or expansion is financially mapped against the Group's existing business plans, including sensitivity analysis. External funding is structured generally 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. Central Services (which has a separate risk map) oversees consistency of such functions throughout the Group, such as technology, including cyber risk, business continuity and financial reporting.
Reputational risk		
By operating businesses that provide services to many residents and tenants we run the risk of reputational damage that could lead to loss of business and, at its most extreme, viability concerns for particular business streams.	↔	Key regulatory and contractual obligations are identified and managed to ensure compliance. Due diligence is undertaken on new acquisitions to identify possible dilution of performance. Risks identified are managed or negotiated out. A significant incident policy exists to detail the approach to such incidents and is managed by the Corporate Risk Manager to ensure consistency and risk management. Resident scrutiny is embedded in the housing operations. Corporate Services assists and monitors the operations to ensure the risk of reputational damage is kept to a minimum. Regular dialogue takes place with key funders, investors and the rating agencies. A whistleblowing policy is in place. A central public relations and communications department proactively manages Sanctuary's reputation. We will self-refer to the regulator where deemed necessary.

Risk and potential impact	Change during 2018/2019	Key controls and mitigating factors
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.	↔	The Group monitors the return on assets which is used as a measure to identify and allocate investments. An annual review of Group 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. The Group allocates 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. The Group has 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 on 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 on reinvestment to budget. The performance of assets, including demand and voids, is monitored weekly via management reports. The Group Board has allocated a significant budget to cover the possibility of sprinkler installations in all of the Group's high rise buildings.
Pensions risk		
The Group participates in a number of defined benefit pension schemes and there is a risk of increasing funding requirements.	↓	Pension liabilities are reviewed with specialist advisors and strategies are developed to minimise deficit risks. Risk-sharing agreements with local authorities have been explored to protect large, unexpected, one-off payments. Significant new contracts are reviewed for pension risks at the early stages of the bidding process. Additional funding contributions from the Group are made following a financial assessment. Trustees of the Group's main defined benefit scheme have proposed a revised investment strategy to reflect run-off.
Brexit risk		
The impact of the negotiations and ultimate exit of the UK from the European Union on the Group. The failure to identify and manage the individual or combined effects of Brexit, including the type of Brexit, which could have significant consequences for business plan objectives.	↑	Maintain sufficient funds to meet business plan requirements for the next two years including cash levels in excess of £100 million in the lead up to leaving the European Union. Identify and manage impacts on the business of European Union staff, mainly in the care and student businesses. Model and assess the impact of risks on the Group business plan, particularly around changes in interest rates, inflation, suppliers and housing demand/ pricing. Monitor the level of current and future business and group arrangements with Scotland in light of the increased risk of Scottish Independence.

The Group Audit and Risk Committee reviews and scrutinises the risk maps for all Group operations. The Group Board approves the Group risk map.

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 2015. 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
Secretary
26 June 2019
Registered office: Sanctuary House, Chamber Court, Castle Street, Worcester, WR1 3ZQ

Independent Auditors Report to the Members of Sanctuary Housing Association

KPMG

1. Our opinion is unmodified

We have audited the Financial Statements of Sanctuary Housing Association ("the Association") for the year ended 31 March 2019 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, 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 (IFRSs as adopted by the EU), of the state of the Group's and of the Association's affairs as at 31 March 2019 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 2015.

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 five financial years ended 31 March 2019. 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	£7.0 million (2018: £7.0 million) 1.0% (2018: 1.0%) of revenue	
Key audit matters		**vs 2018**
New risks	The impact of uncertainties due to the UK exiting the European Union on our audit	↑
	Carrying value of property held in inventory	↑
Recurring risks	Care and student property impairment	↔
	Post-retirement benefits obligation	↔

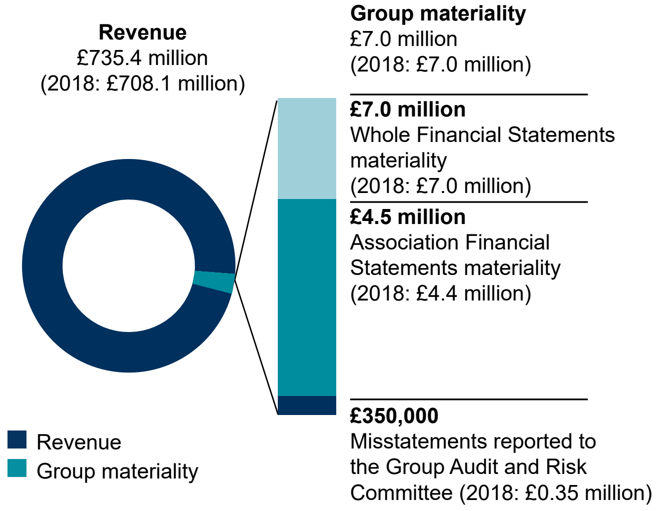
2. Key audit matters: including our assessment of risks of material misstatement

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 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 and student 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 will consider 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 and student 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 a company and this is particularly the case in relation to Brexit.
Care and student property impairment (Group asset value 2019: £451.4 million; 2018: £447.0 million; Impairment charge 2019: £1.0 million; 2018: £1.7 million; Association asset value 2019: £211.4 million; 2018: £205.0 million; Impairment charge 2019: £1.1 million; 2018: £nil) Refer to pages 70, 73 and 76 (accounting policy) and pages 96 to 99 (financial disclosures).	**Subjective estimate:** The Group and Association hold care and student 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 indicator 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 and student 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 (notes 12 and 13) disclose the range of reasonable outcomes for those properties where a trigger was identified.	**Our procedures included:** • **Sector knowledge:** Assessing, through inquiry of finance personnel, inspection of year end financial and operational 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 and student property to be acceptable (2018: acceptable).
Post-retirement benefits obligation (Group 2019: £445.3 million; 2018: £433.1 million; Association 2019: £418.5 million; 2018: £406.8 million) Refer to pages 69 and 80 (accounting policy) and pages 120 to 126 (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 29) 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 (2018: acceptable).

	The risk	Our response
Carrying value of property held in inventory (Group 2019: £109.2 million; 2018: £90.9 million; Association 2019: £21.5 million; 2018: £27.4 million) Refer to page 70 (accounting policy) and page 102 (financial disclosures).	**Subjective estimate:** Property held in inventory comprises properties which are developed and are held for outright sale and proportions of shared ownership properties allocated as first tranche sales, the carrying amount of which has increased since 2018. In order to assess the net realisable value of property held in inventory, site appraisals are prepared which include forecast revenue and costs and provide an indication of the recoverability of property held in inventory. Site appraisals include a number of judgements that could have a significant effect on the net realisable value of the property held in inventory. The effect of these matters is that, as part of our risk assessment for audit planning purposes, we determined that the value in use of property held in inventory 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. In conducting our final audit work, we reassessed the degree of estimation uncertainty to be less than materiality.	**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 length of development project, 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. • **Historical comparison:** We evaluated the Group's ability to forecast revenue for site appraisals by comparing actual revenue achieved for a sample of development sites sold in the year, to the forecast amounts included in previous site appraisals. • **Benchmarking assumptions:** We challenged the forecast revenue included in a sample of site appraisals by reference to market data. • **Test of detail:** We challenged the costs to complete assumptions included in site appraisals by comparing the assumptions for a sample of forecast costs to 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. • **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 to be 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 £7.0 million (2018: £7.0 million), determined with a reference to a benchmark of Group revenue of which it represents 1.0 per cent (2018: 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 Financial Statements as a whole was set at £4.5 million (2018: £4.4 million), determined with reference to a benchmark of Association total revenue of which it represents 1.0 per cent (2018: 1.0 per cent).

We agreed to report to the Group Audit and Risk Committee any corrected or uncorrected identified misstatements exceeding £0.35 million (2018: £0.35 million) in addition to other identified misstatements that warranted reporting on qualitative grounds.

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.

In the prior year we subjected all of the Group's 52 reporting components to full scope audits for Group purposes. The components within the scope of our work accounted for 100 per cent of each of Group revenue, Group profit before tax and Group total assets. The Group team approved the component materialities, which ranged from £240 to £5.3 million, having regard to the mix of size and risk profile of the Group across the components. The work on all of the reporting components was performed by the Group team.

4. We have nothing to report on going concern

The Board has 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 Board's 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 Board's 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:

- significant cost overruns on development projects;
- 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 Board considers 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 Brexit 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 included in the Annual Report

The Board is 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 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

Board's responsibilities

As explained more fully in their statement set out on page 54, the Board is 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 non-compliance 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.

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

Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham B4 6GH
26 June 2019

Statement of Comprehensive Income

For the year ended 31 March 2019

	Notes	Group 2019 £m	Group 2018 £m	Association 2019 £m	Association 2018 £m
INCOME STATEMENT					
Continuing operations					
Revenue	2	735.4	708.1	455.8	450.6
Cost of sales	4	(21.5)	(13.8)	(11.8)	(8.6)
Operating expenditure	4	(536.0)	(505.7)	(326.0)	(315.0)
Other gains and losses	7	22.7	9.6	21.3	6.3
Other income	3	-	-	14.4	12.2
Share of profit of joint ventures	34	3.1	0.5	-	-
Operating surplus		**203.7**	**198.7**	**153.7**	**145.5**
Finance income	9a	3.5	4.1	7.0	7.5
Finance costs	9b	(130.3)	(132.0)	(92.2)	(95.9)
Surplus before tax		**76.9**	**70.8**	**68.5**	**57.1**
Taxation	10	0.6	0.4	0.1	-
Surplus for the year from continuing operations		**77.5**	**71.2**	**68.6**	**57.1**
OTHER COMPREHENSIVE INCOME					
Items that will not be reclassified subsequently to income or expense:					
Remeasurement of defined benefit pension scheme liability	28,29	(0.3)	40.6	(0.6)	38.8
Equity investments at fair value through other comprehensive income – net change in value	14,28	(0.6)	(0.5)	(0.6)	(0.5)
Items that may be reclassified subsequently to income or expense:					
Cash flow hedges – changes in fair value	28	3.7	(3.6)	3.8	(3.6)
Cost of hedging reserve – changes in fair value	28	0.1	-	0.1	-
Cost of hedging reserve – reclassified to income or expense	28	-	-	-	-
Other comprehensive income for the year		**2.9**	**36.5**	**2.7**	**34.7**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**80.4**	**107.7**	**71.3**	**91.8**

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

The notes and appendices on pages 66 to 146 form part of these Financial Statements.

Statement of Financial Position

As at 31 March 2019

	Notes	Group 31 March 2019 £m	Group Restated 31 March 2018 £m	Association 31 March 2019 £m	Association Restated 31 March 2018 £m
ASSETS					
Non-current assets:					
Intangible assets	11	64.3	69.1	58.7	63.5
Property, plant and equipment	12	3,359.5	3,263.1	2,481.8	2,431.8
Investment property	13	226.8	228.0	138.8	140.0
Deferred tax assets	25	4.3	3.8	-	-
Derivative financial assets	15	22.3	13.9	22.3	13.9
Investments in subsidiaries	34	-	-	67.6	67.6
Equity accounted investments	34	3.2	0.6	-	-
Other investments	14	27.0	31.6	26.8	31.5
Trade and other receivables	16,17	42.6	46.2	123.9	63.7
		3,750.0	3,656.3	2,919.9	2,812.0
Current assets:					
Trade and other receivables	16,17	75.5	90.0	90.1	129.9
Contract assets	2	0.3	-	0.3	-
Inventory	18	110.6	91.7	21.5	27.4
Assets classified as held for sale	19	1.3	9.0	-	4.1
Cash and cash equivalents	32	150.1	95.7	15.1	2.0
		337.8	286.4	127.0	163.4
TOTAL ASSETS		**4,087.8**	**3,942.7**	**3,046.9**	**2,975.4**
LIABILITIES					
Current liabilities:					
Trade and other payables	20	147.7	185.2	81.3	116.1
Contract liabilities	2	26.8	-	17.3	-
Current tax liabilities		0.3	0.4	-	0.1
Loans and borrowings	21,22	74.7	104.7	38.9	38.6
Provisions	26	4.6	4.7	4.4	2.4
		254.1	295.0	141.9	157.2
Non-current liabilities:					
Trade and other payables	20	10.7	10.2	8.6	7.5
Loans and borrowings	21,22	2,736.2	2,623.9	1,739.0	1,719.7
Deferred tax liabilities	25	0.6	0.7	-	-
Derivative financial liabilities	15	3.4	3.3	-	-
Retirement benefit obligations	29	41.4	42.6	40.1	40.7
Provisions	26	3.7	6.7	0.8	4.0
		2,796.0	2,687.4	1,788.5	1,771.9
TOTAL LIABILITIES		**3,050.1**	**2,982.4**	**1,930.4**	**1,929.1**
EQUITY					
Equity attributable to owners of the parent:					
Ordinary shares	27	-	-	-	-
Cash flow hedge reserve	28	1.4	(1.3)	1.3	(1.5)
Cost of hedging reserve	28	1.1	-	1.1	-
Revaluation reserve	28	1.2	1.8	1.2	1.8
Restricted reserves	28	0.2	0.2	0.2	0.2
Retained earnings	28	1,033.8	959.6	1,112.7	1,045.8
TOTAL EQUITY		**1,037.7**	**960.3**	**1,116.5**	**1,046.3**
TOTAL EQUITY AND LIABILITIES		**4,087.8**	**3,942.7**	**3,046.9**	**2,975.4**

The notes and appendices on pages 66 to 146 form part of these Financial Statements. The Financial Statements were authorised and approved by the Board on 26 June 2019 and signed on its behalf by:

Jonathan Lander
Group Chair

Ed Lunt
Board member, Group Finance Director

Nicole Seymour
Board member, Secretary

Statement of Changes in Equity

For the year ended 31 March 2019

Group	Share capital	Revenue reserve	Restricted reserves	Revaluation reserve	Cash flow hedge reserve	Cost of hedging reserve	Total equity
	£m	£m	£m	£m	£m	£m	£m
At 1 April 2017	-	847.8	0.2	2.3	2.3	-	852.6
Surplus for the year	-	71.2	-	-	-	-	71.2
Other comprehensive income	-	40.6	-	(0.5)	(3.6)	-	36.5
Total comprehensive income	**-**	**111.8**	**-**	**(0.5)**	**(3.6)**	**-**	**107.7**
At 31 March 2018	**-**	**959.6**	**0.2**	**1.8**	**(1.3)**	**-**	**960.3**
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**

Association	Share capital	Revenue reserve	Restricted reserves	Revaluation reserve	Cash flow hedge reserve	Cost of hedging reserve	Total equity
	£m	£m	£m	£m	£m	£m	£m
At 1 April 2017	-	949.9	0.2	2.3	2.1	-	954.5
Surplus for the year	-	57.1	-	-	-	-	57.1
Other comprehensive income	-	38.8	-	(0.5)	(3.6)	-	34.7
Total comprehensive income	**-**	**95.9**	**-**	**(0.5)**	**(3.6)**	**-**	**91.8**
At 31 March 2018	**-**	**1,045.8**	**0.2**	**1.8**	**(1.5)**	**-**	**1,046.3**
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**

The notes and appendices on pages 66 to 146 form part of these Financial Statements.
*see Appendix 3

Statement of Cash Flows

For the year ended 31 March 2019

	Group 2019	Group Restated 2018	Association 2019	Association Restated 2018
CASH FLOWS FROM OPERATING ACTIVITIES	£m	£m	£m	£m
Surplus for the year	77.5	71.2	68.6	57.1
Adjustments for:				
Depreciation, amortisation and impairment	67.3	60.3	53.8	52.0
Surplus on sale of property, plant and equipment	(22.1)	(9.5)	(20.7)	(6.2)
Surplus on sale of investments	(0.6)	(0.1)	(0.6)	(0.1)
Share of profits in joint venture	(3.1)	(0.5)	-	-
Net finance costs	126.8	127.9	85.2	88.4
Tax credit	(0.6)	(0.4)	(0.1)	-
	167.7	177.7	117.6	134.1
Cash generated before working capital movements	245.2	248.9	186.2	191.2
Changes in:				
Trade and other receivables	2.7	(2.2)	1.5	(14.0)
Trade and other payables	(9.2)	(6.0)	(20.1)	2.8
Inventories	(18.9)	(70.7)	5.9	(9.9)
Provisions	(4.6)	(46.1)	(1.1)	(44.4)
	(30.0)	(125.0)	(13.8)	(65.5)
Cash generated from operating activities	215.2	123.9	172.4	125.7
Interest paid	(134.0)	(130.1)	(89.3)	(92.0)
Tax paid	-	(0.1)	-	-
Net cash inflow from operating activities	**81.2**	**(6.3)**	**83.1**	**33.7**
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	1.0	1.3	0.7	9.1
Proceeds from sale of property, plant and equipment and investment property	40.4	23.4	34.7	29.7
Proceeds from sale of investments	8.3	-	8.3	-
Acquisition and construction of property, plant and equipment, investment property and software	(191.5)	(218.0)	(104.7)	(101.3)
Acquisition of subsidiary, net of cash acquired	-	(64.8)	-	(64.8)
Acquisition of other investments	(3.7)	(0.1)	(3.7)	(1.6)
Capital grants received	36.3	32.3	0.3	-
Dividends received from joint ventures	0.5	-	-	-
Loans to joint ventures	3.8	(5.1)	3.8	(5.1)
Loans to other Group entities	-	-	(24.5)	(13.6)
Net cash outflow from investing activities	**(104.9)**	**(231.0)**	**(85.1)**	**(147.6)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from loans and borrowings	167.0	314.0	114.0	367.5
Repayment of borrowings	(88.9)	(158.0)	(98.9)	(260.2)
Net cash flow from financing activities	**78.1**	**156.0**	**15.1**	**107.3**
Net increase/(decrease) in cash and cash equivalents	**54.4**	**(81.3)**	**13.1**	**(6.6)**
Cash and cash equivalents 1 April 2018	95.7	177.0	2.0	8.6
Cash and cash equivalents 31 March 2019	**150.1**	**95.7**	**15.1**	**2.0**

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

Details of the prior year adjustment are included in note 1.

The notes and appendices on pages 66 to 146 form part of these Financial Statements.

Notes to the Financial Statements

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 Social Housing in England 2015. Additional guidance is taken from the Statement of Recommended Practice: Accounting by Registered Social Housing Providers 2014 (the SORP) where this does not conflict with IFRS.

Changes to accounting policies

The Group has adopted IFRS 15 and IFRS 9 from 1 April 2018, when they became effective. A number of other new standards 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 these standards, comparative information throughout these Financial Statements has not been restated to reflect the requirements of the new standards. Additionally, the disclosure requirements have not generally been applied to comparative information.

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

Prior year adjustment

When undertaking a review of development assets the Group has reviewed the classification of properties being developed for sale under shared ownership arrangements. As a result of this review it was identified that £30.2 million for the Group and £10.4 million for the Association of shared ownership properties under construction, that were previously classified under Property, Plant and Equipment, should be more fairly classified as Inventory within current assets, in order to accurately reflect the percentage intended for first tranche sale. An adjustment has been made to the prior period to reflect this change of classification, which does not impact the carrying values of the assets concerned and has no impact on the prior period income statement.

The impact of the restatement on the prior period Statement of Financial Position is illustrated below:

Group	2018 Previously Stated £m	2018 Restatement £m	2018 Restated £m
Property, plant and equipment (note 12)	3,293.3	(30.2)	3,263.1
Inventory (note 18)	61.5	30.2	91.7

Association	2018 Previously Stated £m	2018 Restatement £m	2018 Restated £m
Property, plant and equipment (note 12)	2,442.2	(10.4)	2,431.8
Inventory (note 18)	17.0	10.4	27.4

The restatement to property, plant and equipment and inventory has also been reflected in the prior period Statement of Cash Flows.

Additionally, the Statement of Cash Flows for the Group and Association have been restated to present the proceeds from first tranche and outright property sales within operating cash flows; previously these were presented as cash flows from investing activities. This has no impact on the prior period Income Statement.

The impact of both the above restatements on the prior period Statement of Cash Flows is illustrated below:

Group	2018 Previously Stated £m	2018 Restatement £m	2018 Restated £m
Cash generated before working capital movements	243.1	5.8	248.9
Working capital movements	(54.3)	(70.7)	(125.0)
Cash generated from operating activities	188.8	(64.9)	123.9
Interest and tax paid	(130.2)	-	(130.2)
Net cash in flow/(out flow) from operating activities	58.6	(64.9)	(6.3)
Net cash out flow from investing activities	(295.9)	64.9	(231.0)

Association	2018 Previously Stated £m	2018 Restatement £m	2018 Restated £m
Cash generated before working capital movements	189.1	2.1	191.2
Working capital movements	(55.5)	(10.0)	(65.5)
Cash generated from operating activities	133.6	(7.9)	125.7
Interest and tax paid	(92.0)	-	(92.0)
Net cash in flow/(out flow) from operating activities	41.6	(7.9)	33.7
Net cash out flow from investing activities	(155.5)	7.9	(147.6)

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 of the Board and Operating and Financial Review on pages 4 to 41. Included within this, the Group Finance Director's Performance Review discusses the Group's financial position in terms of borrowing strategy and capacity.

The Group manages its exposure to risk and this activity is reviewed and scrutinised by the Group Audit and Risk Committee, with the key risks being faced by the Group and the internal control measures implemented being discussed in more detail on pages 51 to 53. Note 23 of the Financial Statements also discusses the Group's liquidity and credit risk.

The Group's core operations, although expanding, 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), as well as 30-year long-term projections in order to map the growth of the business.

Despite the challenges presented by recent Government announcements, the Group's strategy and core strength is reflected in the external ratings with the RSH and credit agencies, with a V1 viability status from the RSH as well as maintaining A2 status from Moody's and A+ status from Standard & Poor's.

In conjunction with the business plan and the stress testing discussed in the viability statement on page 50, the Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for a period of at least 12 months. Accordingly, it continues to adopt the going concern basis in preparing the Group and Association's Financial Statements.

Brexit

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

The Group is a large borrower of capital and there was initially concern that Brexit 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. The Group has ensured sufficient liquidity is available through committed facilities and cash balances that cover well over 12 months beyond the year-end.

Staffing, particularly within the care home business, has and will continue to be impacted by Brexit. 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.

The uncertain impacts of Brexit are affecting the property market. The Group has modelled scenarios where house prices reduce significantly within its long-term financial projections. A general mitigating strategy for the Group is to convert properties for sale to market or affordable rents. In addition, sales schemes are located throughout the country thus reducing the impact of a regional decline in house prices.

Brexit 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.

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 2015 - 2017 Cycle
- IFRIC 23 (1 January 2019)
- Amendments to IFRS 9 (1 January 2019)
- Amendments to IAS 19 Employee Benefits
- Amendments to IAS 1 Presentation of Financial Statements
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- Ammendments to references to the conceptual framework in IFRS.

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

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

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

The Group's non-cancellable operating lease commitments on an undiscounted basis at 31 March 2019 are £114.5 million. Operating leases within the Group relate primarily to property across the range of our operations and certain office locations, with few non-property leases. The actual impact of applying IFRS 16 will depend on several factors including the discount rates for each lease calculated as at 1 April 2019, the expected lease term (including renewal options) and any exemptions for short-term and low-value leases. IFRS 16 requires future lease liabilities to be discounted and therefore the amount that the Group will recognise as a right of use asset at 1 April 2019 is expected to be lower than the undiscounted commitment of £114.5 million at 31 March 2019 (note 24).

The Group has implemented an accounting software solution utilising our ERP system to manage the transition to IFRS 16. Based on the information currently available for the operating leases that will be recognised as an adjustment to the opening balance of retained earnings at 1 April 2019, the estimated impact on the key amounts in the Group's Financial Statements that will be affected is as follows:

Property, plant and equipment	Increase	Approximately 1%
Net debt	Increase	Approximately 1%
EBITDA	Increase	Approximately 1%
Operating surplus	Increase	Approximately 1%
Surplus before tax	Increase	Marginal

Transition

The Group will apply IFRS 16 from its effective date using the modified retrospective approach, under which the cumulative effect of adoption will be recognised as an adjustment to the opening balance of retained earnings at 1 April 2019, with no restatement of comparative information.

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 2014 (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.

Impairment of property assets

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

- future occupancy levels;
- fee rates;
- inflation rates;
- discount rates; and
- sustainable EBITDARM and EBITDARM multiples for determining valuations.

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

Other accounting judgements, estimates and assumptions

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. The Group does not have any key assumptions or sources of estimation uncertainty at the reporting date date that may have a significant risk of causing a material adjustment to the carrying amounts of inventory within the next financial year. Notwithstanding this, as a material portion of the Group's activities are undertaken through housebuilding and development, 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.

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 determine 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 page 75). 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.

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 classified as being available for sale and are stated at fair value with any resultant gain or loss being recognised directly in reserves, except for impairment losses. Unlisted investments are classified as loans and receivables and are stated at amortised cost less impairment.

Segmental reporting

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 and the Group Finance Director.

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.

Revenue

The Group has applied IFRS 15 from 1 April 2018. Information about the Group's accounting policies relating to contracts with customers is detailed in note 2. The effect of initial application is described in Appendix 3.

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.

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

Land and buildings:

Land and buildings consists of housing properties for social rent (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 and buildings continued

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

Structure	40 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 (finance leases)	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.

Finance leases

Housing properties held under finance leases are recorded in the Statement of Financial Position on inception at a value equal to the discounted minimum lease payments over the lease period. The discount rate applied is that which is implicit in the lease from the lessor's perspective. If the discount rate cannot be identified, a rate from a similar arrangement is applied. The asset is depreciated on a straight-line basis over the lease period to its deemed residual value, or to £nil if there is no option to acquire the asset at the end of the lease term. The corresponding liability is recorded as a payable and the interest element of the finance charge is charged to the Statement of Comprehensive Income over the primary lease period on a constant rate basis.

Amounts receivable under finance leases are recorded in the Statement of Financial Position at the present value of the future contractual cash flows from the lessee. Annual amounts received in respect of interest on finance leases are recognised in the Statement of Comprehensive Income.

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

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

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

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

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

For non-social housing properties, VIU is calculated using an assessment of future discounted cash flows over a period of up to 30 years.

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.

Operating leases

Payments made under operating leases are recognised in the Statement of Comprehensive Income on a straight-line basis 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 FVPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Classification and subsequent measurement

a) Financial assets

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

Financial assets are not reclassified subsequent to their initial recognition unless the 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

The effect of initially applying IFRS 15 on the Group's revenue from contracts with customers is described in Appendix 3.

Accounting policies - 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. Adoption of the new standard has not resulted in any changes to the timing of revenue recognition for the Group.

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 new Standard.

Significant accounting judgements - revenue

Many of the Group's activities, detailed in the tables on the following pages, involve a high number of end service users, each of whom has a separate contract. However, for each activity type (for example, general needs housing) there is very little variation in the substance of the individual contracts. In arriving at its conclusions over application of IFRS 15, management has therefore applied the practical expedient that allows application of the Standard to portfolios of contracts with similar characteristics, rather than to individual contracts. Management believes that the effect on the Financial Statements of applying the Standard to the portfolios does not differ materially from applying the Standard to the individual contracts within the portfolios.

Detailed consideration has been given to the way in which shared ownership property transactions should be accounted for under IFRS 15, with the conclusion that existing practice remains the most appropriate treatment. 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.

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 table, 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 Registered Providers of Social Housing 2015 (Appendices 1 and 2) and reconciled to the Group's operating segments (note 6).

Year ended 31 March 2019 - Group	Affordable housing	Supported living	Care	Student & market rented	Development property sales	All other segments	Total
Revenue recognised over time	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Income from social housing lettings	374.8	26.2	-	3.9	-	-	**404.9**
Other development income	-	-	-	-	-	0.2	**0.2**
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 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**

Strategic Report
Directors' Report
Financial Statements
Other Information

Disaggregation of revenue

Year ended 31 March 2019 - Association	Affordable housing	Supported living	Care	Student & market rented	Development property sales	All other segments	Total
Revenue recognised over time	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Income from social housing lettings	321.3	24.8	-	3.9	-	-	**350.0**
Other development income	-	-	-	-	-	0.2	**0.2**
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**
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 2019 £m	Association 2019 £m
Contract receivables (included in trade and other receivables)		
Tenant rental receivables (note 16)	13.0	11.0
Other trade receivables (note 16)	18.8	5.5
Accrued income (note 16)	6.1	0.7
	37.9	17.2
Contract assets		
Amounts recoverable on construction contracts	0.3	0.3
	0.3	0.3
Contract liabilities		
Payments received in advance	(18.1)	(14.2)
Deferred income	(7.7)	(2.1)
Other contract liabilities	(1.0)	(1.0)
	(26.8)	(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.

The disclosure requirements of IFRS 15 have not been applied to comparative information, in accordance with the Standard. See Appendix 3 for further details.

3. Other income

	Group 2019 £m	Group 2018 £m	Association 2019 £m	Association 2018 £m
Gift aid and distribution of reserves	-	-	14.4	12.2
	-	-	14.4	12.2

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		Association	
	2019	2018	2019	2018
The surplus is arrived at after charging/(crediting):	£m	£m	£m	£m
Cost of sales				
Cost of inventories recognised as an expense	17.3	10.9	7.6	5.7
Cost of construction contracts	4.2	2.9	4.2	2.9
Operating expenditure				
Rented and sheltered bad debts (note 23)	1.8	5.0	1.4	4.6
Other bad debts (note 23)	(0.2)	(0.7)	0.2	(1.2)
Depreciation of property, plant and equipment (note 12)	52.5	40.9	41.8	32.4
Impairment of property, plant and equipment (note 12)	1.0	0.1	1.0	-
Accelerated depreciation on replaced components (included in disposals in note 12)	-	5.0	-	4.8
Depreciation of investment property (note 13)	4.1	3.6	1.6	1.9
Impairment of investment property (note 13)	0.1	1.6	0.1	-
Amortisation of intangible assets (software) (note 11)	9.3	9.1	9.3	9.1
Impairment of assets classified as held for sale (note 19)	0.3	-	-	-
Operating lease rental cost	2.9	3.0	2.9	2.9
Other gains and losses				
Surplus on sale of property, plant and equipment (note 7)	22.1	9.5	20.7	6.2
Surplus on sale of investments (note 7)	0.6	0.1	0.6	0.1

5. Auditor's remuneration

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

	Group		Association	
	2019 £m	2018 £m	2019 £m	2018 £m
Fees payable to the Association's auditor and its associates for the audit of these Financial Statements	0.4	0.2	0.3	0.2
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	0.3	-	-
Total audit fees	**0.6**	**0.5**	**0.3**	**0.2**
Other assurance services	0.2	0.3	0.4	0.3
Total non-audit fees	**0.2**	**0.3**	**0.4**	**0.3**
Total audit and non-audit fees	**0.8**	**0.8**	**0.7**	**0.5**

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 £10,000 (2018: £10,000).

Other assurance services relate to regulatory reviews and reviews of service charge accounts.

6. Operating segments

Information relating to each reportable segment is set out below:

2019	Affordable housing	Supported living	Care	Student & market rented	Development sales	All other segments*	Intra-Group eliminations	Total
	£m	£m	£m	£m	£m	£m	£m	£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)
Other gains and losses								22.7
Share of profits of joint ventures								3.1
Group operating surplus								**203.7**

2018	Affordable housing	Supported living	Care	Student & market rented	Development sales	All other segments*	Intra-Group eliminations	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Revenue from external customers	386.4	70.7	174.1	54.8	16.7	5.4	-	708.1
Internal maintenance income	135.6	-	-	-	-	-	(135.6)	-
Internal maintenance costs	(135.6)	-	-	-	-	-	135.6	-
Cost of sales	-	-	-	-	(10.9)	(2.9)	-	(13.8)
Operating costs	(173.8)	(68.4)	(149.5)	(27.6)	-	(8.2)		(427.5)
Divisional EBITDA**	**212.6**	**2.3**	**24.6**	**27.2**	**5.8**	**(5.7)**	**-**	**266.8**
Depreciation	(36.9)	(7.1)	(6.5)	(5.2)	-	(0.5)	-	(56.2)
Impairment	-	-	(0.1)	(1.6)	-	-	-	(1.7)
Reportable segment surplus	**175.7**	**(4.8)**	**18.0**	**20.4**	**5.8**	**(6.2)**	**-**	**208.9**
Corporate central overheads								(20.3)
Other gains and losses								9.6
Share of profits of joint ventures								0.5
Group operating surplus								**198.7**

Divisional EBITDA %	Affordable housing	Supported living	Care	Student & market rented	Development sales	Total
2019	52.5%	6.0%	12.2%	49.2%	31.9%	35.5%
2018	55.0%	3.3%	14.1%	49.6%	34.7%	37.7%

*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 32 to 41.

7. Other gains and losses

Group

2019	Right to buy/ acquire	Subsequent staircasing	Disposal of surplus properties	Other fixed assets	Fixed asset investments	Total 2019
	£m	£m	£m	£m	£m	£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

2018	Right to buy/ acquire	Subsequent staircasing	Disposal of surplus properties	Other fixed assets	Fixed asset investments	Total 2018
	£m	£m	£m	£m	£m	£m
Proceeds	7.0	7.9	2.4	7.5	3.0	27.8
Cost of disposals	(6.7)	(3.9)	(1.6)	(3.1)	(2.9)	(18.2)
	0.3	4.0	0.8	4.4	0.1	9.6

Association

2019	Right to buy/ acquire	Subsequent staircasing	Disposal of surplus properties	Other fixed assets	Fixed asset investments	Total 2019
	£m	£m	£m	£m	£m	£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

2018	Right to buy/ acquire	Subsequent staircasing	Disposal of surplus properties	Other fixed assets	Fixed asset investments	Total 2018
	£m	£m	£m	£m	£m	£m
Proceeds	6.7	5.6	2.4	14.9	3.0	32.6
Cost of disposals	(6.5)	(3.0)	(1.6)	(12.3)	(2.9)	(26.3)
	0.2	2.6	0.8	2.6	0.1	6.3

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 Board for the financial year was as follows:

	2019 £'000	2018 £'000
Salary and benefits in kind - Executive Board Directors	745	637
Pension contributions and payments in lieu of pension contributions - Executive Board Directors	86	86
	831	723
Salary - Non-Executive Board Directors	193	175
Benefits in kind - Non-Executive Board Directors	-	-
	1,024	898

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

Executive Board Members at 31 March 2019 and those served during the year		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
Craig Moule	Group Chief Executive/Chief Financial Officer	255	15	270	38
David Bennett (retired 31/12/2018)	Group Chief Executive (former)	306	14	320	38
Nicole Seymour	Group Director – Corporate Services	148	7	155	10

		Salary £'000	Other benefits £'000	Total £'000
Non-Executive Board Members				
Jonathan Lander	Group Chair	45	-	45
Robert McComb	Vice Chair	25	-	25
Trudi Elliott	Non-Executive Board Director	23	-	23
Andrew Manning-Cox (appointed 01/10/2018)	Non-Executive Board Director	10	-	10
Denise Plumpton	Non-Executive Board Director	20	-	20
Elwyn Roberts	Non-Executive Board Director	25	-	25
Thelma Stober	Non-Executive Board Director	20	-	20
Gareth Tuckwell	Non-Executive Board Director	25	-	25
Other members of the Executive				
Operating division Directors		908	48	956

The emoluments of the highest paid Executive Board Director (excluding payments in lieu of pension contributions) were £320,000 (2018: £383,000).

Key management personnel – expenses

In addition to the emoluments detailed on page 90, key management personnel were reimbursed for expenses necessarily incurred in the conduct of their duties amounting to £14,365 (2018: £7,793).

Employee information

Employee (including Directors) costs charged during the year amounted to:	Group 2019 £m	Group 2018 £m	Association 2019 £m	Association 2018 £m
Wages and salaries	261.3	244.3	61.8	59.6
Social security costs	21.8	20.2	5.8	5.7
Other pension costs	7.9	6.6	3.2	3.0
	291.0	271.1	70.8	68.3

The average monthly number of persons (including Directors) employed during the year expressed in full-time equivalents was:	Group 2019 Number	Group 2018 Number	Association 2019 Number	Association 2018 Number
Site-based staff	7,145	7,097	664	642
Office-based staff	2,841	2,742	1,228	1,198
	9,986	9,839	1,892	1,840

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 £8,765 (2018: £4,446) 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:

	2019 Number	2018 Number
£60,000-£69,999	53	45
£70,000-£79,999	32	44
£80,000-£89,999	30	23
£90,000-£99,999	15	12
£100,000-£109,999	5	3
£110,000-£119,999	4	3
£120,000-£129,999	3	1
£130,000-£139,999	3	1
£140,000-£149,999	-	1
£150,000-£159,999	2	-
£160,000-£169,999	1	1
£180,000-£189,999	1	2
£190,000-£199,999	1	1
£210,000-£219,999	2	1
£220,000-£229,999	1	1
£290,000-£299,999	-	1
£300,000-£309,999	1	-
£350,000-£359,999	1	-
£430,000-£439,999	-	1
	155	141

9. Finance income and costs

a) Finance income

	Group 2019 £m	Group 2018 £m	Association 2019 £m	Association 2018 £m
Interest received and receivable from:				
Short-term cash deposits	1.7	0.2	1.3	-
Listed investments	0.5	0.7	0.5	0.7
Other interest	1.3	3.2	5.2	6.8
	3.5	4.1	7.0	7.5

b) Finance costs

	Group 2019 £m	Group 2018 £m	Association 2019 £m	Association 2018 £m
Bank loans, overdrafts and other loans:				
Repayable within five years by instalments	13.7	12.0	9.5	8.3
Repayable wholly or partly in more than five years	111.1	113.4	81.1	84.4
Interest in respect of assets held under finance leases	8.9	8.5	1.6	1.6
Less: amounts transferred to housing properties in the course of construction	(4.5)	(3.4)	(0.9)	(1.0)
	129.2	130.5	91.3	93.3
Fair value loss/(gain) on derivative financial instruments	0.1	(1.1)	-	-
Finance costs of defined benefit pension schemes	1.0	2.6	0.9	2.6
	130.3	132.0	92.2	95.9

Included within bank loans, overdrafts and other loans repayable wholly or partly in more than five years is £1.4 million (2018: £1.4 million) in respect of premium and discount amortisation for the Group and £1.1 million (2018: £1.0 million) for the Association.

During the year the Group has recorded £nil (2018: £1.3 million) and the Association has recorded £nil (2018: £1.3 million) in respect of the costs of termination of loans.

10. Taxation on surplus on ordinary activities

Corporation tax:	Group 2019 £m	Group 2018 £m	Association 2019 £m	Association 2018 £m
Current year	-	0.3	-	-
Adjustments in respect of prior year	-	0.2	(0.1)	-
Current tax charge	-	0.5	(0.1)	-
Deferred tax credit (see note 25)	(0.6)	(0.9)	-	-
Total tax credit	(0.6)	(0.4)	(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 (2018: lower) than the standard rate of corporation tax in the UK of 19 per cent (2018: 19 per cent) for the Group and Association. The differences are explained below:

	Group 2019 £m	Group 2018 £m	Association 2019 £m	Association 2018 £m
Surplus before tax	76.9	70.8	68.5	57.1
	76.9	70.8	68.5	57.1
Surplus before tax multiplied by the main rate of corporation tax in the UK of 19% (2018: 19%)	14.6	13.5	13.0	10.9
Effects of:				
Activities which are exempt from taxation	(14.6)	(13.2)	(13.0)	(10.9)
Prior year taxation adjustment	-	0.2	(0.1)	-
Total current tax charge	-	0.5	(0.1)	-

Factors affecting future tax charge:

A reduction in the UK corporation tax rate from 19 per cent to 17 per cent (effective from 1 April 2020) was substantively enacted on 15 September 2016.

11. Intangible assets

Group	Goodwill £m	Software (external) £m	Software (internal) £m	Total £m
Cost				
At 1 April 2017	5.6	91.6	-	97.2
Additions	-	1.8	1.3	3.1
Disposals	-	(1.1)	-	(1.1)
Transfer to property, plant and equipment		(2.6)	-	(2.6)
At 31 March 2018	5.6	89.7	1.3	96.6
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
Amortisation and impairment				
At 1 April 2017	-	19.4	-	19.4
Amortisation for the year	-	9.1	-	9.1
Disposals	-	(1.0)	-	(1.0)
At 31 March 2018	-	27.5	-	27.5
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
Net book amount at 31 March 2019	5.6	55.7	3.0	64.3
Net book amount at 31 March 2018	5.6	62.2	1.3	69.1
Net book amount at 1 April 2017	5.6	72.2	-	77.8

Association	Goodwill £m	Software (external) £m	Software (internal) £m	Total £m
Cost				
At 1 April 2017	-	91.6	-	91.6
Additions	-	1.8	1.3	3.1
Disposals	-	(1.1)	-	(1.1)
Transfer to property, plant and equipment	-	(2.6)	-	(2.6)
At 31 March 2018	-	89.7	1.3	91.0
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
Amortisation and impairment				
At 1 April 2017	-	19.4	-	19.4
Amortisation for the year	-	9.1	-	9.1
Disposals	-	(1.0)	-	(1.0)
At 31 March 2018	-	27.5	-	27.5
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
Net book amount at 31 March 2019	-	55.7	3.0	58.7
Net book amount at 31 March 2018	-	62.2	1.3	63.5
Net book amount at 1 April 2017	-	72.2	-	72.2

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	Restated Shared ownership under construction £m	Restated Total £m
Cost							
Balance at 1 April 2017	4,758.1	125.0	74.2	60.0	150.1	11.7	5,179.1
Acquisitions	67.0	-	-	-	-	-	67.0
Additions	81.3	-	13.8	0.7	134.7	40.7	271.2
Transfer to completed land and buildings	75.4	6.7	-	-	(75.4)	(6.7)	-
Transfer from/(to) inventory (restated, see note 1)	5.3	-	0.1	(0.4)	(18.4)	(30.2)	(43.6)
Transfer from investment property	6.2	-	-	-	-	-	6.2
Disposals	(31.9)	(4.0)	(3.5)	(0.1)	-	-	(39.5)
Transfer from intangible assets	-	-	2.6	-	-	-	2.6
Balance at 31 March/1 April 2018 (restated, see note 1)	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 2019	5,150.3	138.8	105.9	68.6	119.7	24.7	5,608.0
Depreciation and impairment							
Balance at 1 April 2017	253.1	2.2	40.4	16.9	-	-	312.6
Depreciation charge for the year	29.0	0.3	9.4	2.2	-	-	40.9
Impairment	0.1	-	-	-	-	-	0.1
Transfer to inventory	(0.5)	-	-	-	-	-	(0.5)
Transfer to investment property	(1.5)	-	-	-	-	-	(1.5)
Disposals	(3.3)	(0.1)	(2.5)	-	-	-	(5.9)
Balance at 31 March/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 2019	309.1	2.6	54.1	20.4	-	-	386.2
Social Housing Grant							
Balance at 1 April 2017	1,301.2	35.9	-	-	5.8	1.0	1,343.9
Additions	-	-	-	-	11.3	4.0	15.3
Transfer to other grant	(6.1)	-	-	-	-	-	(6.1)
Transfer to completed land and buildings	8.3	1.1	-	-	(8.3)	(1.1)	-
Transfer to investment property	4.0	-	-	-	-	-	4.0
Disposals	(4.6)	(0.1)	-	-	-	-	(4.7)
Balance at 31 March/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 2019	1,302.2	38.2	-	-	11.9	5.1	1,357.4
Other grant							
Balance at 1 April 2017	375.5	4.0	-	-	75.3	-	454.8
Additions	1.9	-	-	-	22.0	-	23.9
Transfer from Social Housing Grant	6.1	-	-	-	-	-	6.1
Transfer to completed land and buildings	23.5	-	-	-	(23.5)	-	-
Transfer to investment property	(2.3)	-	-	-	-	-	(2.3)
Disposals	(0.7)	-	-	-	-	-	(0.7)
Balance at 31 March/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 2019	452.7	4.0	-	-	48.2	-	504.9
Net book value							
31 March 2019	3,086.3	94.0	51.8	48.2	59.6	19.6	3,359.5
31 March 2018	2,977.7	84.4	39.9	41.1	108.4	11.6	3,263.1
1 April 2017	2,828.3	82.9	33.8	43.1	69.0	10.7	3,067.8

Included in the amounts disclosed above is Care property with a carrying value of £245.9 million (2018: £238.2 million).

Association	Land and buildings	Land and buildings shared ownership	Plant and equipment	Offices	Under construction	Restated shared ownership under construction	Restated total
	£m	£m	£m	£m	£m	£m	£m
Cost							
Balance at 1 April 2017	3,830.6	86.9	66.6	47.8	19.9	2.5	4,054.3
Additions	68.0	-	12.3	0.4	8.7	10.5	99.9
Transfer to completed land and buildings	3.7	0.9	-	-	(3.7)	(0.9)	-
Intra-Group transfer	(3.2)	-	-	-	2.6	-	(0.6)
Transfer to inventory (restated, see note 1)	(1.7)	-	-	(0.4)	-	(10.4)	(12.5)
Transfer from investment property	10.2	-	-	-	-	-	10.2
Disposals	(27.6)	(3.0)	(3.1)	-	-	-	(33.7)
Transfer from intangible assets	-	-	2.6	-	-	-	2.6
Balance at 31 March/1 April 2018 (restated, see note 1)	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 to 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 2019	3,950.0	84.9	95.3	55.7	9.4	1.7	4,197.0
Depreciation and impairment							
Balance at 1 April 2017	202.0	1.9	38.4	13.0	-	-	255.3
Depreciation charge for the year	22.2	0.1	8.4	1.7	-	-	32.4
Transfer to investment property	(1.5)	-	-	-	-	-	(1.5)
Disposals	(3.5)	-	(2.3)	-	-	-	(5.8)
Balance at 31 March/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 2019	242.4	2.1	50.3	15.4	-	-	310.2
Social Housing Grant							
Balance at 1 April 2017	1,217.4	31.8	-	-	2.0	0.6	1,251.8
Transfer to other grant	(4.0)	-	-	-	-	-	(4.0)
Transfer to completed land and buildings	1.5	-	-	-	(1.5)	-	-
Transfer from investment property	4.0	-	-	-	-	-	4.0
Disposals	(4.6)	-	-	-	-	-	(4.6)
Balance at 31 March/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 2019	1,209.3	31.8	-	-	0.9	-	1,242.0
Other grant							
Balance at 1 April 2017	154.8	3.3	-	-	-	-	158.1
Additions	1.2	-	-	-	-	-	1.2
Transfer from Social Housing Grant	4.0	-	-	-	-	-	4.0
Transfer to investment property	(2.0)	-	-	-	-	-	(2.0)
Disposals	(0.5)	-	-	-	-	-	(0.5)
Balance at 31 March/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 2019	159.7	3.3	-	-	-	-	163.0
Net book value							
31 March 2019	2,338.6	47.7	45.0	40.3	8.5	1.7	2,481.8
31 March 2018	2,289.0	47.7	33.9	33.1	27.0	1.1	2,431.8
1 April 2017	2,256.4	49.9	28.2	34.8	17.9	1.9	2,389.1

Included in the amounts disclosed above is Care property with a carrying value of £91.9 million (2018: £85.4 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 is a cash-generating unit.

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

Care homes are considered to have indicators of impairment when there has been a significant decline in performance, occupancy levels or regulatory ratings; or if significant reinvestment works are required. For the year ended 31 March 2019 some 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 four year forecasts; the forecasts were then extrapolated beyond four years based on long-term growth rates of 2 per cent. Management used a discount rate of 7.5 per cent (2018: 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.

As a result of these tests, impairment of £1.0 million was recognised for care homes within the Group and Association during the year (2018: £0.1 million for the Group only).

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 recognised £m
Discount rate – increase of 2%	(0.6)
Discount rate – decrease of 2%	0.4
Fee rates – increase of 5%	0.7
Fee rates – decrease of 5%	(0.8)
Occupancy – increase of 5 people per home	0.7
Occupancy – decrease of 5 people per home	(0.8)
Inflation rate – increase of 2%	0.2
Inflation rate – decrease of 2%	(0.5)

The impact of changes in primary assumptions used for determining fair values of these same properties is set out below:

Change in estimate	(Increase)/decrease in impairment recognised £m
EBITDARM – increase of 5%	0.3
EBITDARM – decrease of 5%	(0.2)
EBITDARM multiple – increase of 0.5	0.3
EBITDARM multiple – decrease of 0.5	(0.3)

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

Assets pledged as security

Property with a pre-grant carrying amount of £2,905.6 million (2018: £2,899.3 million) in the Group and £2,333.0 million (2018: £2,335.4 million) in the Association has been pledged to secure borrowings.

13. Investment property

	Group £m	Association £m
Cost		
Balance at 1 April 2017	304.2	174.1
Additions	1.5	-
Transfer to property, plant and equipment	(6.2)	(10.2)
Disposals	(3.9)	-
Balance at 31 March/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 2019	299.7	164.7
Depreciation and impairment		
Balance at 1 April 2017	55.5	10.3
Depreciation charge for the year	3.6	1.9
Impairment	1.6	-
Transfer from property, plant and equipment	1.5	1.5
Disposals	(5.2)	-
Balance at 31 March/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 2019	61.4	15.4
Social Housing Grant		
Balance at 1 April 2017	9.7	9.7
Transfer to property, plant and equipment	(4.0)	(4.0)
Balance at 31 March/1 April 2018	5.7	5.7
Additions	0.3	-
Transfer from property, plant and equipment	0.3	0.3
Balance at 31 March 2019	6.3	6.0
Other grant		
Balance at 1 April 2017	5.1	2.5
Transfer from property, plant and equipment	2.3	2.0
Disposals	(2.5)	-
Balance at 31 March/1 April 2018	4.9	4.5
Transfer from property, plant and equipment	0.3	-
Disposals	-	-
Balance at 31 March 2019	5.2	4.5
Net book value		
31 March 2019	226.8	138.8
31 March 2018	228.0	140.0
1 April 2017	233.9	151.6

Included in the amounts disclosed above is Student property with a carrying value of £204.5 million for the Group (2018: £207.1 million) and £118.5 million for the Association (2018: £119.6 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 is a cash-generating unit.

Commercial property is considered to have indicators of impairment if it is vacant or if there has been a significant decline in market value. For the year ended 31 March 2019 one commercial property was identified as having indicators of potential impairment.

Student accommodation is considered to have indicators of impairment when there has been a significant decline in occupancy levels or if significant reinvestment works are required. For the year ended 31 March 2019 two 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 using a discount rate of 7.5 per cent (2018: 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.

As a result of these reviews, impairment of £nil was recognised for student accommodation within the Group and Association during the year (2018: £1.6 million for the Group only). Impairment of £0.1 million was recognised in the Group and the Association in relation to a commercial property (2018: £nil).

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 recognised £m
Discount rate – increase of 2 %	-
Discount rate – decrease of 2 %	-
Fee rates – increase of 5%	-
Fee rates – decrease of 5%	(1.6)
Occupancy – increase of 5 people per site	-
Occupancy – decrease of 5 people per site	(0.5)
Inflation rate – increase of 2%	-
Inflation rate – decrease of 2%	-

To mitigate risk of impairment the Group continually reinvests in its assets. Where instances of under-performance or under-utilisation are evident, focussed 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 £456.2 million (2018: £441.0 million) for the Group and £282.0 million (2018: £283.2 million) for the Association. Of this fair value, £299.4 million (2018: £298.4 million) for the Group and £256.3 million (2018: £256.3 million) for the Association has been determined by independent valuations in accordance with RICS and the Red Book, with the remainder determined by net present value calculations based on current rent levels and expected increases. In accordance with the fair value measurement hierarchy discussed in note 23, these are deemed to be Level 3 valuations.

Restrictions

At 31 March 2019, there were no restrictions on the realisability of investment property or the remittance of income and proceeds of disposal for the Group or Association (2018: none).

Assets pledged as security

Investment property with a pre-grant carrying amount of £45.5 million (2018: £45.1 million) in the Group and £20.7 million (2018: £20.9 million) in the Association has been pledged to secure borrowings.

Assets held under finance leases

Included within investment properties for the Group are assets held under finance leases at a cost of £89.8 million (2018: £91.2 million) and a net book value of £79.1 million (2018: £81.3 million).

For the Association, included are assets held under finance leases at a cost of £20.6 million (2018: £20.6 million) and a net book value of £19.0 million (2018: £19.3 million).

Items recognised in the Statement of Comprehensive Income

Rental income from investment property during the year amounted to £41.1 million (2018: £39.4 million) for the Group and £20.5 million (2018: £20.0 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 £29.8 million (2018: £28.3 million) for the Group and £15.0 million (2018: £14.2 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 (2018: £nil) for both the Group and Association.

14. Other investments

	Group		Association	
	2019 £m	**2018 £m**	**2019 £m**	**2018 £m**
FVOCI – equity investment				
Listed investments	11.1	17.4	11.0	17.3
	11.1	17.4	11.0	17.3
Carried at amortised cost				
Unlisted investments	15.9	14.2	15.8	14.2
Homebuy				
- Investment	1.5	1.5	-	-
- Grant	(1.5)	(1.5)	-	-
	15.9	14.2	15.8	14.2
Total other investments	**27.0**	**31.6**	**26.8**	**31.5**

The Directors believe that the carrying value of investments is supported by their underlying net assets. The historical cost of the Group's and Association's listed investments is £9.9 million (2018: £15.4 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 2017	19.7	19.6
Additions	2.4	2.4
Disposal	(4.2)	(4.2)
Revaluations	(0.5)	(0.5)
As at 31 March 2018	17.4	17.3
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

See note 23 for further details.

15. Derivative financial instruments

Fair value of derivative assets	**Group and Association 2019 £m**	**2018 £m**
US Private Placement foreign exchange swap	22.3	13.9
	22.3	13.9

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**	
	2019 £m	**2018 £m**	**2019 £m**	**2018 £m**
Interest rate swap	(3.4)	(3.3)	-	-
	(3.4)	(3.3)	-	-

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		Association	
	2019 £m	2018 £m	2019 £m	2018 £m
Current:				
Tenant rental receivables (note 23d)	13.0	12.2	11.0	10.5
Other trade receivables (note 23d)	18.8	21.2	5.5	8.4
Amounts due from subsidiary undertakings	-	-	40.5	77.3
Prepayments	16.4	19.5	14.0	15.1
Accrued income	6.1	7.7	0.7	1.0
Amounts due under finance lease (note 17)	0.8	0.5	-	-
Amounts due under construction contracts*	-	0.2	-	0.2
Other receivables	20.4	28.7	18.4	17.4
	75.5	90.0	90.1	129.9
Non-current:				
Amounts due under finance lease (note 17)	13.3	14.4	-	-
Amounts due from subsidiary undertakings	-	-	94.6	31.9
Amounts due from joint venture	29.3	31.8	29.3	31.8
	42.6	46.2	123.9	63.7
Total trade and other receivables	**118.1**	**136.2**	**214.0**	**193.6**

Tenant rental receivables are stated net of a provision of £6.1 million for the Group (2018: £8.6 million) and £5.1 million for the Association (2018: £7.4 million). Further information on rental receivables is contained in note 23d.

*Under IFRS 15, amounts due on construction contracts have been classified as contract assets, which are presented separately on the Statement of Financial Position. Comparatives have not been restated, in accordance with the Standard.

17. Finance lease receivable

	Group		Association	
	2019 £m	2018 £m	2019 £m	2018 £m
Land and buildings:				
Under one year	0.8	0.5	-	-
In the second to fifth year inclusive	3.1	2.4	-	-
In more than five years	10.2	12.0	-	-
	14.1	14.9	-	-

The amounts receivable in respect of finance 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 16 years.

18. Inventory

	Group		Association	
	2019 £m	Restated 2018 £m	2019 £m	Restated 2018 £m
Materials and consumables	1.4	0.8	-	-
Properties held for sale – completed	12.7	21.3	8.1	14.9
Properties held for sale – under construction	96.5	69.6	13.4	12.5
Total inventory	**110.6**	**91.7**	**21.5**	**27.4**

	Group £m	Association £m
Properties held for sale as at 1 April 2018	90.9	27.4
Additions	45.0	1.7
Disposals – property sales	(17.3)	(7.6)
Disposals – NSSE handovers	(9.4)	-
Properties held for sale as at 31 March 2019	**109.2**	**21.5**

Within the Group and Association, no inventories have been written off or written-down to net realisable value during the year (2018: none). Details of the prior year adjustment are included in note 1.

19. Assets classified as held for sale

	Group £m	Association £m
At 1 April 2018	9.0	4.1
Impairment	(0.3)	-
Disposals	(7.4)	(4.1)
At 31 March 2019	1.3	-

In the Group, assets transferred from property, plant and equipment had a cost of £nil million (2018: £8.5 million) and accumulated depreciation of £nil (2018: £0.6 million). In the Association, assets transferred from property, plant and equipment had a cost of £nil (2018: £3.6 million) and accumulated depreciation of £nil (2018: £0.6 million).

20. Trade and other payables

	Group		Association	
	2019 £m	2018 £m	2019 £m	2018 £m
Current:				
Trade payables*	18.6	31.1	10.3	21.8
Amounts owed to subsidiary undertakings	-	-	6.8	17.5
Other taxation and social security payable	5.3	5.5	1.6	2.4
Other payables	13.2	12.0	2.7	2.7
Accruals	88.3	107.0	38.0	48.1
Deferred income*	-	9.7	-	4.0
Future maintenance on home ownership schemes	19.3	17.8	18.9	17.5
Recycled capital grant fund (a)	2.5	1.3	2.5	1.3
Disposals proceeds fund (b)	0.5	0.8	0.5	0.8
	147.7	185.2	81.3	116.1
Non-current:				
Recycled capital grant fund (a)	8.2	6.9	7.8	6.4
Disposals proceeds fund (b)	0.8	1.1	0.8	1.1
Other payables	1.7	2.2	-	-
	10.7	10.2	8.6	7.5
Total trade and other payables	**158.4**	**195.4**	**89.9**	**123.6**

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

*Under IFRS 15, deferred income and credit trade receivable balances have been reclassified as contract liabilities, which are presented separately on the Statement of Financial Position. Comparatives have not been restated, in accordance with the Standard.

(a) Recycled capital grant fund

	Group £m	Association £m
Recycled capital grant fund at 1 April 2018	8.2	7.7
Grants recycled	3.2	3.1
New build	(0.8)	(0.1)
Transfers to other Private Registered Providers	-	(0.7)
Other	0.1	0.3
Recycled capital grant fund at 31 March 2019	10.7	10.3

(b) Disposals proceeds fund

	Group £m	Association £m
Disposals proceeds fund at 1 April 2018	1.9	1.9
New build	(0.2)	(0.2)
Other	(0.4)	(0.4)
Disposals proceeds fund at 31 March 2019	1.3	1.3

Within the disposal proceeds fund and recycled capital grant fund balances at 31 March 2019 for the Group and Association, £nil relates to recycled grants with the Greater London Authority (2018: £0.4 million).

The remainder of the grant within the disposals proceeds fund and recycled capital grant fund relates to grants received from Homes England.

21. Loans and borrowings

	Group		Association	
	2019 £m	2018 £m	2019 £m	2018 £m
Current:				
Senior notes and debenture stock	5.5	20.0	5.5	20.0
Bank loans and overdrafts	68.0	83.5	7.8	7.3
Net obligations under finance leases (note 22)	1.2	1.2	0.2	0.2
Amounts owed to Group companies	-	-	25.4	11.1
	74.7	104.7	38.9	38.6
Non-current:				
Senior notes and debenture stock	1,406.1	1,408.3	593.6	619.3
Bank loans and mortgages	1,185.8	1,070.6	457.6	465.7
Net obligations under finance leases (note 22)	144.3	145.0	24.6	24.8
Amounts owed to Group companies	-	-	663.2	609.9
	2,736.2	2,623.9	1,739.0	1,719.7
Total loans and borrowings	**2,810.9**	**2,728.6**	**1,777.9**	**1,758.3**

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

Group	Finance leases £m	Other borrowings £m	Total £m
Due within one year	1.2	73.5	74.7
Due in more than one year but less than two years	1.3	61.5	62.8
Due in more than two years but less than five years	4.1	335.1	339.2
Due in more than five years	138.9	2,195.3	2,334.2
	145.5	2,665.4	2,810.9

Association	Finance leases £m	Other borrowings £m	Total £m
Due within one year	0.2	38.7	38.9
Due in more than one year but less than two years	0.2	44.7	44.9
Due in more than two years but less than five years	0.7	195.5	196.2
Due in more than five years	23.7	1,474.2	1,497.9
	24.8	1,753.1	1,777.9

The Group recorded security on loans with charges on property totalling £2,425.2 million (2018: £2,348.2 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 £244.8 million (2018: £257.5 million). Borrowings are stated net of £15.2 million set up costs (2018: £16.1 million). Further details on interest rates are contained in note 23a.

The Association recorded security on loans with charges on property totalling £1,388.3 million (2018: £1,374.1 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 £244.8 million (2018: £257.5 million). Borrowings are stated net of £11.4 million set up costs (2018: £12.0 million).

22. Finance leases payable

The minimum lease payments under finance leases fall due as shown below:

	Group		Association	
	2019 £m	2018 £m	2019 £m	2018 £m
Land and buildings:				
Under one year	9.0	8.8	1.6	1.6
In the second to fifth year inclusive	36.8	36.4	6.8	6.7
In more than five years	205.9	215.4	48.2	49.9
Total gross payments	251.7	260.6	56.6	58.2
Financing costs	(106.2)	(114.4)	(31.8)	(33.2)
Net finance leases	145.5	146.2	24.8	25.0

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

	Group		Association	
	2019 £m	2018 £m	2019 £m	2018 £m
Land and buildings:				
Under one year	1.2	1.2	0.2	0.2
In the second to fifth year inclusive	5.4	5.1	0.9	0.8
In more than five years	138.9	139.9	23.7	24.0
	145.5	146.2	24.8	25.0

All leases are on a fixed repayment basis and no arrangements have been entered into for contingent payments. The Group's obligations under finance leases are secured by the lessors' charges over the leased assets.

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 of the Board and Operating and Financial Review.

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	
	2019 £m	2018 £m	2019 £m	2018 £m
Unlisted investments (note 14)	15.9	14.2	15.8	14.2
Rental receivables (note 16)	13.0	12.2	11.0	10.5
Other trade receivables (note 16)	18.8	21.2	5.5	8.4
Other receivables (note 16)	20.4	28.7	18.4	17.4
Amounts due on construction contracts (note 2 and 16)	0.3	0.2	0.3	0.2
Amounts due from subsidiary undertakings (note 16)	-	-	135.1	109.2
Amounts due from joint venture (note 16)	29.3	31.8	29.3	31.8
Finance lease receivable (note 17)	14.1	14.9	-	-
Cash and cash equivalents	150.1	95.7	15.1	2.0
	261.9	218.9	230.5	193.7

The Group's investments in the Statement of Financial Position were £27.0 million at 31 March 2019 (2018: £31.6 million). Of this value, £11.1 million (2018: £17.4 million) was classed as FVOCI and £15.9 million (2018: £14.2 million) was classed as held at amortised cost. The Association's investments in the Statement of Financial Position were £26.8 million at 31 March 2019 (2018: £31.5 million). Of this value, £11.0 million (2018: £17.3 million) was classed as FVOCI and £15.8 million (2018: £14.2 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 £95.6 million (2018: £109.0 million) for the Group and £199.3 million (2018: £177.5 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 £118.1 million at 31 March 2019 (2018: £136.2 million) for the Group and £214.0 million at 31 March 2019 (2018: £193.6 million) for the Association. Prepayments and accrued income balances of £22.5 million (2018: £27.2 million) for the Group and £14.7 million (2018: £16.1 million) for the Association are not considered to fall within the definition of a financial asset.

Financial assets at FVOCI	Group		Association	
	2019 £m	2018 £m	2019 £m	2018 £m
Listed investments (note 14)	11.1	17.4	11.0	17.3

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 2019, the Group and Association's financial liability balances were as follows:

Financial liabilities at amortised cost - current	Group		Association	
	2019 £m	2018 £m	2019 £m	2018 £m
Debt finance excluding set up costs	75.4	105.2	39.6	39.2
Trade payables (note 20)	18.6	31.1	10.3	21.8
Net obligations under finance leases (note 22)	1.2	1.2	0.2	0.2
Amounts due to subsidiary undertakings (note 20)	-	-	6.8	17.5
Other payables (note 20)	37.8	35.3	23.2	22.6
	133.0	172.8	80.1	101.3

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 £147.7 million (2018: £185.2 million) for the Group and £81.3 million (2018: £116.1 million) for the Association. The difference between the Statement of Financial Position and the amounts disclosed above is £91.3 million (2018: £118.8 million) for the Group and £41.0 million (2018: £54.2 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		Association	
	2019 £m	2018 £m	2019 £m	2018 £m
Debt finance excluding set up costs	2,605.2	2,493.3	1,724.9	1,706.1
Net obligations under finance leases (note 22)	144.3	145.0	24.6	24.8
Other payables (note 20)	1.7	2.2	-	-
	2,751.2	2,640.5	1,749.5	1,730.9

Non-current trade and other payables as disclosed in the Statement of Financial Position totalled £10.7 million (2018: £10.2 million) for the Group and £8.6 million (2018: £7.5 million) for the Association. Of these amounts, £1.7 million (2018: £2.2 million) in the Group is considered to fall within the definition of a financial liability while £nil (2018: £nil) is considered to fall within this definition in the Association.

Total current and non-current other financial liabilities at 31 March 2019 were £2,884.2 million (2018: £2,813.3 million) for the Group and £1,829.6 million (2018: £1,832.2 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**		**Association**	
	2019 £m	**2018 £m**	**2019 £m**	**2018 £m**
Derivative financial instruments – interest rate swap (note 15)	3.4	3.3	-	-
	3.4	3.3	-	-

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 (2018: £1.1 million movement) for the Group and £nil (2018: £nil) for the Association are shown as a credit/(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 obligations under finance leases 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 19.2 years (2018: 19.8 years) for the Group and 17.6 years (2018: 18.3 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 2019 after hedging instruments was:

	Group		**Association**	
	£m	**%**	**£m**	**%**
Fixed rate financial liabilities	2,445.7	87.0	1,666.4	93.7
Floating rate financial liabilities	365.2	13.0	111.5	6.3
	2,810.9	100.0	1,777.9	100.0

The cost of borrowing of the Group fixed rate financial liabilities is 5.01 per cent (2018: 5.05 per cent) and for the Association 5.27 per cent (2018: 5.32 per cent). The cost of borrowing of the Group's total financial liabilities is 4.56 per cent (2018: 4.75 per cent) and for the Association 5.05 per cent (2018: 5.23 per cent). The weighted average life of fixed rate financial liabilities for the Group is 19.2 years (2018: 19.8 years) and for the Association is 17.6 years (2018: 18.3 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 87.0 per cent fixed rate debt (2018: 92.3 per cent) and 13.0 per cent floating rate debt (2018: 7.7 per cent). Association borrowings comprise 93.7 per cent fixed rate debt (2018: 97.5 per cent) and 6.3 per cent floating rate debt (2018: 2.5 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 £0.7 million (2018: £0.3 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 £6.0 million (2018: £6.2 million).

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

	Group		**Association**	
	2019 Book value £m	**2019 Fair value £m**	**2019 Book value £m**	**2019 Fair value £m**
Senior notes and debenture stock (note 21)	1,406.1	2,010.8	593.6	764.1
Bank loans and mortgages (note 21)	1,185.8	1,441.9	457.6	628.1
Net obligations under finance leases (notes 21, 22)	144.3	144.3	24.6	24.7
Amounts owed to Group companies (note 21)	-	-	663.2	945.1
	2,736.2	3,597.0	1,739.0	2,362.0

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

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

For the balances at 31 March 2019, the range of discount rates used was 1.68 per cent to 2.12 per cent (2018: 1.69 per cent to 2.33 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	22.3	Derivative financial assets	3.7	0.1

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	(11.0)	-	(11.0)
In sterling swap rates only	8.4	-	8.4
In dollar swap rate only	(19.4)	-	(19.4)
In the year end exchange rate	(0.9)	-	(0.9)
In the year end exchange rate and in the dollar and sterling swap rates	(11.9)	-	(11.9)

Association	Asset £m	Income Statement £m	Cash flow hedge reserve £m
In both dollar and sterling swap rates	(11.0)	-	(11.0)
In sterling swap rates only	8.4	-	8.4
In dollar swap rate only	(19.4)	-	(19.4)
In the year end exchange rate	(0.9)	-	(0.9)
In the year end exchange rate and in the dollar and sterling swap rates	(11.9)	-	(11.9)

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.

At 31 March 2019, in addition to available cash of £150.1 million, the Group had facilities available comprising revolving credit facilities and term loans totalling £200 million.

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 2019 – Group	Debt £m	Interest on debt £m	Finance 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 2018 – Group	Debt	Interest on debt	Finance lease liabilities	Other liabilities not in net debt	Interest on hedge accounted derivatives	Total
	£m	£m	£m	£m	£m	£m
Due less than one year	(103.7)	(127.9)	(8.8)	(66.4)	(3.0)	(309.8)
Between one and two years	(44.0)	(126.9)	(9.0)	(2.2)	(3.0)	(185.1)
Between two and three years	(49.1)	(121.9)	(9.1)	-	(2.9)	(183.0)
Between three and four years	(39.5)	(120.2)	(9.1)	-	(2.8)	(171.6)
Between four and five years	(36.7)	(117.7)	(9.2)	-	(2.8)	(166.4)
Greater than five years	(2,257.7)	(1,610.9)	(215.4)	-	(35.5)	(4,119.5)
Gross contractual cash flows	**(2,530.7)**	**(2,225.5)**	**(260.6)**	**(68.6)**	**(50.0)**	**(5,135.4)**

At 31 March 2019 – Association	Debt	Interest on debt	Finance lease liabilities	Other liabilities not in net debt	Interest on hedge accounted derivatives	Total
	£m	£m	£m	£m	£m	£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)**

At 31 March 2018 – Association	Debt	Interest on debt	Finance lease liabilities	Other liabilities not in net debt	Interest on hedge accounted derivatives	Total
	£m	£m	£m	£m	£m	£m
Due less than one year	(38.3)	(94.4)	(1.6)	(61.9)	(2.3)	(198.5)
Between one and two years	(21.7)	(93.6)	(1.6)	-	(2.3)	(119.2)
Between two and three years	(43.4)	(90.0)	(1.7)	-	(2.3)	(137.4)
Between three and four years	(33.7)	(88.3)	(1.7)	-	(2.3)	(126.0)
Between four and five years	(30.4)	(86.3)	(1.7)	-	(2.3)	(120.7)
Greater than five years	(1,530.1)	(1,052.9)	(49.9)	-	(32.9)	(2,665.8)
Gross contractual cash flows	**(1,697.6)**	**(1,505.5)**	**(58.2)**	**(61.9)**	**(44.4)**	**(3,367.6)**

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 £341.0 million as at 31 March 2019 (2018: £344.0 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 2019.

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 2019 totalled £19.1 million (2018: £20.8 million) for the Group and £16.1 million (2018: £17.9 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		Association	
	2019	2018	2019	2018
	£m	£m	£m	£m
Less than 30 days	8.3	9.1	7.0	7.9
30 to 60 days	2.1	3.2	1.9	2.6
60 to 90 days	1.7	1.8	1.5	1.5
More than 90 days	7.0	6.7	5.7	5.9
Balance as at 31 March	19.1	20.8	16.1	17.9

In the Group there is an impairment loss allowance against £6.1 million (2018: £8.6 million) of this balance leaving a net rental arrears balance of £13.0 million (2018: £12.2 million) (see note 16). In the Association there is an impairment loss allowance against £5.1 million (2018: £7.4 million) of this balance leaving a net rental arrears balance of £11.0 million (2018: £10.5 million) (see note 16).

Strategic Report
Directors' Report
Financial Statements
Other Information

Tenant rental receivable arrears loss allowance

	Group 2019 £m	Group 2018 £m	Association 2019 £m	Association 2018 £m
Balance as at 1 April	8.6	11.9	7.4	10.4
Adjustment on initial application of IFRS 9	1.1	-	1.2	-
Restated balance as at 1 April	9.7	11.9	8.6	10.4
Provided in the year	6.2	5.0	5.1	4.6
Released in the year	(4.4)	-	(3.7)	-
Amounts written off	(5.4)	(8.3)	(4.9)	(7.6)
Balance as at 31 March	6.1	8.6	5.1	7.4

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

Other trade receivables

Gross other trade receivables balances as at 31 March 2019 totalled £21.8 million (2018: £23.5 million) for the Group and £6.2 million (2018: £8.9 million) for the Association. The age of gross other trade receivables balances was as follows:

	Group 2019 £m	Group 2018 £m	Association 2019 £m	Association 2018 £m
Less than 30 days	5.7	12.2	1.9	3.6
30 to 60 days	3.1	2.1	1.0	1.2
60 to 90 days	0.9	1.2	0.5	0.4
More than 90 days	12.1	8.0	2.8	3.7
Balance as at 31 March	21.8	23.5	6.2	8.9

In the Group there is an impairment loss allowance against £3.0 million (2018: £2.3 million) of this balance leaving a net other trade receivables balance of £18.8 million (2018: £21.2 million) (see note 16). In the Association there is an impairment loss allowance against £0.7 million (2018: £0.5 million) of this balance leaving a net other trade receivables balance of £5.5 million (2018: £8.4 million) (see note 16).

Other trade receivables loss allowance

	Group 2019 £m	Group 2018 £m	Association 2019 £m	Association 2018 £m
Balance as at 1 April	2.3	3.0	0.5	1.7
Adjustment on initial application of IFRS 9	1.0	-	-	-
Restated balance as at 1 April	3.3	3.0	0.5	1.7
Provided in the year	1.3	-	0.6	-
Released in the year	(1.5)	(0.7)	(0.4)	(1.2)
Amounts written off	(0.1)	-	-	-
Balance as at 31 March	3.0	2.3	0.7	0.5

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 2019 and 2018 was as follows:

	Group 2019 £m	Group 2018 £m	Association 2019 £m	Association 2018 £m
Investments (note 14)	27.0	31.6	26.8	31.5
Derivative financial instruments (note 15)	22.3	13.9	22.3	13.9
Receivables	95.9	109.0	199.6	177.5
Cash and cash equivalents	150.1	95.7	15.1	2.0
	295.3	250.2	263.8	224.9

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 of the Board and Operating and Financial Review.

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 2019, £13.0 million (2018: £12.2 million) for the Group and £11.0 million (2018: £10.5 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 2019 totalled £11.1 million (2018: £17.4 million) in the Group and £11.0 million (2018: £17.3 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, nor are there any restrictions on the Group in their use except for £0.2 million (2018: £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 (see note 28 regarding restricted reserves).

24. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Group		Association	
	2019	2018	2019	2018
Land and buildings:	**£m**	**£m**	**£m**	**£m**
Under one year	2.9	3.0	2.9	2.9
In the second to fifth year inclusive	10.1	10.3	10.0	10.2
In more than five years	101.5	101.2	100.5	100.2
	114.5	114.5	113.4	113.3

25. 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	
	2019	2018	2019	2018
	£m	£m	£m	£m
As at 1 April	3.8	-	-	-
Credit to Income Statement	0.5	0.3	-	-
Deferred tax recognised on acquired entities	-	3.5	-	-
As at 31 March	4.3	3.8	-	-
Comprising:				
Trading losses carried forward	3.7	3.2	-	-
Interest rate swap derivative	0.6	0.6	-	-
	4.3	3.8	-	-

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	
	2019	2018	2019	2018
	£m	£m	£m	£m
As at 1 April	0.7	1.1	-	-
Credit to Income Statement	(0.1)	(0.6)	-	-
Deferred tax recognised on acquired entities	-	0.2	-	-
As at 31 March	0.6	0.7	-	-

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.

26. Provisions for liabilities and charges

Group	**Employee related £m**	**Onerous contracts £m**	**Property related £m**	**Total £m**
At 1 April 2018	0.6	2.6	8.2	11.4
Provided in the year	-	0.2	0.8	1.0
Utilised during the year	(0.6)	(0.1)	(2.4)	(3.1)
Re-classified during the year	-	-	(1.0)	(1.0)
At 31 March 2019	-	2.7	5.6	8.3
Ageing of provisions – expected utilisation				
At 31 March 2019				
Under one year	-	0.2	4.4	4.6
Over one year	-	2.5	1.2	3.7
At 31 March 2018				
Under one year	0.6	0.1	4.0	4.7
Over one year	-	2.5	4.2	6.7

Association	**Employee related £m**	**Onerous contracts £m**	**Property related £m**	**Total £m**
At 1 April 2018	0.6	0.8	5.0	6.4
Provided in the year	-	-	0.7	0.7
Utilised during the year	(0.6)	-	(0.3)	(0.9)
Re-classified during the year	-	-	(1.0)	(1.0)
At 31 March 2019	-	0.8	4.4	5.2
Ageing of provisions – expected utilisation				
At 31 March 2019				
Under one year	-	-	4.4	4.4
Over one year	-	0.8	-	0.8
At 31 March 2018				
Under one year	0.6	-	1.8	2.4
Over one year	-	0.8	3.2	4.0

Onerous contract provisions

Provisions have been made for onerous lease contracts on leased buildings. The provisions are being unwound over the remaining term of the lease contracts and 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.

27. Share capital

Each member holds one share of £1 in the Association	Group and Association 2019 £	2018 £
Allotted, issued and fully paid:		
At 1 April	30	33
Issued during the year	-	1
Redeemed during the year	(2)	(4)
At 31 March	28	30

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.

28. 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 2017	847.8	0.2	2.3	2.3	-	852.6
Surplus for the year	71.2	-	-	-	-	71.2
Actuarial gain on pension schemes	40.6	-	-	-	-	40.6
Revaluation of listed investments	-	-	(0.5)	-	-	(0.5)
Loss on hedge instrument	-	-	-	(3.6)	-	(3.6)
At 31 March 2018	959.6	0.2	1.8	(1.3)	-	960.3
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

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 2017	949.9	0.2	2.3	2.1	-	954.5
Surplus for the year	57.1	-	-	-	-	57.1
Actuarial gain on pension schemes	38.8	-	-	-	-	38.8
Revaluation of listed investments	-	-	(0.5)	-	-	(0.5)
Loss on hedge instrument	-	-	-	(3.6)	-	(3.6)
At 31 March 2018	1,045.8	0.2	1.8	(1.5)	-	1,046.3
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

Restricted reserves

Within both the Group and the Association, £0.2 million (2018: £0.2 million) of the reserves acquired with Carr-Gomm remain restricted in application.

Revaluation reserve

The revaluation reserve comprises cumulative net changes in fair value of equity securities designated at fair value through other comprehensive income (FVOCI) (2018: available-for-sale financial assets).

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.

29. Retirement benefits

The Group participates in 15 (2018: 17) 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 year.

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 2019. No additional liability has been recognised given the profile of the scheme members and assuming a very cautious outcome on the local Government pension scheme liability (gross obligation: £140m). 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 2019.

Participation in the following locan 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
London Borough of Brent Pension Fund	Sanctuary Housing Association	25.4%	5.5% to 8.5%	Contributions only
London Borough of Enfield Pension Fund	Sanctuary Housing Association	20.9%	5.5% to 8.5%	Contributions only
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 2019 and 2018 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	2019 %	2018 %
Inflation	3.30	3.35
Rate of increase in salaries for next two years	2.30	3.35
Rate of increase in salaries thereafter	2.30	3.35
Rate of increase for pensions in payment	2.30	2.35
Rate of increase for deferred pensions	3.30	3.35
Discount rate	2.30	2.50

The assumptions for mortality rates use the Self-Administered Pension Scheme (SAPS) All Pensioners (excluding dependents) 'amounts tables', with projected improvement rates varying by year of birth with medium cohort and 1.25 per cent per annum minimum improvements for males and 1.00 per cent for females. Based on these assumptions, the average future life expectancies at age 65 are:

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

The fair value of assets in the scheme, split between quoted and unquoted investments, is as follows:

Group

	2019 £m Quoted	2019 £m Unquoted	2019 £m Total	2019 %	2018 £m Quoted	2018 £m Unquoted	2018 £m Total	2018 %
Equities	181.3	26.0	207.3	51.2	180.0	19.7	199.7	51.1
Bonds	148.4	9.9	158.3	39.1	136.5	8.9	145.4	37.2
Property	9.2	6.6	15.8	3.9	11.8	6.4	18.2	4.6
Other	2.4	20.9	23.3	5.8	6.1	21.5	27.6	7.1
Total value of assets	341.3	63.4	404.7	100.0	334.4	56.5	390.9	100.0

Association

	2019 £m Quoted	2019 £m Unquoted	2019 £m Total	2019 %	2018 £m Quoted	2018 £m Unquoted	2018 £m Total	2018 %
Equities	166.8	23.7	190.5	50.3	165.2	18.2	183.4	50.1
Bonds	145.4	9.3	154.7	40.9	134.1	8.3	142.4	38.9
Property	8.2	5.2	13.4	3.5	10.9	4.8	15.7	4.3
Other	0.6	19.2	19.8	5.3	4.8	19.8	24.6	6.7
Total value of assets	321.0	57.4	378.4	100.0	315.0	51.1	366.1	100.0

Reconciliation of the effect of the asset ceiling:

	Group 2019 £m	Group 2018 £m	Association 2019 £m	Association 2018 £m
Net asset ceiling at 1 April	(0.4)	-	-	-
Restriction of 2017/2018 Strathclyde Pension Fund surplus	0.4	(0.4)	-	-
Restriction of Warwickshire County Council Pension Fund surplus	(0.3)	-	-	-
Net asset ceiling at 31 March	**(0.3)**	**(0.4)**	**-**	**-**

Two of the Group's schemes, the Strathclyde Pension Fund and the Warwickshire County Council Pension Fund, have been valued at a net asset position. As the Group will derive economic benefit from reduced future contributions to the Strathclyde Pension Fund, it has not applied the asset ceiling, in accordance with IAS 19. The Group will not benefit from reduced future contributions to the Warwickshire County Council Pension Fund, so an asset ceiling has been applied to reduce the value of the net assets to nil. In addition, because the Group has a commitment to make future contributions to the scheme, it has recognised a liability in respect of minimum funding requiremets. The Strathclyde Pension Fund was also valued in a net asset position in 2017/2018. As there was no right to reduced future contributions to the scheme in 2017/2018, the asset ceiling was applied to reduce the value of the scheme to £nil. The Warwickshire County Council Pension Fund was valued in a net liability position in 2017/2018.

Scheme assets/(liabilities) are reflected in the Statement of Financial Position:

	Group 2019 £m	Group 2018 £m	Association 2019 £m	Association 2018 £m
Present value of employer assets	404.7	390.9	378.4	366.1
Present value of funded liabilities	(445.1)	(432.9)	(418.3)	(406.6)
Net under funding in funded plans	(40.4)	(42.0)	(39.9)	(40.5)
Present value of unfunded liabilities	(0.2)	(0.2)	(0.2)	(0.2)
Pension liability before restrictions	(40.6)	(42.2)	(40.1)	(40.7)
Effect of net asset ceiling	(0.3)	(0.4)	-	-
Recognition of minimum funding requirements	(0.5)	-	-	-
Net pension liability	**(41.4)**	**(42.6)**	**(40.1)**	**(40.7)**

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

	Group 2019 £m	Group 2018 £m	Association 2019 £m	Association 2018 £m
Amount charged to operating surplus:				
Current service cost	(2.1)	(2.5)	(2.1)	(2.2)
Past service cost	(0.5)	-	(0.3)	-
Expenses	(0.3)	(0.4)	(0.3)	(0.4)
Effect of settlements	1.3	-	1.3	-
Total charged to operating surplus	(1.6)	(2.9)	(1.4)	(2.6)
Amount charged to finance cost:				
Interest income on plan assets	9.7	9.1	9.1	8.4
Interest cost on defined benefit obligations	(10.7)	(11.7)	(10.0)	(11.0)
Total amount charged to finance cost	(1.0)	(2.6)	(0.9)	(2.6)
Total amount charged to the Income Statement	(2.6)	(5.5)	(2.3)	(5.2)
Amounts recognised in other comprehensive income:				
Remeasurement gains and losses:				
Return on plan assets excluding interest	13.5	1.5	12.8	1.3
Experience gains	1.5	3.2	1.5	2.6
Other remeasurement gains/(losses)	0.4	(0.1)	-	-
Changes in financial assumptions	(16.3)	25.1	(15.7)	24.3
Changes in demographic assumptions	1.0	11.3	0.8	10.6
Effect of net asset ceiling	0.1	(0.4)	-	-
IFRIC 14 minimum funding obligation	(0.5)	-	-	-
Total remeasurement gains/(losses)	(0.3)	40.6	(0.6)	38.8
Total amounts recognised in other comprehensive income	(0.3)	40.6	(0.6)	38.8

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

	Group 2019 £m	Group 2018 £m	Association 2019 £m	Association 2018 £m
Opening defined benefit obligation	433.1	471.7	406.8	443.6
Current service cost	2.1	2.5	2.1	2.2
Past service cost	0.5	-	0.3	-
Expenses	-	0.4	-	0.4
Effect of settlements	(3.5)	-	(3.5)	
Interest cost	10.7	11.7	10.0	11.0
Contributions by employees	0.4	0.4	0.3	0.3
Experience (gains)/losses	(1.5)	(3.2)	(1.5)	(2.6)
Changes in financial assumptions	16.3	(25.1)	15.7	(24.3)
Changes in demographic assumptions	(1.0)	(11.3)	(0.8)	(10.6)
Net benefits paid (including expenses)	(11.8)	(14.0)	(10.9)	(13.2)
Closing defined benefit obligation	445.3	433.1	418.5	406.8

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

	Group		Association	
	2019 £m	2018 £m	2019 £m	2018 £m
Opening fair value of the scheme assets	390.9	343.7	366.1	319.5
Expenses	(0.3)	-	(0.3)	-
Effect of settlements	(2.2)	-	(2.2)	-
Interest income on plan assets	9.7	9.1	9.1	8.4
Return on plan assets excluding interest	13.5	1.5	12.8	1.3
Other remeasurement gains/(losses)	0.4	(0.1)	-	-
Contributions by employer	4.1	50.3	3.5	49.8
Contributions by employees	0.4	0.4	0.3	0.3
Net benefits paid (including expenses)	(11.8)	(14.0)	(10.9)	(13.2)
Closing fair value of the scheme assets	404.7	390.9	378.4	366.1

The total and cumulative remeasurements recognised in other comprehensive income:

	Group		Association	
	2019 £m	2018 £m	2019 £m	2018 £m
Net actuarial remeasurements recognised in year	0.1	41.0	(0.6)	38.8
Net cumulative actuarial remeasurements	(54.4)	(54.5)	(49.5)	(48.9)

Remeasurement gains and losses are broken down as follows:

	Group		Association	
	2019 £m	2018 £m	2019 £m	2018 £m
Return on plan assets excluding interest	13.5	1.5	12.8	1.3
Experience gains/(losses)	1.5	3.2	1.5	2.6
Other remeasurement gains/(losses)	0.4	(0.1)	-	-
Changes in financial assumptions	(16.3)	25.1	(15.7)	24.3
Changes in demographic assumptions	1.0	11.3	0.8	10.6
Total remeasurement gains/(losses)	0.1	41.0	(0.6)	38.8

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

	Group				
	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
Defined benefit obligations	(445.3)	(433.1)	(471.7)	(335.9)	(273.7)
Scheme assets	404.7	390.9	343.7	274.3	210.0
Deficit	(40.6)	(42.2)	(128.0)	(61.6)	(63.7)

	Association				
	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
Defined benefit obligations	(418.5)	(406.8)	(443.6)	(300.8)	(235.6)
Scheme assets	378.4	366.1	319.5	246.0	181.6
Deficit	(40.1)	(40.7)	(124.1)	(54.8)	(54.0)

The Group expects to contribute the following amounts to the defined benefit schemes during the year ended 2020:

	£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 2019 is set out below:

2019	Group Movement £m	Association Movement £m
Discount rate +0.1%	(8.9)	(8.5)
Discount rate -0.1%	8.6	8.2
Rate of inflation +0.1%	8.3	7.9
Rate of inflation -0.1%	(7.9)	(7.7)
Life expectancy +1 year	15.2	14.3
Life expectancy -1 year	(15.2)	(14.3)

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 1 month of extrapolation being assumed. As such, actual investment returns over a full year might deviate from those reported by the Actuary that produces an IAS19 estimate.

A sensitivity analysis to reflect a plus or minus 5 per cent movement in asset values in Local Government Pension schemes equates to plus or minus £6,200,000.

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 (2018: 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 £5.8 million (2018: £4.1 million). As at the year end there was £0.6 million of accrued contributions due for payment after the year end (2018: £0.4 million).

30. Capital commitments

	Group		Association	
	2019 £m	**2018 £m**	**2019 £m**	**2018 £m**
Expenditure contracted	83.2	113.8	8.3	15.0
Authorised expenditure not contracted	687.5	648.4	93.9	110.3
	770.7	762.2	102.2	125.3

For the Group, of the £770.7 million (2018: £762.2 million) of capital commitments at 31 March 2019, £103.4 million (2018: £96.5 million) will be financed by grant and other public finance.

For the Association, of the £102.2 million (2018: £125.3 million) of capital commitments at 31 March 2019, £13.7 million (2018: £4.2 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 grant.

31. 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 2019, the net value of balances that have been offset is £4.9 million (2018: £5.0 million).

32. Notes to the Statement of Cash Flows

Cash and cash equivalents

	Group		Association	
	2019 £m	**2018 £m**	**2019 £m**	**2018 £m**
Cash and cash equivalents per Statement of Financial Position	150.1	95.7	15.1	2.0
Cash and cash equivalents per Statement of Cash Flows	150.1	95.7	15.1	2.0

Cash and cash equivalents at the end of the reporting period can be reconciled to the related items in the Statement of Financial Position as shown above.

Reconciliation of liabilities arising from financial activities

Group	At 1 April 2018	Cash flows	Non-cash changes: Foreign exchange movement	Non-cash changes: Fair value changes	Non-cash 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).

Group	At 1 April 2017	Cash flows	Foreign exchange movement	Fair value changes	Other non-cash changes	At 31 March 2018
	£m	£m	£m	£m	£m	£m
Short-term borrowings	(92.8)	92.8	-	-	(103.5)	(103.5)
Long-term borrowings	(2,346.1)	(248.9)	12.9	-	103.2	(2,478.9)
Lease liabilities	(146.8)	0.1	-	-	0.5	(146.2)
Derivative financial instruments	26.0	-	-	(15.4)	-	10.6
Total liabilities from financing activities	(2,559.7)	(156.0)	12.9	(15.4)	0.2	(2,718.0)

Non-cash movements on derivative financial instruments relate to the fair value movement of foreign exchange (£16.5 million negative movement) and interest rate derivatives (£1.1 million positive movement).

Association	At 1 April 2018	Cash flows	Non-cash changes: Foreign exchange movement	Non-cash changes: Fair value changes	Non-cash 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.

Association	At 1 April 2017	Cash flows	Non-cash changes: Foreign exchange movement	Non-cash changes: Fair value changes	Non-cash changes: Other non-cash changes	At 31 March 2018
	£m	£m	£m	£m	£m	£m
Short-term borrowings	(64.0)	64.0	-	-	(38.4)	(38.4)
Long-term borrowings	(1,575.2)	(171.4)	12.9	-	38.8	(1,694.9)
Lease liabilities	(25.1)	0.1	-	-	-	(25.0)
Derivative financial instruments	30.4	-	-	(16.5)	-	13.9
Total liabilities from financing activities	(1,633.9)	(107.3)	12.9	(16.5)	0.4	(1,744.4)

Non-cash movements on derivative financial instruments relate to the fair value movement of foreign exchange (£16.5 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.

33. 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	2019 £m	2018 £m
ASK (Greenwich) Limited	1.2	0.3
Bagot Street Limited	-	1.8
Donside Limited	-	0.5
Sanctuary Care Limited	8.7	9.4
Sanctuary Care (R) Limited	0.2	0.6
Sanctuary Maintenance Contractors Limited	0.7	0.5
Sanctuary Management Services	0.2	-
Sanctuary Treasury Limited	0.1	-
Spiral Developments Limited	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	2019 £m	2018 £m
ASK (Greenwich) Limited	1.2	1.0
Avenue Services Limited	-	0.1
Donside Limited	-	0.5
Sanctuary Care Limited	0.7	3.8
Sanctuary Care Property (1) Limited	0.4	0.6
Sanctuary Care Property (2) Limited	0.1	0.5
Sanctuary Care (Queens) Limited	(0.2)	-
Sanctuary Care (North) Limited	(0.4)	0.6
Sanctuary Home Care Limited	2.5	3.0
Sanctuary Housing Services Limited	(1.2)	(1.6)
Sanctuary Maintenance Contractors Limited	0.1	(4.9)
Sanctuary Management Services Limited	0.1	(0.3)
Sanctuary (NW Management) Limited	1.7	1.6
Sanctuary Scotland Housing Association Limited	0.5	1.2
Sanctuary Student Homes Limited	3.2	0.5
Sanctuary Treasury Limited	0.1	-
Spiral Developments Limited	3.0	-

At the reporting date, the Association had the following trading balances with RSH regulated Group undertakings:

Entity	2019 £m	2018 £m
Sanctuary Affordable Housing Limited	0.2	(5.2)

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 finance lease balances with non-RSH regulated Group undertakings:

Entity	2019 £m	2018 £m
Loans		
ASK (Holdings) Limited	1.2	1.2
Sanctuary Care Property (2) Limited	28.5	28.5
Grenville Street Limited	-	5.5
Sanctuary Scotland Housing Association Limited	1.1	1.3
Sanctuary Student Homes Limited	23.7	21.9
Sanctuary Student Properties Limited	61.5	33.0
Sanctuary Treasury Limited*	(664.4)	(621.5)
Finance leases		
Sanctuary Student Properties Limited	(4.3)	(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	2019 £m	2018 £m
ASK (Holdings) Limited	-	0.1
Grenville Street Limited	-	0.1
Sanctuary Care Property (2) Limited	1.8	1.6
Sanctuary Student Properties Limited	0.4	0.1
Sanctuary Treasury Limited*	(6.8)	(5.3)

*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 2017	2.8
Increase in subsidiary investments in the year	64.8
At 31 March 2018	67.6
At 1 April 2018	67.6
Increase in subsidiary investments in the year	-
At 31 March 2019	67.6

The increase in subsidiary investments in the year ended 31 March 2018 relates to the acquisition of Embrace Care Limited and its subsidiaries. Further information is contained in note 35.

34. Investments in subsidiaries, associates and jointly-controlled entities

Details of the Association's subsidiaries and joint arrangements as at 31 March 2019 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%
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%

Entities registered on the Isle of Man with registered office at Jubilee Buildings, Victoria Street, Douglas, Isle of Man, IM1 2SH:

Company	Nature of business	RSH regulated	Ownership (direct and indirect)
Subsidiaries			
Grenville Street Limited (ii)	Supplier of student accommodation	Non-RSH regulated	100%

(i) These entities are controlled or wholly-owned subsidiaries of wholly-owned subsidiaries of the Association.
(ii) Grenville Street Limited is exempt from audit due to its size. No request for an audit has been made by the shareholders or directors.

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 office at Cowley Business Park, Cowley, Uxbridge, United Kingdom, UB8 2AL:

Name	Country of incorporation	Date of incorporation	Nature of incorporation	Voting rights	Carrying amount Group 2019 £m	Carrying amount Group 2018 £m
Linden (Biddenham) LLP	England	24 June 2015	Limited Liability Partnership	50%	0.8	0.3
Linden (Brampton) LLP	England	27 July 2016	Limited Liability Partnership	50%	1.1	-
Linden (Avery Hill) LLP	England	1 August 2016	Limited Liability Partnership	50%	1.3	0.3
Europa Way JV LLP	England	7 December 2017*	Limited Liability Partnership	50%	-	-
					3.2	0.6

*Spiral Developments Limited was appointed as a member on 20 December 2018.

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 Galliford Try Homes Limited, a wholly-owned subsidiary of Galliford Try 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 Linden Limited, a subsidiary of Galliford Try PLC, 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 2019 totalled £29.3 million (2018: £31.8 million), see note 16. The recoverability of the loans is supported by the appraisal work performed by the Group prior to entering in to the joint ventures.

The following table summarises the financial information of the joint ventures as included in their own Financial Statements:

	2019 £m	2018 £m
Non-current assets		
Cash and cash equivalents	0.3	0.2
Other current assets	74.7	89.4
Loans and borrowings – short-term	(41.1)	(9.6)
Other current liabilities	(27.6)	(16.1)
Loans and borrowings – long-term	-	(50.3)
Other non-current liabilities	-	(12.7)
Net assets 100%	**6.3**	**0.9**
Net assets 50%	3.2	0.5
Losses not recognised	-	0.1
Group's recognised share of net assets	**3.2**	**0.6**
Revenue	46.3	23.8
Depreciation and amortisation	-	-
Cost of sales and other operating costs	(37.6)	(19.3)
Interest income	-	-
Interest expense	(2.3)	(2.6)
Profit 100%	**6.4**	**1.9**
Profit 50%	3.2	0.9
Losses previously not recognised	(0.1)	(0.4)
Group's recognised share of profits	**3.1**	**0.5**
Dividends received by the Group	**0.5**	**-**

35. Acquisitions

In the prior year, on 19 June 2017, the Association purchased 100 per cent of the ordinary share capital of Sanctuary Care (North) Limited (formerly Embrace Care Limited) for a consideration of £64.8 million, satisfied in cash.

Sanctuary Care (North) Limited was the parent of a group of companies that owned and managed 35 care homes and a supported living scheme; the acquisition enables the Group to further fulfil its charitable objectives of providing housing and care services to those who need it. The locations of the care homes, which are in Scotland and the North of England, also allow the Group to expand its care offering into a wider geographical area.

In the post-acquisition period from 19 June 2017 to 31 March 2018, the acquired entities contributed revenue of £39.8 million and net profit of £3.6 million to the Group's results for the year.

In accordance with the measurement principles of IFRS 3 Business Combinations, all identifiable assets acquired and liabilities assumed were measured at their fair values at the date of acquisition. Property values were 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	52.4	14.6	67.0
Trade and other receivables	3.4	(0.5)	2.9
Other current assets	0.3	(0.3)	-
Liabilities			
Trade and other payables	(5.9)	-	(5.9)
Deferred tax	(0.2)	3.5	3.3
Provisions	-	(2.5)	(2.5)
Net assets	50.0	14.8	64.8
Consideration			64.8
Goodwill			-

No acquisitions have been made in the year ended 31 March 2019.

36. Events after the reporting period

There were no events after the reporting period.

37. 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 2015.

Turnover, Cost of Sales, Operating Costs and Operating Surplus - Group

	2019 Turnover £m	2019 Cost of sales £m	2019 Operating costs £m	2019 Operating surplus/ (deficit) £m	2018 Operating surplus/ (deficit) £m
Social housing lettings					
Housing accommodation	298.9	-	(159.6)	139.3	148.1
Sheltered and supported housing	95.1	-	(83.4)	11.7	8.2
Key worker accommodation	3.3	-	(2.4)	0.9	0.8
Shared ownership	7.6	-	(3.5)	4.1	3.8
	404.9	**-**	**(248.9)**	**156.0**	**160.9**
Other social housing activities					
Development administration	0.2	-	(8.2)	(8.0)	(6.8)
Home ownership and managed properties	7.1	-	(4.1)	3.0	3.3
Supported registered services	11.5	-	(11.5)	-	-
Supporting People contract income	23.7	-	(23.7)	-	-
Shared ownership first tranche sales	13.7	(9.0)	-	4.7	3.5
Other	5.1	-	(5.1)	-	-
	61.3	**(9.0)**	**(52.6)**	**(0.3)**	**-**
Non-social housing activities					
Student accommodation and market rented	55.5	-	(45.7)	9.8	11.0
Care homes	185.5	-	(176.1)	9.4	14.2
External maintenance services	3.6	-	(3.1)	0.5	0.5
Domiciliary care	6.6	-	(7.0)	(0.4)	-
Non-social housing property sales	11.7	(8.3)	-	3.4	2.2
Non-social housing development	3.7	(4.2)	-	(0.5)	(0.2)
Other	2.6	-	(2.6)	-	-
	269.2	**(12.5)**	**(234.5)**	**22.2**	**27.7**
Totals	**735.4**	**(21.5)**	**(536.0)**	**177.9**	**188.6**
Other gains and losses				22.7	9.6
Share of profit of joint ventures				3.1	0.5
Operating surplus				**203.7**	**198.7**
Finance income				3.5	4.1
Finance costs				(130.3)	(132.0)
Surplus for the year before taxation				**76.9**	**70.8**
Taxation on surplus on ordinary activities				0.6	0.4
Surplus for the year after taxation				**77.5**	**71.2**

Development administration expenditure and other directly attributable costs capitalised for the Group during the year amounted to £8.1 million (2018: £8.7 million).

Prepared to meet the requirements of the Accounting Direction for Private Registered Providers of Social Housing 2015.

Turnover, Cost of Sales, Operating Costs and Operating Surplus - Association

	2019 Turnover £m	2019 Cost of sales £m	2019 Operating costs £m	2019 Operating surplus/ (deficit) £m	2018 Operating surplus/ (deficit) £m
Social housing lettings					
Housing accommodation	254.0	-	(152.7)	101.3	111.9
Sheltered and supported housing	87.5	-	(75.5)	12.0	8.2
Key worker accommodation	3.3	-	(2.4)	0.9	0.8
Shared ownership	5.2	-	(2.7)	2.5	2.7
	350.0	**-**	**(233.3)**	**116.7**	**123.6**
Other social housing activities					
Development administration	0.2	-	(7.2)	(7.0)	(6.6)
Home ownership and managed properties	6.1	-	(3.3)	2.8	3.0
Supporting People contract income	13.9	-	(13.9)	-	-
Shared ownership first tranche sales	0.7	(0.6)	-	0.1	0.4
Other	5.0	-	(5.0)	-	-
	25.9	**(0.6)**	**(29.4)**	**(4.1)**	**(3.2)**
Non-social housing activities					
Student accommodation and market rented	31.5	-	(29.0)	2.5	5.1
Non-social housing property sales	10.4	(7.0)	-	3.4	1.7
Non-social housing development	3.7	(4.2)	-	(0.5)	(0.2)
Management recharges	27.3	-	(27.3)	-	-
Other	7.0	-	(7.0)	-	-
	79.9	**(11.2)**	**(63.3)**	**5.4**	**6.6**
Totals	**455.8**	**(11.8)**	**(326.0)**	**118.0**	**127.0**
Other gains and losses				21.3	6.3
Other income – gift aid and distribution of reserves				14.4	12.2
Operating surplus				**153.7**	**145.5**
Finance income				7.0	7.5
Finance costs				(92.2)	(95.9)
Surplus for the year before taxation				**68.5**	**57.1**
Taxation on surplus on ordinary activities				0.1	-
Surplus for the year after taxation				**68.6**	**57.1**

Development administration expenditure and other directly attributable costs capitalised for the Association during the year amounted to £3.9 million (2018: £2.2 million).

Appendix 2

Prepared to meet the requirements of the Accounting Direction for Private Registered Providers of Social Housing 2015.

Income and Expenditure from Social Housing Lettings

Group	Housing accommodation £m	Sheltered and supported housing £m	Key worker accommodation £m	Shared ownership £m	2019 Total £m	2018 Total £m
Income from lettings						
Rents	286.0	62.7	3.0	6.5	358.2	355.9
Service charges	12.9	32.2	0.3	1.1	46.5	45.0
Total rent and service charge income	298.9	94.9	3.3	7.6	404.7	400.9
Other income	-	0.2	-	-	0.2	0.6
Turnover from social housing lettings	**298.9**	**95.1**	**3.3**	**7.6**	**404.9**	**401.5**
Expenditure on lettings						
Management	(41.9)	(14.8)	(0.6)	(1.2)	(58.5)	(52.5)
Services	(14.5)	(36.3)	(0.9)	(0.4)	(52.1)	(43.3)
Routine maintenance	(60.2)	(18.5)	(0.5)	(0.1)	(79.3)	(75.8)
Planned maintenance	(20.3)	(6.2)	(0.1)	-	(26.6)	(28.9)
Rent losses from bad debts	(0.3)	0.6	0.1	-	0.4	(4.5)
Property lease charges	(1.7)	(0.7)	-	-	(2.4)	(2.1)
Depreciation of properties	(20.7)	(7.5)	(0.4)	(1.8)	(30.4)	(29.9)
Other costs	-	-	-	-	-	(3.6)
Operating costs from social housing lettings	**(159.6)**	**(83.4)**	**(2.4)**	**(3.5)**	**(248.9)**	**(240.6)**
Operating surplus from social housing lettings	**139.3**	**11.7**	**0.9**	**4.1**	**156.0**	**160.9**
Voids	**(1.7)**	**(2.6)**	**(0.3)**	**-**	**(4.6)**	**(5.6)**

Income and Expenditure from Social Housing Lettings

Association	Housing accommodation	Sheltered and supported housing	Key worker accommodation	Shared ownership	2019 Total	2018 Total
	£m	£m	£m	£m	£m	£m
Income from lettings						
Rents	242.3	58.1	3.0	4.5	307.9	309.9
Service charges	11.7	29.2	0.3	0.7	41.9	40.4
Total rent and service charge income	254.0	87.3	3.3	5.2	349.8	350.3
Other income	-	0.2	-	-	0.2	0.4
Turnover from social housing lettings	**254.0**	**87.5**	**3.3**	**5.2**	**350.0**	**350.7**
Expenditure on lettings						
Management	(44.3)	(13.2)	(0.6)	(0.9)	(59.0)	(51.9)
Services	(13.4)	(33.5)	(0.9)	(0.4)	(48.2)	(39.9)
Routine maintenance	(55.9)	(16.9)	(0.5)	(0.1)	(73.4)	(70.0)
Planned maintenance	(19.7)	(5.7)	(0.1)	-	(25.5)	(27.1)
Rent losses from bad debts	(0.2)	0.6	0.1	-	0.5	(4.4)
Property lease charges	(1.7)	(0.7)	-	-	(2.4)	(1.9)
Depreciation of properties	(17.5)	(6.1)	(0.4)	(1.3)	(25.3)	(28.3)
Other costs	-	-	-	-	-	(3.6)
Operating costs from social housing lettings	**(152.7)**	**(75.5)**	**(2.4)**	**(2.7)**	**(233.3)**	**(227.1)**
Operating surplus from social housing lettings	**101.3**	**12.0**	**0.9**	**2.5**	**116.7**	**123.6**
Voids	**(1.3)**	**(2.5)**	**(0.3)**	**-**	**(4.1)**	**(4.8)**

Appendix 3

Initial Application of IFRS 15 and IFRS 9

IFRS 15 *Revenue from Contracts with Customers*

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

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

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

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

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

IFRS 9 *Financial Instruments*

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

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

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

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

- The determination of the business model within which a financial asset is held.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.
- If an investment in a debt security had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.
- Changes to hedge accounting policies have been applied prospectively except for the cost of hedging approach for forward points, which has been applied retrospectively to hedging relationships that existed on or were designated after 1 April 2018.
- All hedging relationships designated under IAS 39 at 31 March 2018 met the criteria for hedge accounting under IFRS 9 at 1 April 2018 and are therefore regarded as continuing hedging relationships.

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

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

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

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

The Group has elected to adopt the new general hedge accounting model in IFRS 9. This requires the Group to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

The Group uses forward foreign exchange contracts to hedge the variability in cash flows arising from changes in foreign exchange rates relating to foreign currency borrowings. 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.

However, under IFRS 9 the forward points are separately 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.

Under IAS 39, for all cash flow hedges the amounts accumulated in the cash flow hedge reserve were reclassified to profit or loss as a reclassification adjustment in the same period as the hedged expected cash flows affected profit or loss.

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

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

IFRS 9 and IFRS 15 transition effects

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

	Group £m	Association £m
Retained earnings		
Retained earnings brought forward 1 April 2018	959.6	1,045.8
Recognition of expected credit losses under IFRS 9 (a)	(2.1)	(1.1)
Revenue constraint under IFRS 15 (b)	(0.9)	-
Restated retained earnings at 1 April 2018	956.6	1,044.7
Cost of hedging reserve		
Cost of hedging reserve brought forward 1 April 2018	-	-
Cumulative change in forward points (c)	1.0	1.0
Restated cost of heding reserve at 1 April 2018	1.0	1.0
Cash flow hedge reserve		
Cash flow hedge reserve brought forward 1 April 2018	(1.3)	(1.5)
Cost of hedging adjustment (c)	(1.0)	(1.0)
Restated cash flow hedge reserve at 1 April 2018	(2.3)	(2.5)

(a) IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model; application of this new model resulted in an increase of £2.1 million to opening trade receivables provisions.

(b) Credit note provisions of £0.9 million have been recognised at 1 April 2018 in respect of trade receivables. This adjustment is an application of the revenue constraint principles of IFRS 15 based on an assessment of the customary practice of offering price concessions to certain customers by giving credits, rather than being a reflection of risk of customer default by virtue of credit risk, which would be reflected in an ECL provision under IFRS 9.

(c) Under IFRS 9 forward points are separately 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.

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

The effect of adopting IFRS 9 on the carrying amounts of financial assets relates solely to the new impairment requirements.

Financial assets	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 £m	New carrying amount under IFRS 9 & IFRS 15 £m
Rental receivables	23	Loans and receivables	Amortised cost	12.2	10.2
Other trade receivables	23	Loans and receivables	Amortised cost	21.2	20.2
Other receivables	23	Loans and receivables	Amortised cost	28.7	28.7
Contract assets (previously amounts due on construction contracts)	23	Loans and receivables	Amortised cost	0.2	0.2
Amounts due from subsidiary undertakings	23	Loans and receivables	Amortised cost	-	-
Amounts due from joint venture	23	Loans and receivables	Amortised cost	31.8	31.8
Finance lease receivable	23	Loans and receivables	Amortised cost	14.9	14.9
Cash and cash equivalents	23	Loans and receivables	Amortised cost	95.7	95.7
Unlisted investments	23	Loans and receivables	Amortised cost	14.2	14.2
Listed investments	23	Available-for-sale financial assets	FVOCI	17.4	17.4

Financial liabilities	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 £m	New carrying amount under IFRS 9 & IFRS 15 £m
Debt finance	23	Other financial liabilities	Amortised cost	2,598.5	2,598.5
Trade payables	23	Other financial liabilities	Amortised cost	31.1	31.1
Other payables	23	Other financial liabilities	Amortised cost	37.5	37.5
Amounts due to subsidiary undertakings	23	Other financial liabilities	Amortised cost	-	-
Net obligations under finance leases	23	Other financial liabilities	Amortised cost	146.2	146.2
Derivative liabilities	23	Financial liabilities at fair value through the Income Statement	FVPL	3.3	3.3

Appendix 4

Five-Year Summary

The notes below give further details about the key performance indicators within the Five-Year Ratio Summary on page 13.

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 analysied in the Value for Money and Business Review on pages 18 to 41, are:

- Metric 1 – Reinvestment %
- Metric 2 – New supply delivered
- 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 %
- Metric 7 – Return on capital employed (ROCE) %

Current guidance on these metrics (published June 2019), which includes details of how they are calculated, can we found at:

https://www.gov.uk/government/publications/value-for-money-metrics-technical-note

Other metrics - profitability

Operating margin percentage

Operating surplus, excluding other gains and losses, as a percentage of revenue.

	2019 £m	2018 £m
Revenue	735.4	708.1
Operating surplus	203.7	198.7
Other gains and losses	(22.7)	(9.6)
Operating surplus before other gains and losses	181.0	189.1
	24.6%	**26.7%**

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).

	2019 £m	2018 £m
Revenue	735.4	708.1
Operating expenditure	536.0	505.7
	72.9%	**71.4%**

Net margin percentage

Surplus for the year before tax as a percentage of revenue, excluding any gains or losses on business combinations.

	2019 £m	2018 £m
Revenue	735.4	708.1
Surplus before tax	76.9	70.8
	10.5%	**10.0%**

EBITDA & 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.

Other metrics – debt

Interest cover

Operating surplus plus depreciation/net interest payable, excluding pension finance costs.

	2019 £m	2018 £m
Operating surplus	203.7	198.7
Depreciation (note 4)	67.3	60.3
	271.0	259.0
Finance income	3.5	4.1
Finance costs	(130.3)	(132.0)
Exclude defined benefit pension scheme finance costs (note 9)	1.0	2.6
	125.8	125.3
	2.15	**2.07**

Gearing

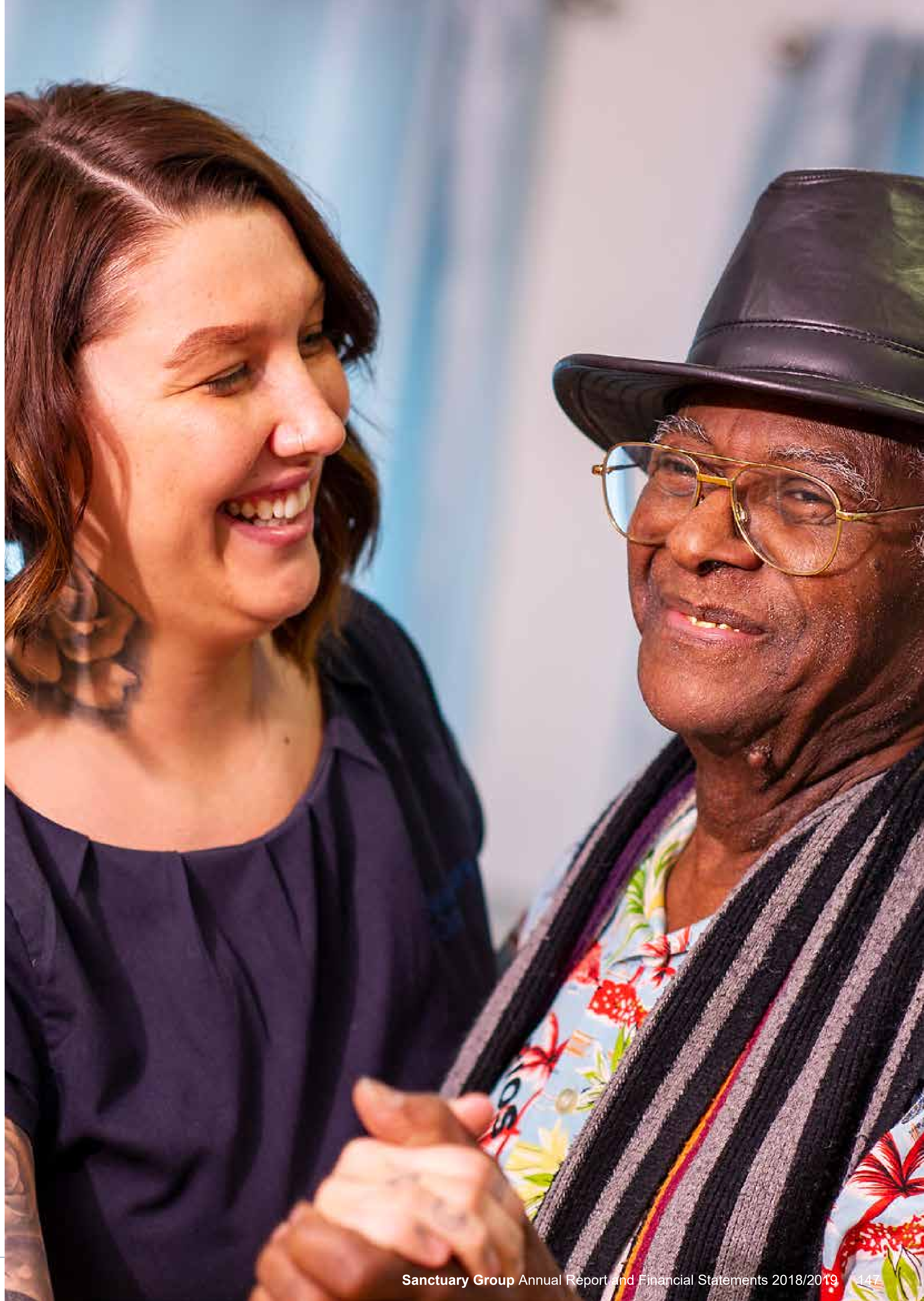
Net debt/properties depreciated cost.

	2019 £m	2018 £m
Liabilities from financing activities (note 32)	2,792.0	2,718.0
Less cash and cash equivalents	(150.1)	(95.7)
Net debt	2,641.9	2,622.3
Property (PPE) cost - land and buildings (note 12)	5,289.0	5,089.1
Property (PPE) accumulated depreciation - land and buildings (note 12)	(311.7)	(279.3)
Property (PPE) cost – under construction (note 12)	144.5	206.5
Investment property cost (note 13)	299.7	295.6
Investment property accumulated depreciation (note 13)	(61.4)	(57.0)
	5,360.0	5,254.9
	49.3%	**49.9%**

Advisors and Other Information

Independent statutory auditor	KPMG LLP One Snowhill Snow Hill Queensway Birmingham B4 6GH
Internal auditor	PricewaterhouseCoopers LLP Cornwall Court 19 Cornwall Street Birmingham B3 2DT
Bankers	Barclays Bank PLC Barclays Corporate Social Housing Team Level 27 1 Churchill Place London E14 5HP
Legal advisors	Gowling WLG (UK) LLP Two Snowhill Birmingham B4 6WR
Registered office	Chamber Court Castle Street Worcester WR1 3ZQ
Registration numbers	
Regulator of Social Housing	L0247
Registered Society	19059R

Sanctuary Housing Association is an exempt charity under the Charities Act 2011



If you would like this publication in an alternative format or language, please telephone 01905 334344 or email pr@sanctuary-housing.co.uk

Sanctuary Group
Sanctuary House
Chamber Court
Castle Street
Worcester
WR1 3ZQ

01905 334000
www.sanctuary-group.co.uk

sanctuary-group

Sanctuary Group is a trading name of Sanctuary Housing Association, an exempt charity
Registered office: Sanctuary House, Chamber Court, Castle Street, Worcester, WR1 3ZQ
Registered as a provider of social housing with the Regulator of Social Housing No. L0247
Registered Society No. 19059R

Published: June 2019