SOVEREIGN

Annual Report 2020

Annual Report and Financial Statements

Sovereign Housing Association Ltd
Sovereign House
Basing View
Basingstoke RG21 4FA
T: 0300 5000 926

Sovereign Housing Association Limited is a charitable Registered Society under the Co-operative and Community Benefit Societies Act 2014, registered with the Financial Conduct Authority no. 7448 and the Regulator of Social Housing no. 4837.

Registered office:
Sovereign House, Basing View,
Basingstoke RG21 4FA

CORP-30970 Sept20TT

Contents

The year in numbers

A strong financial position gives us a great platform to continue to deliver the high quality homes and services our customers and our communities expect and deserve.

Quality services	**81%** Customer satisfaction with Sovereign as a landlord increased from 78% to 81% **£3.5m** Investing £3.5m a year in our communities **277** Residents into work or better work	**99.97%** Gas safety **1,461** Residents into training
More homes and better places	**£368m** Investment in new homes **677** Homes for shared ownership **£109m** Investment in our existing homes	**£411m** Turnover **59,517** Homes managed **£11.9bn** Market value
Strong foundations	**£79.3m** Surplus before tax **G1/V1** Regulatory ratings **A+ and A2** A+ Standard & Poor's, A2 Moody's credit ratings	**£3.1m** Invested in Customer Relationship Management system **Living wage** Accredited employer **Gold** Investors in People

Gordon Holdcroft
Chair

Chair's statement

At times of extraordinary upheaval such as those we are now living through, we all look for points of stability and certainty. In a crisis, that is difficult. Along with the rest of the sector, the country and the whole world, Sovereign has been forced to create a new set of rules to change the way we go about our daily tasks and meet our core objectives.

A strong financial surplus is the fundamental building block on which we build our ambitious plans for the future, generating a surplus of £79 million in 2019-20.

For us there is one point of focus that has not changed, that has indeed been reinforced by the challenging and unsettling period we are in. And that's that we continue to put our customers at the heart of everything that we do. This has been the lens through which we have responded to the pandemic.

The response from our people in March, which continued after the year-end, enabled us to keep all essential services going. By getting 2,000 people working from home within a week, including our 100-strong contact centre, we made decisions aimed at protecting the most vulnerable. Calling 10,000 residents in the first two weeks – and remaining in contact throughout the lockdown – gave many people a friendly voice to rely on in a turbulent time. By redirecting Communities funding, we provided cash for those front-line charities and local groups working with individuals most in need of support.

This perspective served us well in ongoing performance delivery too. Throughout the year our operational performance was sector leading, turning around empty homes in just 19 days, maintaining occupancy levels above 99.3%. We replaced 1,219 kitchens and 958 bathrooms. And we ramped up our response to homelessness through Housing First, providing a permanent home for those who have experienced years of homelessness. We also made building safety an absolute priority, investing in delivering gas, electrical and fire safety programmes.

A strong financial surplus is the fundamental building block on which we build our ambitious plans for the future, generating a surplus of £79m in 2019-20. That robust position was dwarfed by our investment in new and existing homes which approached £0.5bn: we invested £368m in building nearly 1,800 new homes, 96% for affordable tenures, and £109m was spent on maintaining and improving our existing properties, an increase on the previous year of £16m, as we start to roll out elements of the new Sovereign Home and Place Standard in our existing homes.

Our financial strength continued to be recognised externally too, with both Moody's and Standard & Poor's retaining our ratings at some of the highest in the sector at A2 and A+ respectively.

Very sadly, a number of our residents lost their lives to coronavirus, and on behalf of Sovereign I'd like to offer my sympathy to their families and friends. Covid-19 is a horrible disease, and it reminds us what is important. That must include a good, affordable, secure home in a safe environment. Sovereign will continue to work with customers to focus on place-making, improving the homes that we already have, and adding to the supply of new homes in the years to come.

After nearly a decade with Sovereign, as I hand over to incoming Chair, Paul Massara, I am confident that Sovereign's robust position, its leadership and its whole workforce create the foundations that are essential at this time. Sovereign's bold ambitions and strong balance sheet are needed now more than ever if it is to continue to play its role in helping to solve the ongoing housing crisis, building new truly affordable homes where they are most needed, as well as upgrading existing homes. I wish Paul, and the whole Sovereign family, every success in the years ahead.

Gordon Holdcroft
Chair

Sovereign's bold ambitions and strong balance sheet are needed now more than ever if it is to continue to play its role in helping to solve the ongoing housing crisis.

Chief Executive's statement

Last year in this report I spoke about Sovereign's ambitious vision, set out in its new Corporate Plan, and the enthusiasm of people throughout the business to deliver. As the year has progressed I'm delighted that we have made great progress against those exciting new targets.

Mark Washer
Chief Executive

We must combine Sovereign's traditional strengths and bold vision with a renewed focus on what needs to change and what we can do better.

The coronavirus crisis shone a light on those plans and the things that are most important to us and our customers and has reinforced our emphasis on three core pillars: quality services, more opportunity, more homes, better places, and strong foundations, more choice. This means giving our residents the best in customer service and the opportunity to create the communities they want to live in. It means building more, using land-led deals so that we can focus on long-term place-making and it means investing in the best technology and people to keep Sovereign at the forefront of affordable housing in the UK.

As the year progressed, I frequently found myself observing that no part of the business is in a steady state. This reflects the scale of the ambition that we have set ourselves, and during the year, that ambition really started to take shape. Our progress across the board, for example in enhancing the digital offer for our customers, completing an exciting new approach to Strategic Asset Management and moving away from Fixed Term Tenancies all showcase an ambitious organisation working hard to create an exciting vision for the future.

Gordon has already mentioned our great response to the challenges of the pandemic and the resultant lockdown. Alongside our ongoing work on the impact of the crisis, our focus continues to be on the future. First, to ensure that we re-establish service levels as quickly and as smoothly as possible; and then, looking to the longer term, asking how those services can and should change for the better. I would like to pay tribute to our staff who have kept Sovereign operating through very difficult circumstances. Their dedication and resilience, their kindness and reliability, are what have kept us going in such troubled times.

Many of the challenges we faced before the pandemic remain. The housing shortage, affordability, an ageing housing stock, the opportunities afforded by developments in technology, and the need for de-carbonisation of residential properties – all are contemplated in our new corporate plan.

Sovereign's strong financial position is fundamental to our ability to play a counter-cyclical role in the recovery of the UK economy in the post-Covid-19 environment. We are here for the long term. We're not focused on the short term and we're not distributing our resources to shareholders – we're reinvesting them in our social purpose.

The communities where we work, the homes that we own, and the homes and places that we are yet to build, need that long-term focus and that resilience. Many of those key workers we celebrated and thanked as a nation earlier in the year, currently struggling to access the housing market, deserve a good quality, safe and affordable home in a good environment.

As we pass the third anniversary of the Grenfell tragedy and now, as we look to build a better future after Covid-19, we must combine Sovereign's traditional strengths and bold vision with a renewed focus on what needs to change and what we can do better.

Mark Washer
Chief Executive

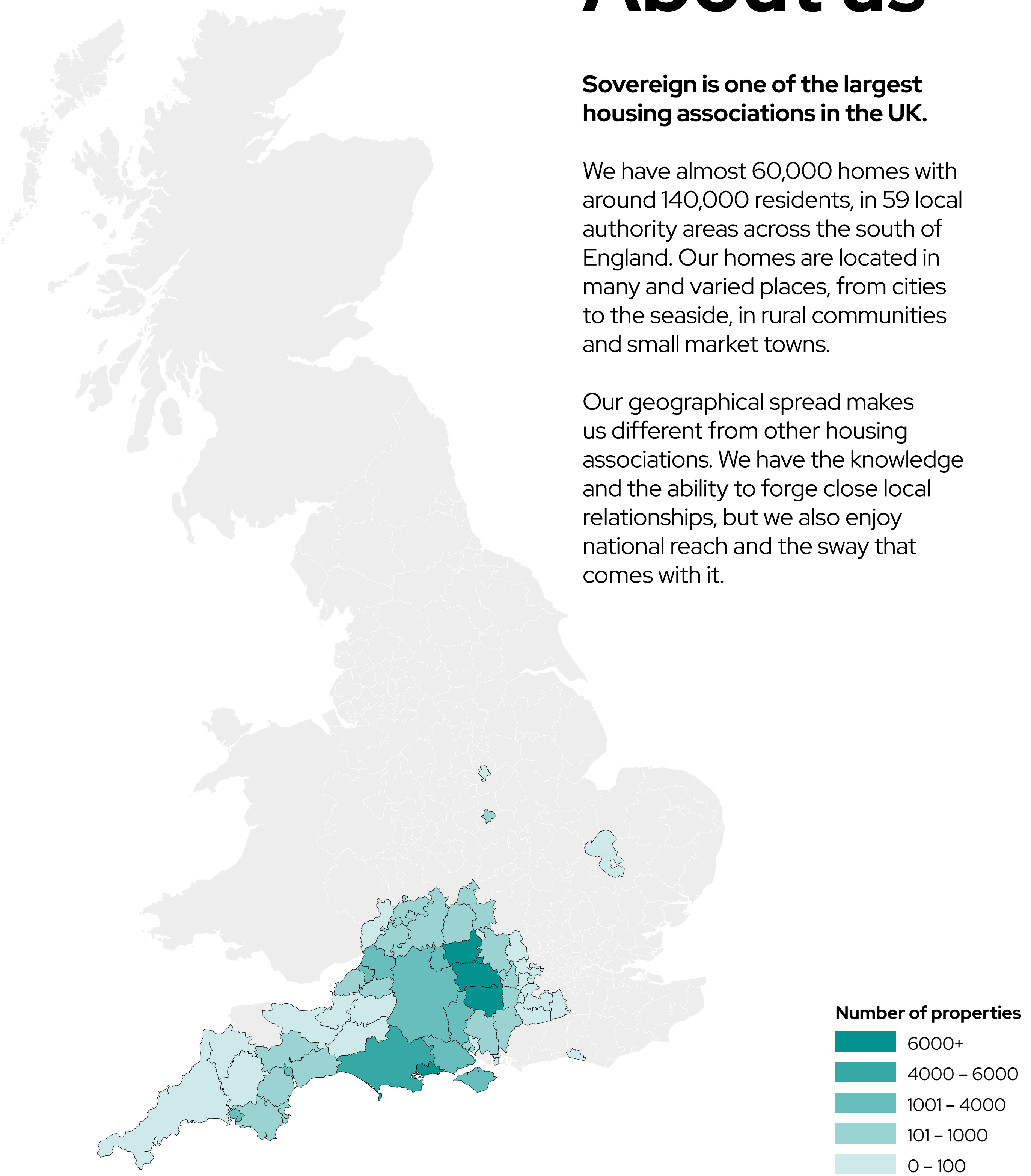
Many of those key workers we celebrated and thanked as a nation earlier in the year, currently struggling to access the housing market, deserve a good quality, safe and affordable home in a good environment.

About us

Sovereign is one of the largest housing associations in the UK.

We have almost 60,000 homes with around 140,000 residents, in 59 local authority areas across the south of England. Our homes are located in many and varied places, from cities to the seaside, in rural communities and small market towns.

Our geographical spread makes us different from other housing associations. We have the knowledge and the ability to forge close local relationships, but we also enjoy national reach and the sway that comes with it.



Our purpose

Our purpose is to provide good quality, affordable homes and services within successful, sustainable communities. We want to maximise the social impact of everything we do. This means being innovative and thinking differently to create solutions that do more.

As an influential housing association, we lead from the front, and we invest in our inspiring people to bring out the best in them.

Our values are a key foundation to ensure we continue to hold true to our purpose

Together

We collaborate with colleagues and partners so everybody benefits

Adaptable

We embrace change, think ahead and find new ways of delivering a better customer experience

Drive to deliver

We work with energy, enthusiasm and passion to get things done and we do what we say we will

Accountable

We take personal responsibility and are trusted to do the right thing

Our roots – and our future

Sovereign was created 30 years ago through the transfer of homes from West Berkshire Housing Association. Since then, we've grown considerably, both through merger and building new homes, always putting our social purpose at the heart of our decision making.

30+
Years we have been providing homes and services

Nearly
10,000
new homes to build over the next five years

Our chief focus is those in society least able to access the housing market, often with the lowest incomes, or those who struggle to access housing at all. We're here for the long term.

Providing good resident services and maintaining homes to a high standard is fundamental, but we are about much more than just bricks and mortar. Through our Communities team we invest in both people and places and aim to create resilient neighbourhoods where people want to live and will thrive over the long term.

We recognise that there is a significant shortage of affordable housing, particularly in the areas where we operate, and we have a significant programme of building new homes. We aim to build about 10,000 homes over the next five years, with around 85% being for affordable tenures.

We do build homes for outright market sale, but only in order to create a subsidy for our social and affordable activity. We provided homes for 5,000 key workers in the health service in the last year, alongside homes for market rent, too. And we help people to own their own homes through shared ownership.

Last year, we approved our five year corporate plan which lays out what we want to achieve by 2024 and how we'll achieve it. We believe that what we do over the next four years will create the foundations for Sovereign's development over the next 30 and beyond.

Planning ahead

By 2024

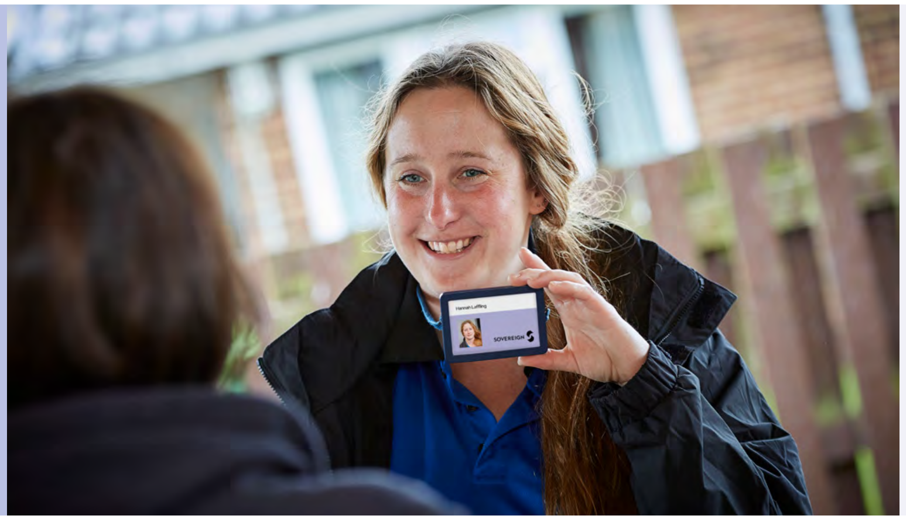
Quality services

- We'll be delivering core services to new standards, co-created with our customers, including significant progress to deliver individualised services where they're needed.
- We'll have a sector-leading, customer contact service centre. Digital access will enable choices within the core service.
- We'll have a new rent policy in place.
- Our Home and Place Standard will shape our day to day and planned investment in the built estate.
- Our community investment and tenancy sustainment activity will add real value to our residents and their communities. It will be valued and recognised by our stakeholders.
- We'll have clear offers in place for older people, specialist supported housing and homeless people.

More homes and better places

- We'll have developed nearly 10,000 new homes across the south of England, focused on our existing operating area, but expanding if it makes sense.
- We'll be known as a leading place-maker, creating sustainable new places that are flexible in meeting the needs of an ageing population, as well as younger age groups.
- 50% of our programme will be land-led, either through our own developments or through sharing development risk with others.
- We'll have a clear 30-year vision for the homes we own, and will have started the journey to achieve it, embracing environmental efficiency and new technology to help us on our way. We'll have detailed plans for our five most challenged estates.
- Our dynamic, innovative approach will make us a partner of choice for public and private sector partners and investors. We'll be a destination employer for highly skilled development and regeneration professionals.

Strong foundations



- We'll be financially robust and be seen by investors and the Regulator as being in the top league of associations nationally.
- We'll be optimising our capacity to deliver more of the social outcomes that fulfil our fundamental purpose. We'll be transparent and accountable in our investment choices.
- We'll continue to grow, owning and managing more homes across the south of England, through organic growth and mergers that enhance our strength.
- We'll be a 'modern connected business', where people, processes, data and technology work together smoothly to meet the needs of our customers.
- We'll be an employer of choice, where great people have a fulfilling career. We'll create an inclusive culture that focuses on the customer and moves at pace to get things done.

External context

Since the 2016 EU Referendum, Brexit has dominated British politics, crowding out policy issues like housing. But with the Conservatives winning an 80-seat majority, and Brexit 'done', the government announced aspirations to level up society, a desire to improve everyone's life chances – including tackling the housing crisis.

The National Housing Federation estimates that Britain needs to build at least 145,000 new affordable homes per year. With the Affordable Housing Programme extended for five years, and a further £12bn of funding and extra money pledged to support local authorities' building plans, we've been given a clear steer from the government that what we do matters.

This is why we're working with other housing associations and sector organisations to raise the profile of social housing with parliamentarians, demonstrating that housing associations don't just build houses; we create homes and thriving communities, improving the lives of our customers.

We've lent our knowledge and experience to a White Paper on Environmental, Social and Governance (ESG) reporting. This is designed to promote the sector and enable an increase in private capital flows to complement public investment for the benefit of residents and communities. This White Paper is of significant value as it will demonstrate the impact that housing associations can make in society.

We also contributed to an All Party Parliamentary Group (APPG) on the connections between employment and the social housing sector. The APPG, which was delayed due to Brexit, is a national inquiry aimed at tackling the employment and earnings gap in social housing. In addition, we hope that contributions to Lord Foster's Domestic Premises (Energy Performance) Bill and our subsequent conversations with those in the political energy sector will trigger vital funding.

The arrival of coronavirus in the UK towards the end of the financial year and the measures taken by the UK government in order to mitigate its impact have had a significant impact on the UK economy, which will create challenges for residents, staff, suppliers and other stakeholders for some considerable time.

Our financial strength meant that when the Covid-19 pandemic began to take a grip throughout the country we were immediately able to make a promise: no one would be evicted from a Sovereign home because of financial difficulties brought about by the virus. We didn't wait to be told to act.

However, we have taken measures to protect our financial position. Cashflows have been managed by reducing maintenance activities and slower spend on development, offsetting the adverse impact of challenges to rent collection due to resident economic challenge and to a slowdown in property sales. In addition, we've taken steps to increase our liquidity, including the issue of the retained £125m bond.

Made **10,000** 'resident check-in' calls in the first two weeks

Housed **four** long term homeless households through Housing First despite lockdown

Created a partnership with domestic abuse charity **WomanKind**

NHS

Suspended car parking payments and rent increases for those living in our **NHS** keyworker properties

Set up **100** contact centre staff with home working

Carried out **14,000** emergency repairs during lockdown

£200k

Brought forward **£200k** funding from Communities, helping charities like Yellow Brick Road tenancy management course and Pan Together feeding vulnerable people

Financial highlights

Measure	2020	2019	Change
Operating surplus £m	135.9	149.4	(13.6)
Operating margin %	33.0	37.2	(4.1)
Overall surplus £m	79.3	98.9	(19.6)
EBITDA MRI £m	131	155.1	(24.1)
EBITDA MRI %	31.9	38.6	(6.7)

EBITDA MRI = Earnings before interest, tax, amortisation and major repairs included

Turnover	2020	2019	Change
Social housing rent	311.9	304.6	7.3
Other social housing income	2.0	2.6	(0.6)
Shared ownership first tranche sales	75.8	55.2	20.6
Open market sales	7.6	20.0	(12.4)
Private rent	11.1	10.2	0.9
Other non-social housing activities	2.8	9.5	(6.7)
Total	**411.2**	**402.1**	**9.1**

Operating costs	2020	2019	Change
Social housing activities			
Management costs	73.7	60.7	13.0
Maintenance costs	85.3	81.7	3.6
Other costs	4.9	1.8	3.1
Non-social housing activities	9.9	18.5	(8.6)
Depreciation	42.3	39.9	2.4
Total	**216.1**	**202.6**	**13.5**

Highlights

During the twelve months to March 2020, we completed 1,773 new homes, of which 1,702 (95.9%) were affordable housing tenures. We invested £368m (2019: £270m) developing new homes.

We were able to complete this many homes and increase our delivery year on year despite poor site conditions due to severe storms in January and February and then the early impact of Covid-19 site closures in March.

We delivered strong operational results with an operating surplus of £135.9m (2019: £149.4m) and overall surplus of £79.3m (2019: £98.9m).

The reduction in both total and operating surplus from the same period last year is driven by our increased focus and investment in our existing homes and our commitment to invest in digital and technology transformation to lay the foundations for future cost efficiencies. In addition, we continue to invest in our people and the modernisation of ourworkspaces. Finally, there is a negative impact year on year movement in the fair value of financial instruments and investment properties, driven by external economic influences.

Every penny of this surplus is ploughed back into the business, which means we can continue to invest in our homes and services, as well as raising additional funding from the financial markets to build much-needed new homes.

Turnover

Our total income increased in 2020, up £9.1m to £411.2m, mainly through an increase in receipts from shared ownership first tranche sales of £20.6m to £75.8m.

We completed 648 (2019: 486) shared ownership first tranche sales and a further 16 open market sales in the year (2019: 60), with a strong net margin overall on sales (including asset disposals) of 23.5%.

Our social housing rent income has also increased, despite rent reductions – by £7.3m. This is due to building more homes, as well as improving on our re-let times.

We have largely brought our external maintenance contracts to an end, explaining the £6.7m reduction in other non-social housing activities income on last year.

Operating costs

Our operating costs have increased by £13.5m to £216.1m (2019: £202.6m). Increased social housing costs reflect our continued investment in:

- Our existing assets, to maintain and improve the quality of our homes
- IT and digitisation, to modernise the way we work, improve services and lay the foundations for future cost efficiencies
- Recruiting, retaining and training the best people for the job
- Modernising our workspaces

The £8.6m decrease in non-social housing costs is a result of bringing all of our property maintenance services in-house, ending external maintenance contracts. Depreciation costs have increased by £2.4m, driven by an increased volume of properties under management and a refinement to our component replacement capitalisation policies to bring them in line with our peers in the sector.

Victory Oak
St Leonards, East Dorset

Cashflow

	2020	2019	Change
Net cash inflow from operating activities	119.5	166.6	(47.1)
Cash flow from investing activities			
Investment in jointly controlled entity	2.7	0.7	2.0
Purchase of other fixed assets	(0.8)	0.0	(0.8)
Purchase of tangible fixed assets	(294.4)	(225.5)	(68.9)
Proceeds from sale of tangible fixed assets	25.4	20.0	5.4
Grants received	47.4	1.7	45.7
Interest received	2.3	1.2	1.1
Net cash from investing activities	**(217.4)**	**(201.9)**	**(15.5)**
Cash flow from financing activities			
Interest paid	(62.2)	(61.6)	(0.6)
Withdrawals/(investments) in collateral deposits	(0.7)	1.4	(2.1)
Net (repayment)/new borrowings	188.1	114.7	73.4
Finance lease repayments	(0.3)	(0.2)	(0.1)
Withdrawals/(investments) in deposits	0.0	3.0	(3.0)
Net cash used in financing activities	**124.9**	**57.3**	**67.6**
Net change in cash and cash equivalents	**27.0**	**22.0**	**5.0**

Other costs and activities

The surplus from sales of housing assets (disposals of property, plant and equipment) increased by £4.1m to £10.7m (2019: £6.6m). This increase reflects land sales to joint venture partners, strong shared ownership staircasing and Right to Buy programmes, as well as the sale of some non-core property assets.

The Group Statement of Financial Position

We continue to report a strong balance sheet with net assets approaching £1.8bn. At March 2020, fixed assets totalled £4.1bn (2019: £3.9bn) an increase of £247m on the previous year, reflecting our ongoing investment in both new and existing homes.

Sovereign remains in a strong financial position with net debt of £1.9bn and available cash and committed liquidity facilities of £650m at the end of March 2020, providing sufficient liquidity to support both our operational cash requirements in response to Covid-19 and our short term future development plans. Our interest expense was £57.4m, which is £5.5m lower than budget, principally driven by lower variable interest rates and lower fixed rates achieved on the bond issuance during the year.

Cash and short-term investments have increased to £72m (2019: £45m) as we strengthened our level of cash held in response to Covid-19, providing sufficient cash balances to meet operational cash requirements and short-term margin call fluctuations. Revolving bank facilities remain available to support ongoing liquidity requirements.

Our liquidity position was further improved with the issuance of our £125m retained bonds in April 2020 and by access to £175m Bank of England Covid Corporate Financing Facility (CCFF) agreed in May 2020.

Cashflow

The operating cash flow at £120m was down £47m on last year (2019: £167m). This was reflected in increased investment in our existing assets, IT infrastructure and digital transformation.

Sovereign continued to deliver against its promise to invest in more homes and better places with net cash outflow from investing activities increasing to £218m in 2020 (2019: £202m). The increase primarily reflects new housing development investment where expenditure was significantly higher than the previous year at £295m (2019: £225m). During the year, Sovereign sold 664 new properties generating receipts of £83m (2019: £75m).

As we invested in more homes our net debt increased during the year, increasing by £181m (2019: £99m increase). However, we were able to maintain our interest paid level year on year at £62m (2019: £61m) as a result of lower variable interest rates. The year ended with a net debt position of £1,935m (2019: £1,754m).

These excellent financial results underpin our performance, which means we can continue to invest in building more homes and better places to live, deliver our services for customers and raise the additional funding required to do so.

£218m
Net cash outflow from investing activities

£120m
Operating cash flow

Our approach to Value for Money (VfM)

At Sovereign we take a holistic and balanced approach to VfM that supports our fundamental social purpose and our strategic intent, linking directly to the aims of our 2019-24 Corporate Plan.

The interconnected nature of our approach recognises both social and financial value and also balances the needs of our existing residents with the wider social value we deliver by meeting housing need and managing our environmental impact.

We're confident that we continue to deliver substantial VfM relative to the UK Housing sector. The table below, published by the Regulator of Social Housing in January 2020, demonstrates how Sovereign performed against the averaged quartiles of over 250 Registered Providers with over 1,000 homes under management in 2018-19:

Sovereign's performance for 2018-19 was upper quartile on six measures and median on three, demonstrating strong VfM performance relative to the sector, but with opportunity to challenge ourselves further in continually striving for improvement.

For more information on Value for Money please visit our website to view our 2019-20 Value for Money statement.

We'll deliver quality services and more opportunities to our residents, and more new homes and better places, underpinned by strong organisational and financial capacity and capability.

We want to:

- Maximise the number of new homes we deliver, to help tackle the country's housing crisis.
- Meet a wide range of housing needs, through the delivery of new homes as well as making the best use of our existing homes.
- Ensure that the organisation operates as efficiently, effectively and economically as possible in order to deliver the best outcomes for customers.
- Understand the returns generated by the assets that we own, ensuring we make the right decisions on where to invest our resources and most importantly maintain and improve the quality of our homes.
- Ensure that any investment in non-social housing activity generates a level of return appropriate to the scale of the risk involved.
- Show how our business value is being used for social purpose by reinvesting our returns from commercial activity back into creating more affordable homes and making improvements to services, existing homes and places.

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VfM Metric Tables	2018-19				2019-20
	Lower Quartile	Median	Upper Quartile	**Sovereign**	**Sovereign**
Reinvestment	4.2%	6.2%	8.7%	6.3%	**7.6%**
New supply social	0.6%	1.4%	2.5%	**2.6%**	**3.0%**
New supply non-social	0.00%	0.00%	0.13%	**0.23%**	**0.11%**
Gearing	53.9%	43.4%	32.6%	**43.9%**	**45.3%**
EBITDA MRI interest rate cover	139%	184%	238%	**258%**	**205%**
Headline social housing cost per unit (£'000)	4.69	3.69	3.18	**2.93**	**3.36**
Operating margin SHL	23.1%	29.2%	34.6%	**40.3%**	**34.8%**
Operating margin overall	20.0%	25.8%	30.8%	**34.9%**	**30.4%**
ROCE	3.0%	3.8%	4.7%	**3.9%**	**3.3%**

Source: Regulator of Social Housing's annual report 'Value for Money metrics and reporting 2019', housing associations with >1,000 homes under management

Quality services

Nicole Sharp
Executive Director – Property

"We want to create a business that is truly customer-centric; a business that responds positively to our customers' ever-changing expectations. We want our residents to be proud to call a Sovereign home their own."

Quality services

We want to understand every one of our customers and the communities where they live, which is why we're designing our services around the individual and co-creating a new Sovereign Home and Place standard that will meet the needs of older and younger generations alike.

We'll provide an excellent customer experience through listening to our customers and investment in our IT systems, as well as delivering on community investment.

Housing and service provider of choice

Having a home to call your own is a basic human right.

Providing safe, secure, well-maintained homes to our current and future customers is something we feel passionately about. And we've set aside £3.0m in 2020-21, increasing to £6.0m per year to keep on improving the standard of our homes when new people move in.

In Property Services we carried out 195,532 repairs in 2019-20, with customers waiting just under 12 days on average for these to be completed.

We're listening to our customers and their feedback is important. Of the services that matter most to our customers, 90% were satisfied with our repairs service.

Disappointingly, only 56% were satisfied with how their complaints were managed, so we're taking a good look at a co-created service re-design, following a resident-led scrutiny.

1,219
Kitchens replaced

958
Bathrooms

2,070
Boilers

90%
Satisfaction with repairs service (target 95%)

Jesse Meek
Head of Assets and Innovation

"Robust data is essential – there's no 'one size fits all' solution and each home is different. We will look at the homes' whole system of energy performance to achieve the best outcome over the long term."

Our environmental credentials

We remain focused on reducing our impact on the environment, making our homes more affordable to run, and tackling fuel poverty at the root.

In 2019-20, we replaced 481 older heating systems with more modern, energy-efficient ones, including 192 new air source heat pump systems at homes in more rural areas where there isn't a mains gas supply.

And we're still on target to get all of our homes to a SAP C rating – a calculation of the environmental impact rating of a home with A being the best and H the worst – by 2035, investing in life-changing alterations to around 16,000 properties.

This green thinking translates into our own workplaces too, as we reduce our number of offices, and work to create a more sustainable footprint. Our target operating model includes the circular economy as a design principle – to try and ensure that the resources we use in our offices and throughout our organisation are kept in a perpetual loop of use and reuse.

More than twenty employees joined a Green Group within Sovereign in 2019-20, designed to explore and bring forward innovative eco-thinking within our workplaces.

Building green is also a key strand of our development strategy and will form an essential part of our upcoming Home and Place Standard.

Springfield Meadows in Oxfordshire is under construction at the moment, with hemp and lime insulation and triple glazed windows meaning that it's carbon zero for the lifetime of the home. Off-site modern methods of construction mean that ancient techniques are combined with modern speed, to create truly inspirational and eco-friendly homes.

497 recycled bags and rucksacks made from single use bottles

138 avocado trees planted by eco paper firm

100% of old workwear sent to developing countries for reuse

Electric fleet trialled, electric charging points at all future offices and depots

Only **1%** of our waste goes to landfill

2.5 tons of office furniture reused in developing countries

694
fire risk assessments completed

38,726
gas inspections

2,828
fire safety actions raised

68,215
legionella tests completed

Quality homes and neighbourhoods

A quality home feels safe. And to feel safe our residents need to be confident that they can find out whatever they need to know, when they want to know it.

We've made an important change to our approach to safety and safety related assurance in 2019-20, creating a brand new Safety and Assurance team in our central corporate services division. This team sits outside our property services function ensuring that they can provide a 'whole business' view of the risks and actions that need to be taken to keep our residents and employees secure.

Our ISOAQAR Accreditation demonstrates our ongoing commitment to quality, safety and the environment, as well as our work with partners to deliver asbestos, legionella, lifts and fire programmes.

But we know that feeling safe isn't just about the physical structure of a building, it's about knowing your neighbourhood, and knowing that help is at hand when it's needed. We work closely with the police and other safeguarding bodies to make sure that our customers feel comfortable in their homes.

We don't want anyone to lose their home because something's gone wrong at work or in a relationship. We want our customers to call us for support.

Last year, our expert tenancy support team handled nearly 2,500 calls a month referrals from customers looking for advice about paying their rent, with 400 calls a month about transferring to Universal Credit (UC).

Over 10,000 of our customers received UC in 2019-20, but forward-looking interventions by our highly trained team helped bring arrears for UC recipients down to £300 on average, compared to non-UC cases at £286.

Strong support

We're working on a new approach that will meet the needs of older and younger generations alike, as well as providing specialist supported housing and homes for those experiencing temporary or long-term homelessness.

Across the country we have 449 homes where people who need that little bit of extra help to live independently can thrive.

As a leading landlord it gives us great pride to support those who are most vulnerable, as we pair with partners like the YouTrust to offer protection to people at risk from domestic abuse, cuckooing or County Lines activity.

Last year, we strengthened our own safeguarding protocols, working with The Dragonfly Project to train front-line staff to be sure they could spot potential problems when they arise.

We also looked more closely at how we could help end homelessness and began employing the Housing First model. This is where people who have been homeless for a long time, often living on the streets, often with complex medical or psychological backgrounds, are given a home – a permanent place to call their own.

And to give us a great view of where people are on their housing journeys, we've invested £3.1m in a new customer relationship management system, backed up with strong, real-time data.

Barry Lockhart
Resident

"I'm over the moon, I feel like I've died and gone to heaven. I'm out in my own garden, every day. I couldn't have imagined this a year ago."

19 days to turn around a home ready for a new household

68% of residents were satisfied with how we managed incidents of anti-social behaviour

Investing in our communities

At Sovereign, we've always recognised that fantastic local networks exist in our communities. We know we don't need to march in and save the day – the superheroes are already out there, and we want to work with them.

Working hand in hand with trusted partners we approach these active individuals and groups to offer our support, investment and advice.

Through our Thriving Communities strategy, we've boosted our funding from £1m a year to £3.5m over the next five years.

For every £1 invested into our community projects, we've found that there's a return of £10 in social value, calculated using the HACT 'Care and Support' data standard.

48 active projects and **73** in the pipeline

Supported **1,461** people with education and skills development

31 schools with projects to raise GCSE results and educational outcomes

Team 10 nominated for a TPAS award

Working on employment and training

Employment and training are also essential tools when it comes to supporting our residents. In 2019-20 we helped 74 residents with their IT skills, or with IT equipment, boosting digital ability and enabling people to get going online.

We saw 277 people get into work or better work after talking with our teams and we also supported one of our suppliers, City Plumbers, in recruiting a pair of apprentices.

But employment isn't always the first step. Supporting residents to gain confidence and an understanding of the way that their skills can be transferred to the working world is also an essential part of our service.

Amy
Resident

"I've decided I'd like to train to be a midwife. I know it's a long way from delivering play sessions to delivering babies, but I feel really proud of the steps I've taken."

More homes and better places

More homes and better places

As a financially and organisationally strong business, we're committed to providing as many affordable new homes as we can, with plans to invest £2bn over the next five years.

We'll make sure that we provide the homes that people need, of the best possible quality, within successful places and communities.

Delivering homes

In 2019-20 we began to implement our new development strategy – one that says that despite the uncertain economic climate we will regularly deliver more homes per year than we have ever done previously – building an average of just under 2,000 per year over the next five years. And during this time, we'll move to ensure that our homes are sustainable in the long term: environmentally, economically, aesthetically and socially.

We're increasing the land-led element of our programme, while still winning and delivering section 106 sites, broadening the range of organisations we work with and changing our relationships with others, to deliver in a different way.

We want to make a real difference and, rather than simply chasing a bigger share of the existing market, we want to increase the number of homes the market produces, making sure that homes are delivered as quickly as possible. We're using our financial strength and range of tenures to unlock sites which otherwise would not come to market or where development might stall.

We'll continue to deliver good quality homes under section 106 agreements, but we'll take on more land-led schemes, either on our own sites or working with partners to share resources and manage risk.

780 Affordable rent

30 Open market sales

245 Social rent

38 Joint venture sales

677 Shared ownership

3 Sales under unit

1,773 Total

Tom Titherington
Executive Director – Development and Commercial

"We'll build the right homes in the right places, buying land and taking control as we work to bring nearly 2,000 attractive sustainable homes a year to those who need them most."

Land-led place-makers

By 2024, we're aiming for half the homes we deliver to come from land-led sites. This will give us more scope to influence wider place-making, commission attractive homes and shape sustainable new neighbourhoods, designed to help the people who live in them to thrive.

That's not to say we won't continue to take advantage of small plots of land from public sale that can be redeveloped into conveniently located, modern properties, but we will be thinking bigger.

Evolving safety and environmental standards and the government's commitment to achieving zero carbon by 2050 present us with a once-in-a-generation challenge. But this is also an opportunity to rethink the type of homes we provide and how these are constructed, considering the homes that we already have.

We need to plan realistically and make choices about what we want to invest to make these properties fit for the future. Looking at many of these homes in 2019, the layout, size and construction type is not what we would seek to deliver today in our new developments, with some of our estates of historically poor urban design and aesthetic, coupled with a lack of amenities.

Additionally, specific forms of accommodation, such as some of our older persons housing, are no longer what people want or need, as they live longer and have more engaged lifestyles. We will keep all of this in mind as we move forward with our plans.

Taking control

We're working with our residents and the colleagues who manage and maintain our homes to co-create a new Home and Place standard for Sovereign, which will guide both our new development, and the investment in, or divestment and replacement of, existing homes.

This will make sure we provide what people really want, whether that's access to public transport, employment or shops, or links to natural spaces. It also builds on various national standards and the recommendations made in the Building Better, Building Beautiful Commission.

Joint venture

In April 2019 we signed a £229m joint venture agreement with developer Crest Nicholson at Harry Stoke, Bristol to deliver 914 homes. We're pre-purchasing hundreds of affordable homes within what will ultimately be a 2,700 home residential community. More than £9.5m is promised to establish a local retail centre, community hub, primary school site and nursery, with a new link road providing access for residents and the surrounding community.

Land-led

Soper's Lane – Poole, Dorset – We're investing in 127 affordable homes, in one of our first completely land-led deals.

S106

A partnership with Legal & General Homes in Willington Down, Oxfordshire will see us adding at least 279 homes to our number.

Strong foundations

Strong foundations

The Corporate Plan sets out our stall to be customer-led, changing the way we develop our homes and places and how we operate, as well as retaining and building on our financial strength as an independent business with a core social purpose.

We've delivered a strong first year at pace, and we recognise that we're travelling across an increasingly fluid landscape, meaning we need to be very adaptable in our approach. The foundations that we've created will support us as we move through the next few months against the changing background and impact of Covid-19 and will also set us up for success in the years to come.

The work we're doing is helping us shape our capabilities, systems and processes to be as effective as possible – the 'behind the scenes action' that allows us to build more homes and give better services to our customers.

Tech to match our ambitions

Without the right building blocks in place we cannot hope to achieve our ambitions. We need the right people at Sovereign with the right ways of working and the right technology, against a solid financial backdrop. Our new over-arching, cloud-based CRM package allows us to support customers on their journey from the first minute they join our Sovereign family, to the time of their departure.

Thinking digital first and being mobile-enabled provides flexibility and pace so people can interact with us in the way that they choose.

Operating in this way and making use of cloud-based storage means that in a year we've only had one outage. Our systems were available for 99.3% of the previous year, compared to previous systems that needed input on a week by week basis. We don't have to shut down to make fixes, and at present, based upon a survey of 18,776 respondents, our residents are reporting 89% satisfaction with their payment journey.

Using these systems means we're resilient and, even better, as we make changes, we can share the Intellectual Property to support others in the sector.

The £70k investment we've made in a business intelligence platform – with more to come as we roll the system out to all of our colleagues – allows us the flexibility to query our data and make more accurate day-to-day decisions based on rapidly emerging patterns.

We've seen an almost 100% organic growth in the use of our customer portal in 2019-20, to 21,000 people at the end of March. In the year 2020-21 we'll also be introducing web chat, offering our customers another method – at their fingertips – to keep in touch.

662,788
Contacts received

519,160
Calls – 72% grade of service

87,826
Emails – 100% grade of service

55,798
Social contacts

Transforming our workplaces

Workplace is a people-first project. Although the places where we work are important, working at Sovereign focuses on collaboration and the ways that we can bring teams together – never more important than now.

Coronavirus merely escalated a process that we had already begun, to make our employees feel empowered, trusted and able to collaborate. Workplace Windows 10 gives us the latest technology to deliver Microsoft Teams for remote meetings, sharing data and information safely online.

Despite pausing to assess other areas of our Workplace strategy, we still moved our headquarters from Newbury to bespoke offices in Basingstoke. Sovereign House, located in the heart of the town, close to all amenities, has a BREEAM rating of 'excellent'.

And the operational hub we are building in Newbury will boast an apprenticeship training facility, so that we continue to support the future growth of our fantastic apprenticeship schemes, which welcomed 11 new members last year.

Inspiring people

We want to create a culture which reflects our values and delivers a great customer experience. With four principal themes that reflect the employee lifecycle, Attract, Value, Develop and Engage, our People Strategy focuses on how we inspire our people.

Over the last 12 months we've made great progress, recruiting high calibre candidates across the business in addition to strengthening our Executive and Leadership teams. Furthermore, two Non-Executive Directors have joined us and we've appointed our next Chair, Paul Massara, following on from the departure of Gordon Holdcroft.

We also designed and launched our employee value proposition (EVP), 'The Sovereign Difference', so we can be clear about what makes us different from other workplaces, informing potential new starts what we offer and what we expect in return. We want to attract talented people who are a better fit to our culture, stay with us longer and perform at a higher level to deliver improved customer service.

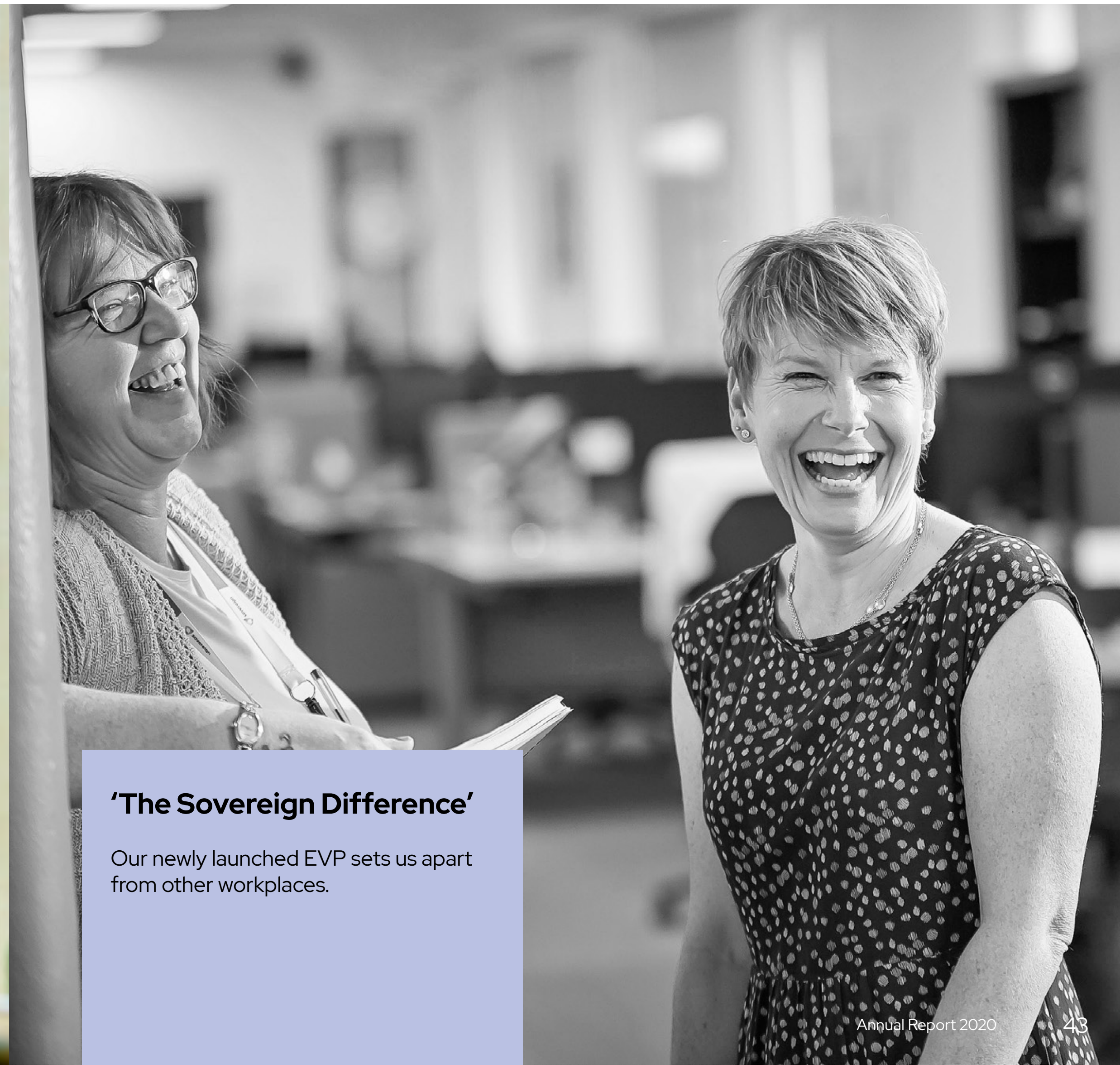
Valuing our employees

We are accredited as paying the Living Wage, and we've also designed a benefits package around our people, making sure that it is competitive, modern and easy to access. Employees pick the benefits that are right for them from medical care to discounts in hundreds of stores.

We also made significant changes to our pension arrangements, consulting with more than 2,000 employees about the changes, and ultimately transferring 1,400 employees from SHPS to Scottish Widows.

Bespoke offices

Our new headquarters in Basingstoke has a BREEAM rating of 'excellent'.



'The Sovereign Difference'

Our newly launched EVP sets us apart from other workplaces.

Voluntary turnover – improving trend – 12 month moving average of **14.6%** v target of 18%

21% senior management posts filled internally

Trainee carpenter **Kimmie Wheatland** won Young Achiever of the Year

Positive employee engagement rate of **67%** against the national average of 60%

Silver in What House? Award for Housing Association of the Year

Committed to opportunity

We are committed to promoting equality of opportunity and creating a working environment that is inclusive and free from discrimination or harassment. We have a responsibility under the Equality Act 2010 and the Public Sector Equality Duty, and our EDI policy and strategy support this.

As we move forward with our commitments to diversity at Sovereign, we'll strive to become a landlord and employer of choice with a customer base and workforce which is reflective of the communities in which we operate.

Our mean gender pay gap of 4% and median of 1.8% has reduced from last year and continues to be lower than the national gender pay gap figures produced by the Office of National Statistics (ONS), as well as measuring up favourably across the sector. Overall, our female gender balance is 44% to 56% and we are close to our 50% target at senior management level, with females representing 48%, the same as in 2018-19.

A real success has been our Women in Trades programme. We currently employ 22 female employees (3.4%) in manual trade roles up from 18 females (3%) this time last year, against our aspirational target of 5% by 2021 and a UK average of 1%.

Introducing an apprentice/trainee pay framework this year ensured pay equality across schemes and we continue to have quarterly meetings with all female trades employees, as well as being Gold members of Women in Construction.

We also still retain our Gold 'Investors in People' accreditation, using pulse surveys to check in regularly with how our people are feeling. Our most recent contact saw 80% of our employees say what they feel and think about working at Sovereign, with a positive engagement rate of 67% against the national average of 60%. And our October 2019 employee engagement survey showed scores of over 80% when people were asked about fair treatment and 'ability to be myself'.

But we know we've got more to do. We want to ensure that Sovereign makes a difference for our colleagues and our customers and is a force for positive change across all our communities.

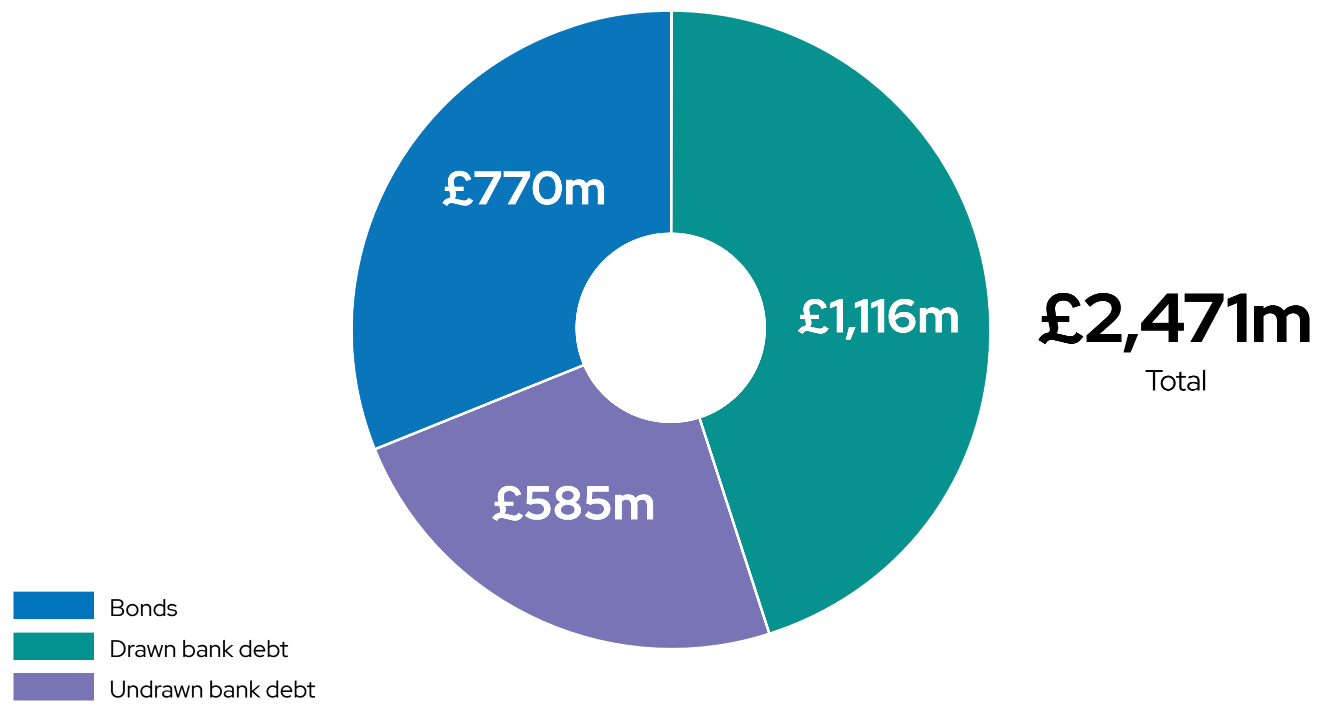
Simone Shephard
Apprentice plumber

"I've been really reassured by the men and women who work here, that it's not who you are, but what you can do that counts."

Treasury management

The management of treasury is key to ensuring that sufficient facilities are in place to support our strategy, which incorporates a substantial development programme. Our Treasury Management Policy sets the framework for managing the treasury activities and encompasses strong governance procedures. The Board delegates responsibility for the approval and regular review of the policy to the Treasury Committee. Treasury strategy is reviewed on an ongoing basis and a documented Treasury Plan is prepared at least annually and signed off by the Treasury Committee.

Total facilities



Capital structure

Sovereign is financed by a combination of capital market bonds, long-term bank debt, Social Housing Grant funding and retained surplus.

All of Sovereign's bonds and drawn bank debt is secured debt, with security provided by way of charges over housing properties. At 31 March 2020, we have just over 17,500 units unsecured, with a value in the region of £1.5bn, available to be pledged as security. Accordingly, considerable secured borrowing capacity remains available to support ongoing development.

As part of our liquidity policy, we seek to maintain as a minimum 18 months of liquidity. To support this aim, a £250m unsecured revolving credit facility was put in place with a consortium of five banks and we issued a new £375m public bond due November 2048, of which £125m was retained as at year end. This was subsequently issued in April 2020 with strong investor appetite enabling Sovereign to issue at rates which were sub 2%.

We are confident that our financial position makes Sovereign a strong investment proposition and that, in the absence of a material change in market sentiment, further funding to support a continuing development programme should be available at competitive rates, as has been shown by the recent bond issuance.

Covenants

Sovereign's bonds and bank debt include various covenants and undertakings. The financial covenants are primarily in respect of interest cover, gearing and asset cover. Compliance with financial covenants is monitored on an ongoing basis. There have been no covenant compliance breaches. Future compliance is considered both as part of regular quarterly forecasting and as part of the business planning process.

Our latest business plan reflects considerable headroom in relation to all interest cover and valuation-based gearing covenants. In light of Covid-19 we have introduced a financial resilience model to test the strength of the group and its ability to meet our loan covenant requirements. In relation to our asset cover covenants, we regularly review the level of security secured against our facilities ensuring assets are valued at their optimal value and we seek to maintain a level of headroom on all facilities to provide ease of releasing properties in relation to staircasing of shared ownership properties or as part of our Strategic Asset Management programme.

Liquidity

Sovereign has a minimum liquidity policy that requires cash and confirmed finance facilities to be in place to cover financing requirements for at least the following 18 months. At 31 March 2020, Sovereign's undrawn loans totalled £585m; we also held £65m in available cash, excluding sinking funds held for residents. Since the year-end, completion of the £125m retained bond and approval of £175m Bank of England CCFF facility has added considerably to the liquidity headroom.

Accordingly, we remain well placed to capitalise on development and stock acquisition opportunities, as well as to protect against any unexpected eventualities arising from Covid-19, economic, political or regulatory challenges.

Sovereign's finance facilities have a weighted average term of 15 years. Sovereign currently has £346m of debt facilities maturing in the next three years. However, there is an option of a further one year extension of our undrawn unsecured £250m syndicated facility – due to currently mature in June 2023 – which would reduce the amount of facilities maturing within the next three years to £96m of Sovereign's total £2,471m finance facilities.

Counterparty exposure is managed by keeping cash balances low and through retaining available facilities across a number of funders.

Interest rates

Sovereign's own-name bonds bear interest at fixed rates, as does our various borrowing through The Housing Finance Corporation and Affordable Housing Finance and the drawdowns from the European Investment Bank facility. Bank debt is at a combination of fixed and variable rates. Interest rate exposure in relation to the variable rate bank debt is managed through the use of stand-alone interest rate derivatives. The average interest rate payable in the year was 3.8% (2019: 3.9%).

Sovereign's annual business plan is stress-tested to ensure it is not unduly exposed to risks associated with interest rate movements and the interest rate hedging strategy is adjusted as considered appropriate. At 31 March 2020, 89% of drawn debt was at fixed rates or at rates fixed through the use of derivative financial instruments.

The value of Sovereign's stand-alone interest rate derivatives is reflected on the balance sheet. At 31 March 2020, the aggregate value of these derivatives was £108m negative (2019: £88m negative), of which the great majority was covered by thresholds and property security, with only a small requirement for cash security. This increase, notwithstanding regular swap payments made during the year, reflects market expectations of lower average interest rates over the remaining lives of the derivatives.

Governance

Sovereign is a Registered Society under the Co-operative and Community Benefit Societies Act 2014 and is a registered provider of social housing of which our primary business is the provision of housing at below market rates.

The Board presents its report and audited financial statements for the year ended 31 March 2020. The Board believes that Sovereign is well placed to manage its business risks successfully despite the current economic uncertainties. As a consequence, the Board has a reasonable expectation that it has adequate resources to continue to adopt the going concern basis in preparing the annual financial statements.

Group structure 01 July 2020

The main trading activities are undertaken by Sovereign Housing Association Limited, the 'parent', with the Group structure and purpose of the subsidiaries as shown below, excluding dormant and non-trading subsidiaries. ramme.

Sovereign Housing Association Ltd CCBS / RP

- Sovereign Advances Ltd — CLS
  - Sovereign Housing Capital — PLC
- Sovereign Housing Design & Build Ltd — CLS
- Sovereign Housing Partnerships Ltd — CLS
  - Sutton BDW (Hutton Close) — LLP 50%
  - Keir Sovereign — LLP 50%
  - Crest Sovereign (Brooklands) — LLP 50%
  - Linden Homes Westinghouse — LLP 50%
  - Sovereign BDW Newbury — LLP 50%
  - Linden Brockworth — LLP 50%
- Sovereign Living Ltd — CCBS / RP
- Sovereign Housing Developments Ltd — CLS
- Spectrum Property Ventures Ltd — CLS
- Spectrum Premier Homes Ltd — CLS
- Spectrum Property Care Ltd — CLS

CLS	Company Limited by Shares
CCBS	Co-operative and Community Benefit Society
LLP	Limited Liability Partnership
RP	Registered Provider

Sheila Hayward, member of our resident-led Scrutiny Coordination Group

Advisors and Board members

Company Secretary
Claire McKenna, ACIS

Registered office
Sovereign House
Basing View
Basingstoke
RG21 4FA

External Auditor
KMPG LLP
Tollgate
Chandler's Ford
Eastleigh
Hampshire
SO53 3TG

Principal bankers
National Westminster Bank PLC
Abbey Gardens
4 Abbey Street
Reading RG1 3BA

Principal valuers
Jones LaSalle
Latimer House
5-7 Cumberland Place
Southampton
SO15 2BH

Principal solicitors
Towers & Hamlins LLP
3 Bunhill Row
London
EC1Y 8YZ

Board members as of 31 March 2020

Gordon Holdcroft
Chair
Appointed 2010 and appointed Chair July 2017, left July 2020.

Stuart Laird
Vice Chair of Board and Chair of Property Services Committee
Appointed 2014

Barbara Anderson
Chair of Audit and Risk Committee
Appointed 2014

Lee Bambridge
Chair of Treasury Committee
Appointed 2013

Simon Lindley
Chair of Spectrum Property Care
Appointed 2013, left September 2019

Christine Turner
Board member
Appointed 2010, left September 2019

John Weguelin
Board member
Appointed December 2018, left December 2019

Angela Williams
Chair of Remuneration Committee
Appointed 2017

Claire O'Shaughnessy
Appointed 2015

Jennifer Dykes
Resident Board member
Appointed 2016

Jane Wynne
Appointed 2019

Chris Broe
Appointed 2019

Mark Washer
Chief Executive
Appointed June 2018

Tracey Barnes
Chief Financial Officer and Chair of Investment Committee
Appointed October 2019

Board responsibilities and governance

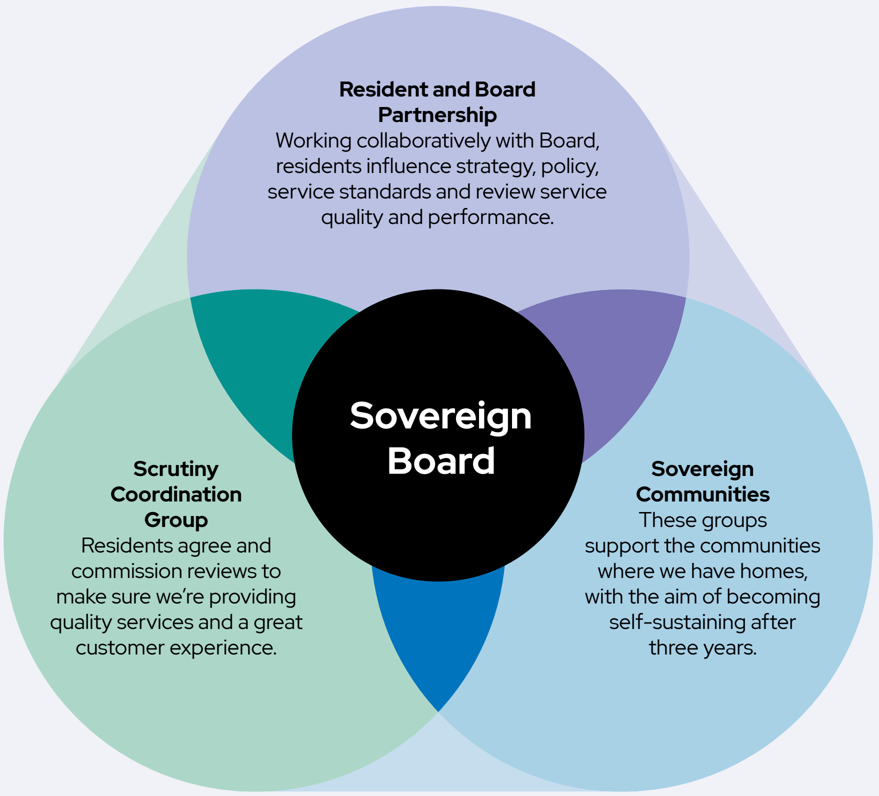
Governance framework

As well as a broad range of skills and experience, the Board's decisions are informed by expertise and scrutiny from its supporting committee structure. This is further enhanced by challenge and insights from the Resident and Board Partnership, the Scrutiny Coordination Group and Community Engagement Groups.

Working with our customers

We have an award-winning approach to resident engagement, known as the 'triangle of engagement', which means residents can help shape our strategies and policies, scrutinise and improve our services.

Triangle of engagement



The partnership is made up of three groups:

Resident & Board Partnership
Working with Sovereign's Board, residents help influence strategy, shaping policy and service standards, quality and performance.

Scrutiny Coordination Group
Agree and carry out scrutiny reviews to help monitor, manage and develop Sovereign's services.

Communities Groups
Community engagement groups set up to focus on community action and provide real-time feedback.

We've invested in our resident portal and our website, enabling customers to complete tasks themselves, and speeding up processes.

We want our residents to feel involved when they want to, in ways that suit them. But if they just want to keep us in the background, that's fine too. That's why we've invested in our resident portal and our website, enabling customers to complete tasks themselves, and speeding up processes from asking to keeping a pet to checking a rent balance.

Resident Board Partnership

We're an early adopter of The National Housing Federation's Together With Tenants initiative and charter and we've started work to co-create the 'Sovereign Charter' to further cement our ambitions.

Scrutiny Coordination Group

The Scrutiny Coordination Group works with resident scrutineers to review our services. During 2019-20, our Resident Scrutiny Team completed three major projects looking at complaints, empty homes and planned improvements, feeding back recommendations directly to our Board.

In the last 18 months, they've reviewed 10 policies resulting in positive outcomes, offering over 300 hours of their time to speak to 80 people about their experiences with us. The work they do has resulted in real change across our organisation, with services being changed for the better.

32,923
Number of service requests made online

104,789
Number of unique website hits

18 services implemented or withdrawn as a result of resident involvement

365 residents involved in formal / informal consultation groups

Communities groups

We have six resident-led groups who empower change not only where they live, but also by being involved in initiatives like our Home and Place Standard and Residents Conference and by helping many others directly in their community to access support, join in and make Sovereign's homes great places to live.

The ideas come from the community and we help them to make them happen by giving advice on the governance involved and assisting with start-up grants to get them going.

Joyce Ward
Chair of Resident Board

> "With our customers and communities we will work together, bring ideas, listen, and have honest conversations to design for now and the future."

Board and committees

The Board and the committees are supported by Sovereign's rules, standing orders and financial regulations, that provide a formal, structured framework for decision-making. These are constantly reviewed and regularly updated.

The committees cover Audit and Risk, Remuneration and Nominations, Treasury, Property Services and Investment, bringing together Board members and independent experts with specific skills to focus on key aspects of the business.

Sovereign recognises excellence in governance as a priority to its continuing success. We're committed to maintaining the highest standards of governance, accountability and probity, and we seek to comply fully with our adopted Code of Governance, that of the National Housing Federation (NHF) (2015).

The Code aims to support federation members in excellence at governing their organisations and being accountable to their stakeholders: shareholders, residents and the sector regulator. The NHF Code of Conduct (2012) has been adopted as the basis for Sovereign's Code of Conduct, as it aims to make sure that registered providers, and their subsidiaries, maintain high standards of conduct in their role in delivering affordable homes, neighbourhoods and services to their customers.

This governance structure, defined in the context of three lines of defence, is supported by a comprehensive internal audit function and regulatory framework process. The Executive Board is responsible for the day-to-day implementation of Sovereign's strategy.

A strong and effective organisation

The Board's focus in 2019-20 has been to oversee the continued transformation of the way Sovereign works, alongside the delivery of sustained operational performance. Activity has centred on the transformation plan which is managed by the Executive-led Transformation Board, and the delivery of efficiencies, whilst maintaining business as usual.

Latterly, the impact of Covid-19 has presented economic and operational challenges to all of society including housing associations, their residents and partners. The Board has supported the Executive in managing the organisation through these unprecedented times, acting as a critical friend whilst ensuring the safety of its staff and residents. This supports the need for a responsive and experienced Board.

The Board agreed a new corporate plan 2019 – 2024, supported by a robust business plan which includes a challenging new development strategy, all of which continue to evolve.

The Board undertakes annual performance reviews, both collectively and as individuals. In 2019-20, collective reviews of the Board and its Committees were undertaken by external consultants, experts in their field with many years' experience in the social housing sector. They examined how the Board and Committees were working as teams, whether they had the necessary skills to fulfil their roles and whether the delegation of power from the Board to Committees was appropriate for effective decision-making and control.

Following a review of the Board's skills and succession plan, actions were agreed which included the preparation of a collective training plan and that the focus for the upcoming recruitment exercise to fill the current Board vacancy will focus on strengthening the skills and experience in social housing and policy.

All Terms of Reference for the Committees have been reviewed to ensure that decisions are made in the most appropriate forum whilst maintaining oversight and control.

There was almost full attendance at Board meetings by Non-Executive directors throughout the period and all Committee meetings have been quorate.

Thriving communities

In 2019-20 we reformatted our safety and assurance function and added extra posts, so that we could become even more confident in our sector-leading abilities.

Corporate governance statement

The Board has assessed its compliance against its adopted Code of Governance and is satisfied that the organisation's governance is compliant with the material aspects of the code and is supported by its internal controls, policies and procedures. An assessment against the Code for the previous year was undertaken in June 2020, where it was established that there was one departure from the Code of Governance, which is explained below:

B4 – Board members who are executive staff must be in a minority. Boards should have at least five members and no more than twelve, including any co-optees and any Executive Board members.

The make up of the Board of Sovereign Living Ltd, a non-charitable registered provider, bound by the same Code, does not comply, as the Non-Executives are in the minority. In practice, decisions are made at the Parent Board level, with Sovereign Living merely being a 'vehicle' to deliver affordable home ownership on behalf of the parent. The standing orders and scheme of delegation evidence the limitations on decision-making of the subsidiary.

All required disclosures have been made, and registers have been maintained regarding gifts and hospitality accepted and given by Board members and employees. Sovereign continues to develop its regulatory compliance framework, which is monitored by the Audit and Risk Committee. The framework allows the organisation to self-assess and provide evidence to demonstrate its compliance with the Regulatory Standards and identifies any gaps, which can then be addressed.

The self-assessment was presented to the Audit and Risk Committee in July, which demonstrated compliance.

Compliance with the Regulator for Social Housing Governance and Financial Viability Standard

The Board of Sovereign has carefully considered the requirements of the regulatory standards and has robustly assessed and taken assurance of Sovereign's compliance with them during the year. On this basis, the Board certifies that Sovereign Housing Association has complied in all material aspects with the Regulator of Social Housing's (RSH) regulatory standards during the reporting period ended 31 March 2020.

We review our performance with our shareholders each year at the Annual General Meeting. This year the meeting will be held at Sovereign House, Basing View, Basingstoke, Hampshire at 4pm on 10 September 2020, if this is safe to attend, and otherwise will be held online.

Regulatory performance

Sovereign met with the RSH in the third quarter of 2019-20 at a formal engagement meeting, following which it was confirmed via its refreshed assessment, that we meet the Governance and Financial Viability standards and maintain the highest of the four available grades.

The RSH confirmed that the governance and financial viability grades and straplines for Sovereign remained as:

G1 The provider meets our governance requirements.
V1 The provider meets our viability requirements and has the financial capacity to deal with a wide range of adverse scenarios.

Health and safety

As a registered social landlord, Sovereign operates in an environment where any deficiency could have serious repercussions for our residents and stakeholders and invite action from the Regulator of Social Housing and the Health and Safety Executive. With resident and employee safety in mind, in 2019-20 we reformatted our safety and assurance function and added extra posts, so that we could become even more confident in our sector-leading abilities.

Our building and safety services approach, which covers off gas, fire, and electrical safety, and asbestos, legionella and lift management was approved by the Health and Safety Leadership Group. The new plan encouraged people to make positive safety choices, and we invested in recruiting and training highly competent people. Reporting monthly to the Executive Board, property compliance is also monitored on an exceptional basis at each Audit and Risk Committee meeting. In addition, we hold the Royal Society for the Prevention of Accidents Gold Standard award.

Over the year we saw a 62% reduction in working days lost – down from 608.5 (2018-19) to only 230 last year, due to accidents or injury at work, due to a new way of working, investigating all accidents and injuries, as well as 'near misses'. The reporting of these went up to 124 (80 in 2018-19) reports – due to a real boost on safety campaigns, reviewing our training and competence matrix, and consistent education of others by our own teams rather than by external agencies.

Appointment of the external auditor

It is Sovereign's policy to retender the external audit every seven years. The current external auditor, KPMG LLP, won the competitive tender process in 2018. A resolution to reappoint KPMG as Sovereign's auditor will be proposed at the 2020 Annual General Meeting.

62%
Reduction in working days lost

G1/V1
Top regulatory rating

Risk context

Risk is inherent in any business. There is a certain amount of risk Sovereign is willing to take in achieving its strategic objectives, that's our risk appetite and is set by the Board. We deploy a risk management framework that ensures our strategic and operational risks are identified, assured and reported in a consistent way, allowing us to manage the execution of our strategy within that defined risk appetite.

Our process for identifying risks takes input from all parts of the organisation and considers both internal and external factors. Throughout 2019, the housing sector has continued to place significant emphasis on risks to tenant safety following the Grenfell Tower disaster. Like the economy at large, the sector has been exposed to the risks associated with the UK's departure from the EU and, more recently, the global Covid-19 pandemic.

Our risk framework evolves as we continually enhance our risk management processes. In 2019, we made enhancements in our approach to modelling a range of possible risk-based scenarios and quantifying potential impact where possible.

Roles in our risk framework

Effective risk management requires clarity of responsibilities, enabling risks to be understood and well-managed across the organisation. To ensure that our approach to managing risk is well-coordinated, avoiding gaps or unnecessary duplications of coverage, our risk framework follows the 'three lines of defence' model. This model ensures risk owners understand their responsibilities and how they fit into the organisation's approach to identifying, assessing and mitigating risk.

The Board is responsible for setting the direction of Sovereign through defining our values and strategic objectives and providing the leadership to achieve those within a controlled environment. Setting out the type and amount of risk that Sovereign will tolerate and being assured that the appropriate risks have been identified and are being managed is how the Board ensures we are operating within a suitably controlled environment.

The Audit and Risk Committee supports the Board in this respect by overseeing and challenging assurances on governance, risk management and control for both their comprehensiveness and reliability. Assurance over the agility of Sovereign to identify and respond to emerging risks is also an area of focus. The Board's other sub-committees perform a similar role in managing risk within their areas of specialism.

The participation of everyone in Sovereign is critical to the success of our approach to risk management. We expect all our people to understand and support our risk management philosophy through mindful execution of their day-to-day activities. We expect all our managers to promote operating within Sovereign's determined risk appetite and to proactively identify and manage risk within their areas of responsibility.

Our risk framework evolves as we continually enhance our risk management processes.

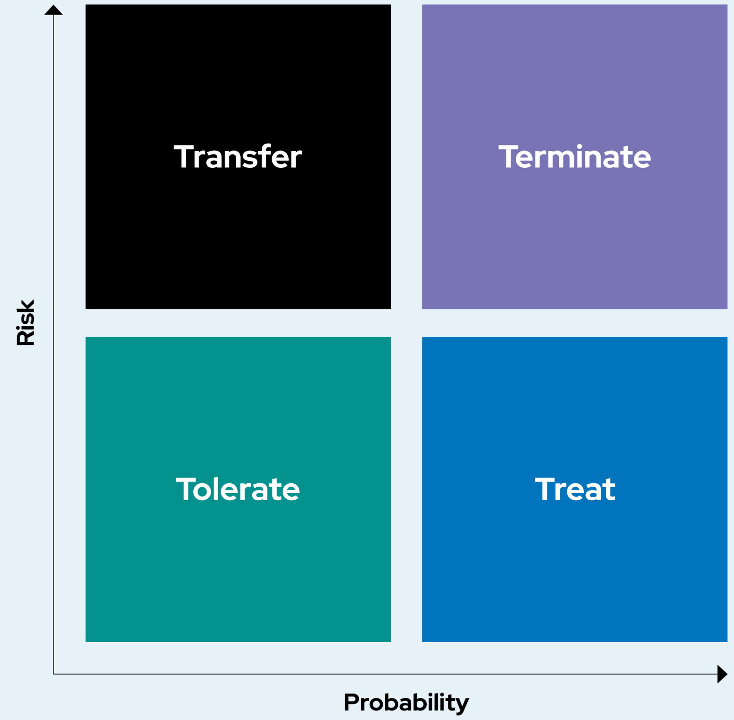
Managing risk

Effectively managing our risks consistently across Sovereign means providing a structured approach to making decisions about risks as they arise. We achieve that by deploying the recognised '4T' model as a component of our overall risk management framework.

Risk model

This model guides our people to:

- Tolerate the risk when it is not significant enough to threaten achievement of our objectives
- Treat the risk when it can be reduced by internal control
- Transfer the risk when it is too high, and it can be at least partly transferred to our insurance programme or joint ventures
- Terminate the risk when it is too high, cannot be reduced and is beyond the risk appetite



Future and emerging risks

We continually use external sources with the objective of identifying risks that may impact Sovereign in the longer term. One such external source is monitoring regulatory downgrades in order to benefit from lessons learned across the sector. In the early stages there may be insufficient information available to understand the likely scale or impact of the risk, but we track it and build the information to form that view as the risk emerges. Currently, we are actively tracking the threat of a possible resurgence of the Covid-19 pandemic in regions where it would have a direct and adverse impact on Sovereign and our customers.

Each year the Regulator for Social Housing produces a Sector Risk Profile. In 2019, we identified the Regulator's risk in relation to the condition of properties and management of those assets as the most significant to formally reassess our mitigations to. We are currently satisfied that it is appropriately addressed through other risks already identified, particularly our risk on service delivery and quality, and our risk on health and safety.

Our most significant risks

Using our risk management framework, we have identified the following risks as being the most significant to achieving Sovereign's strategic objectives:

	A serious health and safety incident	A security breach affects infrastructure and data	Exposure to sudden financial or economic shock	Unexpected funding challenges	Adverse impact of welfare reforms	Failure to achieve development programme aims	Deteriorating levels of service delivery and quality	Inadequate governance of our data	Inability to attract and retain talented employees
Impact	• Death or serious injury of one or more people • Criminal and/or civil prosecution; regulatory consequences • Reputational damage • Business disruption • Financial consequences	• Reduced capability to deliver core services and perform core activities • Negative financial, reputational, and legal consequences	• Sudden and substantial increase in funding cost • Substantial decrease to revenue streams • Current business model compromised by significantly increased costs	• Inability to access sufficient borrowing or manage liquidity to execute strategic aims • Further negative impact on credit rating	• Detrimental impact in rental income streams • Increase in rental arrears • Consequent reduction in our ability to invest in strategic aims that benefit our customers	• Reduction in sales volume and margin • Adverse effect on the business plan and investment into strategic aims	• Negative effect on our residents' experience and their perception of Sovereign • Potential damage/neglect to assets • Reputational damage • Regulatory action	• Inaccurate data and/or reporting adversely affects business decisions • Data protection breaches with potential financial penalties	• Reduced ability to achieve strategic aims • Loss of institutional knowledge • Impact of high employee turnover on remaining colleagues
How we manage the risk	• Framework for management of health and safety in place, supported by appropriate policies and procedures • Appropriate governance and oversight at Board, Executive and senior leadership levels • Competency frameworks in place for relevant teams and individuals • Generic and specific risk assessments at activity level • Specialist safety services and routines in place	• Monitoring capacity of network and security infrastructure • Service availability impact assessments • Secure configuration and physical security • Vulnerability assessments and associated remediation	• Sufficient available liquidity for at least the next 18 months with low reliance on sales income • Sufficient headroom against lenders' covenants • Strong oversight from management and Board, with rapid decision-making	• Continual monitoring of cash, credit security and compliance with terms • Funding modelling within business planning activity • Recent issuance of a £125m retained bond • £175m from the Bank of England's Covid Corporate Financing Facility (BoE CCFF)	• Ongoing analysis and multi layered reporting to understand impact of Universal Credit on rent and service charges • Regular customer engagement • Reallocation of resources, prioritising support to residents • Influencing policy through industry forums	• Development appraisal parameters approved by Board and reviewed regularly • Appropriate scrutiny of individual schemes • Reviewing our development approach to cover losses on shared ownership	• Monitoring service performance and taking corrective action to quickly reverse any decline • Focus on emergency repairs and targeted safety activity • Reallocating resources, reviewing how employees can best support our frontline teams • Communication to residents over services and reassurance over rent issues	• Framework in place for managing our data • Dedicated data and analytics team that drives master data management and quality reporting • Data protection policies and procedures linked to the framework	• Resourcing strategy • Leadership and management development • Recognition strategy • Succession planning
How the risk developed during the year	• Physical exposure of frontline employees and customers to Covid-19 • Resource shortages and changes in business priorities • Additional mental health considerations • Contractor and supply chain capability and capacity issues	• Resilience of our IT Security tested by employee shortages and increased demand for IT support • Increased probability of cyber threats, particularly phishing attempts, during global vulnerability	• Global economy and outlook significantly impacted • Increased rent arrears • Pace of development programme slowed by increase in completion times	• Impact on liquidity from damage to global economy • Benefit from flight of capital to less risky assets and sectors	• Increased number of residents accessing benefits, some for the first time • Our pledge that no resident will lose their home as a direct result of Covid-19	• Uncertainty, resulting in delay of development activity and sales programme • Longer term impact on housing market • Future changes to social housing needs arising from the Covid crisis unclear	• Ability to deliver services and maintain service levels safely for customers and employees • Resourcing issues affecting demand and delivery of service provision • Resident expectations and anxiety about direct contact with frontline teams • Contractor and supply chain capability and capacity issues	• New ways of working increases probability of policy breaches	• Flexible and remote working models and demand for more choice • Impact of changes to ways of working on mental health and wellbeing • Longer term impact on recruitment market unknown • Opportunity to demonstrate support of employees and strengthen relationship

The Committees

An experienced and robust committee structure ensures the Board has the necessary insight, challenge and assurance to make the best decisions. Our committees include Board members as well as independent experts, who bring an external view and specialist skills.

Audit and Risk Committee

The Audit and Risk Committee (ARC or the Committee) oversees internal control and risk management procedures as well as reviewing the financial statements. The Committee provides challenge and scrutiny and ensures that our risk profile is managed in accordance with our strategy and risk appetite.

The Committee includes two Non-Executive Board members and two independent members. The Committee meets at least four times a year and regularly reviews its policies, its effectiveness and ensures its work plan is in line with its delegations from the Board and its terms of reference.

During the year, ARC oversaw the fundamental review and development of Sovereign's risk management framework, including the agreement of its risk appetite and significantly reducing key strategic risks. The Committee also oversaw the procurement of the insurance programme until conclusion in November 2019, when a new contract was awarded.

Sovereign continued utilisation of a co-sourced internal audit model, led by the Director of Audit and Risk, with external expertise procured for those specialist audits requiring specific expertise and skills. The internal audit plan was agreed by the Committee and reported to Board, with the effectiveness of these arrangements being monitored on an ongoing basis and a focus for 2020-21.

A key focus of internal audit for 2019-20 remained health and safety – ensuring the well-being of Sovereign's residents and employees and that we continue to meet our statutory and regulatory obligations.

The external auditor attended all the quarterly meetings ensuring there was an open dialogue and ability to keep abreast of the sector and accounting related matters.

For the year ahead, the Committee's primary focus will be to oversee Sovereign's response to Covid-19, through its evolving recovery phase from a risk and internal controls perspective.

The Committee will also continue with its full and rolling annual workplan, which for 2020-21, includes the review of the internal audit framework; oversight of the implementation of the risk management framework; oversight of any risks arising from Sovereign's compliance with its regulatory and statutory duties, and our ability to deliver our Corporate Plan.

Mark Washer
with colleagues

Treasury Committee

The Treasury Committee oversees Sovereign's treasury and funding activities, ensuring sufficient facilities are available to support the agreed strategy, and providing challenge and scrutiny of the Treasury Strategy and risk management. The Committee also considers the treasury-related business planning assumptions and stress tests.

The Committee normally comprises three Non-Executive Board members, an independent Non-Executive member and the Chief Financial Officer and is supported by independent treasury advisers.

Liquidity and new funding opportunities have been a key focus over the last year, reflecting Sovereign's substantial development plans combined with an uncertain political and economic environment. The added uncertainty brought about by the coronavirus epidemic will continue through 2020-21 and beyond and regular further fund-raising will be required if a strong development programme is to be continued. This is expected to involve further issues of long-term debt in the capital markets and whilst there is current volatility in these markets, the November 2019 and May 2020 successful bond issuances demonstrated considerable appetite for Sovereign's credit.

Looking ahead, the external environment is potentially more uncertain than at any time in Sovereign's history and accordingly the Treasury Committee will monitor this closely through market intelligence and via the consideration of the potential impact on Sovereign via the latest forecasts and a range of stress tests.

Remuneration and Nominations Committee

In support of the Board, the Committee's role is to provide challenge, scrutiny and support in reviewing the People Strategy and related policies that have a significant implication or risk to Sovereign. It also considers issues relating to the contracts of employment for the Executive Board together with strategic issues relating to the compensation and benefit packages for employees. The Committee has responsibility for overseeing the recruitment, induction and training of all Board and Committee members which this year has focused on the recruitment of the new Chair.

The Committee includes three Non-Executive Board members together with two independent Non-Executive members. The Executive Director for Corporate Services and the Director of Governance and Regulation support the Committee.

During the year, the Committee provided support, guidance and challenge in the shaping of a new Executive Team structure designed to enable Sovereign to achieve its challenging corporate plan, with members being actively involved in all executive recruitment activity. The Committee also scrutinised the talent and succession strategy, which aims to deliver an increased pipeline of future talent to enable Sovereign to deliver its ambitions.

The Committee maintained oversight of the delivery of the Workplace strategy during the period from the 'people' perspective, providing challenge, guidance and support throughout in order to enable the culture and create a modern and more efficient business with better ways of working to deliver improved service for our residents.

Looking ahead, the Committee has a full and rolling annual workplan based on its terms of reference and reviewed at each meeting. Key strategic priorities for the Committee on behalf of the Board in the forthcoming year are to ensure that post Covid-19, all necessary plans are in place and executed from a resource perspective to enable services to be resumed.

The Committee will also continue to oversee the people aspect of the Workplace Strategy which will see the relocation of Sovereign's head office from Newbury to Basingstoke, in addition to the wider programme.

The Committee will continue to monitor the Pensions Strategy including the arrangements with Sovereign's four Local Government Pension Scheme providers.

On behalf of the Board, the Committee will continue to monitor the progress of the delivery of the People and Equality, Diversity and Inclusion strategies as part of the delivery of the Corporate Plan and oversee the recruitment of a successor to the Chief Operating Officer as a result of her retirement and recruit an additional Board member as planned.

The Investment Committee

The Investment Committee oversees all new development, commercial or asset management schemes of all tenures including social and affordable rent, shared ownership, market rent or open market sale. This includes projects involving the remodelling, rehabilitation, regeneration and disposal of existing homes owned by the Group alongside the approval and monitoring of all land acquisitions required to facilitate any new development project.

The Committee monitors the performance of joint venture partnerships entered into by the Group, ensure that regular updates are supplied to the Board and that emerging risks are escalated as required in a timely manner.

The Committee's membership includes three Board members, an independent Non-Executive director and five executives, with one holding the position of Chair.

On the recommendation of the Investment Committee and approved by the Board in 2019-20, the new development strategy made a strategic move towards land-led development to produce a more viable model in the long term. This provides a greater opportunity to be an influential place maker and make sustainable communities a key driver, whilst providing an alternative view to the use of cross subsidy.

During the year, the Committee continued to monitor the implementation of the development strategy, had strategic input into the Strategic Asset Management Strategy and the Home and Place Standard and monitored the performance of joint venture activity, whilst consistently challenging the various development opportunities which arose.

In the year ahead, the first consideration of the Committee will be to focus on and monitor the recovery from the impact of Covid-19, though it will also continue to focus on all development matters for approval or recommendation on a monthly basis.

Ongoing consideration will be given to existing and new joint venture opportunities where these deliver and enhance the strategy and the delegations required to allow the strategy to achieve its outcomes smoothly and to remain within the Business Plan.

Property Services Committee

The Property Services Committee (PSC) ensures the company provides an efficient, effective and fully compliant repairs and maintenance service in line with delegations set by the Sovereign Board.

During the year, the Committee considered the annual maintenance plan, which informed the annual budget for Property Services for 2020-2021.

It provided oversight of the provision of a compliant and improving repairs and maintenance service throughout the reporting period as well as routinely monitoring safety and compliance at each meeting. PSC monitored matters related to RIDDORs, near miss reporting, lifts and any building safety concerns including sprinklers, other fire safety matters, and the general safety of taller buildings.

The procurement, management and control of contracts was also reported to PSC through a procurement wave plan reported to the Committee at each meeting.

As for many others, the year ahead will focus on the recovery from the impact of Covid-19, due to a significant backlog of routine and cyclical repairs, investment programmes, and major works projects.

Detailed consideration is being given to how this will be managed and delivered, with oversight through Sovereign's Covid-19 Recovery Team. The Committee will also continue to oversee the demobilisation of Spectrum Property Care through to its formal closure in 2021.

The Executive Board

Sovereign's leadership and management structures provide the expertise and framework to achieve our strategic objectives. The Executive Board works to protect and grow the business, while overseeing our performance, as we build and provide great homes that people choose to live in, as well as providing a great customer experience.

The Executive Board includes six directors, in addition to the Chief Executive.

Mark Washer
Chief Executive
Appointed June 2018

Nicole Sharp
Executive Director – Property
Appointed July 2019

Tom Titherington
Executive Director – Development and Commercial
Appointed January 2019

Heather Bowman
Chief Operating Officer
Appointed March 2001 – retiring November 2020

Keith Astill
Executive Director – Corporate Services
Appointed December 2017 – left July 2020

Tracey Barnes
Chief Financial Officer
Appointed October 2019

Kevin Ives
Chief Information Officer
Appointed August 2019

Financial statements

2019-20

Statement of Board's responsibilities

In respect of the Board's report and the financial statements

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

Co-operative and Community Benefit Society law requires the Board to prepare financial statements for each financial year. Under those regulations the Board have elected to prepare the financial statements in accordance with UK Accounting Standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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 Board is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 it either intends to liquidate the group or the association or to cease operations or has no realistic alternative but to do so.

The Board is responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the association and enable them to ensure that its financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2019. It is responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the association and to prevent and detect fraud and other irregularities.

The Board 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 the auditor

Each of the persons who are a director at the date of approval of this report confirms that:

a) so far as each director is aware, there is no relevant audit information of which the Group's auditor is unaware; and

b) each director has taken all the steps that he ought to have taken in his duty as a director in order to make himself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Internal control assurance statement

The Board has overall responsibility for establishing and maintaining the whole system of internal control and for reviewing its effectiveness.

The Board recognises that no system of internal control can provide absolute assurance or eliminate all risk. The system of internal control is designed to manage risk and to provide reasonable, but not absolute, assurance that key business objectives and expected outcomes will be achieved. It also exists to give reasonable assurance about the preparation and reliability of financial information and the safeguarding of the Association's assets and interests.

Under the governance structure, the Board has set up a specialist Audit and Risk Committee ("ARC"). All audit and risk matters are managed by ARC on behalf of the Board. In meeting its responsibilities to the Board, ARC has adopted a risk-based approach to internal controls which is embedded within the normal management and governance process. This approach includes the regular evaluation of the nature and extent of risks to which the Association is exposed.

This process adopted by ARC in reviewing the effectiveness of the system of internal control, together with some of the key elements of the control framework includes:

Identification and evaluation of key risks

Management responsibility has been clearly defined for the identification, evaluation and control of significant risks. There is a formal and ongoing process of management review in each area of the significant risks. This process is co-ordinated through a regular reporting framework to ARC and the Board. The Group's Executive Board regularly considers reports on significant risks facing the Group and the Chief Executive, and members of Executive Board are responsible for reporting to ARC and the Board any significant changes affecting key risks.

Monitoring and corrective action

A process of control self-assessment and regular management reporting on control issues provides hierarchical assurance to successive levels of management and to the Board. This includes a rigorous procedure for ensuring that corrective action is taken in relation to any significant control issues, particularly those with a material impact on the financial statements.

The Group continues to maintain a significant development programme. Monitoring and reporting of development activity has been enhanced to ensure the Group remains alert to the potential dangers posed by a much more volatile and difficult external environment.

Control environment and control procedures

The Board retains responsibility for a defined range of issues covering strategic, operational, financial, and compliance issues including treasury strategy and new investment projects. The Board has adopted the National Housing Federation (NHF) Excellence in Governance Code. Sovereign continues to meet the principles and material obligations of the Code, with its only minor departure relating to provision B4, which are explained.

B4 relates to the composition of the Sovereign Living Board, which has an executive majority. The make up of the Board of Sovereign Living Ltd, a non-charitable registered provider, bound by the same Code, does not comply as the non-executives are in the minority. In practice, decisions are made at the Parent Board level, with Sovereign Living merely being a 'vehicle' to deliver affordable home ownership on behalf of the parent. The standing orders and scheme of delegation evidence the decision-making parameters of the subsidiary.

The Association has adopted policies with regard to the quality, integrity and ethics of its employees, with which all employees must comply. These cover issues such as delegated authority, segregation of duties, accounting, treasury management, health and safety, data and asset protection and fraud prevention and detection. The Board has adopted the NHF Code of Conduct 2012 which ensures high standards of business conduct.

The Group has four other specialist committees in addition to the Audit and Risk Committee; the Remuneration and Nominations Committee, which deals with matters of governance, human resources, terms and conditions and has responsibility for overseeing the processes required for the recruitment, induction and training of all Board and Committee members; the Treasury Committee which approves and administers the Treasury Policy and ensures the most efficient and effective funding for the Group; the Property Services Committee which monitors and reviews the provision of repairs and maintenance services and building safety and the Investment Committee, which reviews the viability of development schemes for the provision of new homes.

Information and financial reporting systems

Financial reporting procedures include detailed budgets for the year ahead and forecasts for subsequent years. These are reviewed and approved by the Board. The Board also regularly reviews key performance indicators to assess progress towards the achievement of key business objectives, targets and outcomes. The internal control framework and the risk management process are subject to regular review by the Business Assurance Team who are responsible for providing independent assurance to the Board via ARC. An annual internal audit programme appropriate to the size and complexity of the Association is set each year and ARC considers internal audit reports at each of its meetings during the year.

The Board has received an annual report from the Association's Executive Board and ARC confirming they have reviewed the effectiveness of the system of internal control throughout this year and have taken account of any changes needed to maintain the effectiveness of the risk management and control processes.

This Strategic Report, Board Report and the Statement of Board's Responsibilities were approved on 30 July 2020 and signed on its behalf by:

BY ORDER OF THE BOARD

Claire McKenna
Company Secretary

Independent auditor's report

To the members of Sovereign Housing Association Limited

Opinion

We have audited the financial statements of Sovereign Housing Association Limited ("the association") for the year ended 31 March 2020 which comprise the Consolidated Statement of Total Comprehensive Income, Association Statement of Total Comprehensive Income, Consolidated Statement of Financial Position, Association Statement of Financial Position, Consolidated Statement of Changes in Reserves, Association Statement of Changes in Reserves, Consolidated Statement of Cash Flows and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view, in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, of the state of affairs of the group and the association as at 31 March 2020 and of the income and expenditure of the group and the association for the year then ended;
- comply with the requirements of the Co-operative and Community Benefit Societies Act 2014; and
- have been properly prepared in accordance with the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2019.

Basis for opinion

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

Going concern

The association's Board has prepared the financial statements on the going concern basis as they do not intend to liquidate the group or the association or to cease their operations, and as they have concluded that the group and the association's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over 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").

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. In our evaluation of the Board's conclusions, we considered the inherent risks to the group and association's business model and analysed how those risks might affect the group and association's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

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.

Other information

The association's Board is responsible for the other information, which comprises the Performance Overview and the Board's Report. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work, we have not identified material misstatements in the other information.

Matters on which we are required to report by exception

Under the Co-operative and Community Benefit Societies Act 2014 we are required to report to you if, in our opinion:

- the association has not kept proper books of account; or
- the association has not maintained a satisfactory system of control over transactions; or
- the financial statements are not in agreement with the association's books of account; or
- we have not received all the information and explanations we need for our audit.

We have nothing to report in these respects.

Board's responsibilities

As more fully explained in their statement set out on page 66, the association's Board is responsible for the preparation of financial statements which give a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and the association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it either intends to liquidate the group or the association or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

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.

Harry Mears
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Gateway House, Tollgate
Chandlers Ford SO53 3TG

Consolidated Statement of Total Comprehensive Income For the year ended 31 March 2020

	Note	2020 £'000	2019 £'000
Turnover	3	**411,204**	402,144
Cost of sales	3	**(68,598)**	(59,249)
Operating expenditure	3	**(216,133)**	(202,560)
Sale of housing properties	3	**10,748**	6,618
Movement in fair value of investment properties	10	**(1,365)**	2,458
Operating surplus	3	**135,856**	149,411
(Loss)/gain on disposal of property, plant and equipment	7	**(1,032)**	2
Share of operating surplus in joint ventures	18	**1,293**	3,933
Interest receivable and similar income	8	**2,377**	1,154
Interest and financing costs	9	**(57,400)**	(56,007)
Movement in fair value of financial instruments	31	**(1,571)**	2,611
Impairment of loan receivable	6	**(202)**	(2,180)
Surplus before tax	6	**79,321**	98,924
Taxation	11	**15**	5
Surplus for the year		**79,336**	98,929
Initial recognition of multi-employer defined benefit scheme		**-**	(15,629)
Actuarial gain/(loss) in respect of pension schemes	30	**16,340**	(7,204)
Changes in fair value of hedged financial instruments	31	**(21,354)**	(11,148)
Total comprehensive income for the year		**74,322**	64,948

All the amounts above relate to continuing activities.

The financial statements were approved by the Board on 30 July 2020 and were signed on its behalf by:

Gordon Holdcroft
Chair

Mark Washer
Chief Executive

Claire McKenna
Company Secretary

Association Statement of Total Comprehensive Income
For the year ended 31 March 2020

	Note	2020 £'000	2019 £'000
Turnover	3	**398,094**	370,878
Cost of sales	3	**(60,992)**	(42,091)
Operating expenditure	3	**(212,691)**	(195,030)
Sale of housing properties	3	**10,748**	6,618
Movement in fair value of investment properties	10	**(1,689)**	678
Operating surplus	3	**133,470**	141,053
Gift aid		**5,818**	6,263
Loss on disposal of property, plant and equipment	7	**(1,032)**	-
Interest receivable	8	**4,450**	3,830
Interest and financing costs	9	**(58,834)**	(57,225)
Movement in fair value of financial instruments	31	**(1,571)**	2,611
Impairment of investment in subsidiary	6	**(2,365)**	-
Surplus before tax	6	**79,936**	96,532
Taxation	11	**-**	-
Surplus for the year		**79,936**	96,532
Initial recognition of multi-employer defined benefit scheme		**-**	(15,629)
Actuarial gain/(loss) in respect of pension schemes	30	**16,340**	(7,204)
Changes in fair value of hedged financial instruments	31	**(21,354)**	(11,148)
Total comprehensive income for the year		**74,922**	62,551

All the amounts above relate to continuing activities.

The financial statements were approved by the Board on 30 July 2020 and were signed on its behalf by:

Gordon Holdcroft	**Mark Washer**	**Claire McKenna**
Chair	**Chief Executive**	**Company Secretary**

Consolidated Statement of Financial Position
As at 31 March 2020

	Note	2020 £'000	2019 £'000
Fixed assets			
Social housing properties	14	**3,902,174**	3,665,306
Other fixed assets	15	**45,964**	41,247
Investment properties	17	**140,012**	134,338
Investments in joint ventures	18	**1,264**	1,951
Investments - HomeBuy loans	19	**10,969**	11,739
Financial assets	20	**11,360**	9,826
		4,111,743	3,864,407
Current assets			
Stocks	21	**68,584**	55,436
Debtors	22	**57,283**	37,096
Cash and cash equivalents	23	**72,217**	45,228
		198,084	137,760
Creditors: amounts falling due within one year	24	**(147,127)**	(133,990)
Net current assets		**50,957**	3,770
Creditors: amounts falling due after more than one year	25	**(2,317,378)**	(2,075,520)
Provisions for liabilities			
- Pension	30	**(52,821)**	(74,891)
- Other	27	**(6,539)**	(6,126)
Total net assets		**1,785,962**	1,711,640
Capital and reserves			
Called up share capital	32	**-**	-
Income and expenditure reserve		**1,498,583**	1,397,998
Revaluation reserve		**353,185**	358,094
Hedging reserve		**(65,806)**	(44,452)
Non-controlling interest		**-**	-
Total reserves		**1,785,962**	1,711,640

The financial statements were approved by the Board on 30 July 2020 and were signed on its behalf by:

Gordon Holdcroft	**Mark Washer**	**Claire McKenna**
Chair	**Chief Executive**	**Company Secretary**

Financial Statements

Association Statement of Financial Position
As at 31 March 2020

	Note	2020 £'000	2019 £'000
Fixed assets			
Social housing properties	14	**3,915,252**	3,675,405
Other fixed assets	15	**45,816**	40,546
Investment properties	17	**101,838**	96,383
Investments - HomeBuy loans	19	**10,969**	11,739
Financial assets	20	**15,289**	16,120
		4,089,164	3,840,193
Current assets			
Stocks	21	**58,294**	42,550
Debtors	22	**106,781**	85,203
Cash and cash equivalents	23	**69,686**	42,125
		234,761	169,878
Creditors: amounts falling due within one year	24	**(153,617)**	(135,708)
Net current assets		**81,144**	34,170
Creditors: amounts falling due after more than one year	25	**(2,310,697)**	(2,068,007)
Provisions for liabilities			
- Pension	30	**(52,821)**	(74,891)
- Other	27	**(6,440)**	(6,037)
Total net assets		**1,800,350**	1,725,428
Capital and reserves			
Called up share capital	32	**-**	-
Income and expenditure reserve		**1,301,247**	1,200,062
Revaluation reserve		**564,909**	569,818
Hedging reserve		**(65,806)**	(44,452)
Total reserves		**1,800,350**	1,725,428

The financial statements were approved by the Board on 30 July 2020 and were signed on its behalf by:

Gordon Holdcroft **Chair**	**Mark Washer** **Chief Executive**	**Claire McKenna** **Company Secretary**

Consolidated Statement of Changes in Reserves
As at 31 March 2020

	Income and expenditure reserve £'000	Revaluation reserve £'000	Hedging reserve £'000	2020 Total £'000	2019 Total £'000
As at 1 April 2019	1,397,998	358,094	(44,452)	**1,711,640**	1,646,839
Surplus from statement of comprehensive income	79,336	-	-	**79,336**	98,929
Transfer from revaluation reserve to income and expenditure reserve					
- on sale of revalued properties	389	(389)	-	**-**	-
- depreciation of revalued properties	4,520	(4,520)	-	**-**	-
Initial recognition of multi-employer defined benefit scheme	-	-	-	**-**	(15,629)
Actuarial gain/(loss) in respect of pension schemes	16,340	-	-	**16,340**	(7,204)
Movement in fair value of financial derivatives	-	-	(21,354)	**(21,354)**	(11,148)
Distribution of non-controlling interest reserves in the year	-	-	-	**-**	(147)
As at 31 March 2020	1,498,583	353,185	(65,806)	**1,785,962**	1,711,640

Financial Statements

Association Statement of Changes in Reserves
As at 31 March 2020

	Income and expenditure reserve	Revaluation reserve	Hedging reserve	**2020 Total**	2019 Total
	£'000	£'000	£'000	**£'000**	£'000
As at 1 April 2019	1,200,062	569,818	(44,452)	**1,725,428**	1,662,877
Surplus from statement of comprehensive income	79,936	-	-	**79,936**	96,532
Transfer from revaluation reserve to income and expenditure reserve					
- on sale of revalued properties	389	(389)	-	**-**	-
- depreciation of revalued properties	4,520	(4,520)	-	**-**	-
Initial recognition of multi-employer defined benefit scheme	-	-	-	**-**	(15,629)
Actuarial gain/(loss) in respect of pension schemes	16,340	-	-	**16,340**	(7,204)
Movement in fair value of financial derivatives	-	-	(21,354)	**(21,354)**	(11,148)
As at 31 March 2020	1,301,247	564,909	(65,806)	**1,800,350**	1,725,428

Consolidated Statement of Cash Flows
As at 31 March 2020

	Note	**2020 £'000**	2019 £'000
Cash flow from operating activities			
Surplus for the year		**79,321**	98,924
Adjustments for non-cash items			
Depreciation of fixed assets		**42,267**	39,890
Increase in stock		**(12,650)**	(2,870)
(Increase)/Decrease in trade and other debtors		**(19,986)**	830
Decrease in trade and other creditors		**(7,308)**	(6,585)
Increase/(Decrease) in provisions		**413**	(1,331)
Pension costs less contributions payable		**(7,283)**	(4,030)
Carrying amount of tangible fixed asset disposals		**14,850**	11,093
Impairment	6	**202**	2,180
Fair value movements in investment properties	17	**1,365**	(2,458)
Share of operating surplus in associate		**(1,293)**	(3,933)
Adjustments for investing or financing activities:			
Proceeds from the sale of tangible fixed assets		**(25,384)**	(19,993)
Interest payable	9	**57,400**	56,007
Interest receivable	8	**(2,377)**	(1,154)
Cash from operations		**119,537**	166,570
Corporation tax		**-**	(8)
Net cash inflow from operating activities		**119,537**	166,562
Cash flow from investing activities			
Net return on investment in jointly controlled entities	18	**2,665**	698
Investment in jointly controlled entities	18	**(833)**	-
Purchase of tangible fixed assets		**(294,410)**	(225,422)
Proceeds from sale of tangible fixed assets		**25,384**	19,993
Grants received		**47,415**	1,690
Interest received		**2,292**	1,159
Net cash from investing activities		**(217,487)**	(201,882)
Cash flow from financing activities			
Interest paid		**(61,914)**	(61,302)
Interest element of finance lease rental payment		**(256)**	(255)
Movement in collateral deposits		**(731)**	1,448
New secured loans		**244,848**	177,103
Repayment of borrowings		**(56,758)**	(62,416)
Capital element of finance lease rental payments		**(250)**	(243)
Withdrawal from deposits		**-**	3,011
Net cash used in financing activities		**124,939**	57,346
Net change in cash and cash equivalents		**26,989**	22,026
Cash and cash equivalents at beginning of the year	23	**45,228**	23,202
Cash and cash equivalents at end of the year	23, 36	**72,217**	45,228

Notes to the financial statements

For the year ended 31 March 2020

1. Legal status

Sovereign Housing Association ("The Association") is a not for profit registered provider of social housing and holds charitable status under the Co-operative and Community Benefit Societies Act 2014. The Association is a public benefit entity, an entity whose primary purpose is to provide services for the general public, community or social benefit and where any equity is provided with a view to supporting this objective rather than with a view to providing financial return.

2. Principal accounting policies

The financial statements have been prepared in accordance with Financial Reporting Standard 102 ("FRS 102"), the applicable financial reporting standard in the United Kingdom and Republic of Ireland and the Statement of Recommended Practice for registered social housing providers 2018 (SORP 2018) and comply with the Accounting Direction for Private Registered Providers of Social Housing 2019.

(a) Basis of accounting

The consolidated financial statements are prepared on the historical cost basis of accounting except for the modification to a fair value basis for certain financial instruments and fixed asset investments, and by the annual valuation of freehold commercial properties and investment properties as specified in the accounting policies below.

The financial statements are presented in pounds sterling and are rounded to the nearest £1,000.

(b) Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions which have been complied with, including notification of and no objection to, the use of exemptions by the Association's shareholders.

The Association has taken advantage of the exemption to prepare a statement of cash flows, on the basis that it is a qualifying entity and the consolidated statement of cash flows, presented in these financial statements, includes the Association's cash flows.

(c) Going concern

Sovereign has implemented a financial resilience model to test the strength of the Group under various scenarios including what is thought to be a worst case scenario during the COVID-19 pandemic. Parameters including debt recovery, sales and operational activities have been modelled and the continued financial strength of the Group monitored under all outcomes that have been tested.

If all sales proceeds are removed from forecast 2020/21 performance, cash and committed facilities of £657m at 31 March 2020 comfortably cover the funding requirement for the 12 months following the signing date of these financial statements. Available cash and committed facilities following a further bond issue after the balance sheet date will also cover the next 2 years of gross cash outflow. The ability to draw the existing funding facilities is contingent on being able to maintain covenant compliance. Stress testing has been presented to the Board demonstrating that headroom is maintained on financial covenants throughout the plan period.

Under a severe scenario with no mitigations, Sovereign still retains over £500m of excess liquidity. Both the tightest gearing and interest covenants remains below the maximum permitted ratios. Any possible covenant breach can be avoided with manageable levels of cuts in activities. The liquidity tests within the model assume that no new funding was entered into during this time, but access to the UK public debt market remains supportive of the Housing Association sector. The stress testing and available liquidity even without going to the market supports the assertion that Sovereign will continue as a going concern. As a consequence the Board has a reasonable expectation that the Group has adequate resources to continue to adopt the going concern basis in preparing the annual financial statements.

(d) Consolidation

The consolidated financial statements include the parent association and all its subsidiaries. Intra-group surpluses and deficits are eliminated on consolidation.

Investments in subsidiaries are accounted for using the equity method in the Group financial statements. Investments in subsidiaries and jointly controlled entities are carried at cost less impairment in the individual financial statements.

Uniform accounting policies have been used throughout the Group.

(e) Turnover

Turnover represents rental and service charge income, fees and revenue based grants receivable from local authorities and from Homes England, the proceeds of first tranche sales of shared ownership properties and open market property sales, amortisation of grant previously received, and income from building maintenance and refurbishment services. These exclude VAT (where applicable). Revenue for the main income streams is recognised as follows:

- Rental income is measured at fair value of the consideration received or receivable and represents the amount receivable for the services rendered net of any voids.
- Fixed service charge income is recognised in the year to which it relates. Variable service charge income is recognised in the year the related cost is recognised.
- Income from first tranche sales and sales of properties built for sale is recognised at the point of legal completion of the sale.
- Income from provision of buildings maintenance and refurbishment services to third parties is recognised as work is completed.

Intra-group income and expenditure is included in turnover and operating costs on an arm's length basis in the financial statements of the Association but is eliminated in producing the Group consolidated financial statements.

(f) Cyclical repairs and maintenance

The actual costs of cyclical repairs and maintenance are charged to the Statement of Total Comprehensive Income as incurred.

(g) Major repairs

The capitalisation of major repairs follows the methodology of Component Accounting as laid out in the SORP 2018. Under this methodology it is recognised that a housing property will always comprise of several components with substantially different economic lives. Each major component is accounted for separately and depreciated over its individual economic life.

(h) Provision for major repairs

Provision for major repairs is made only where a contractual liability exists. The Board believe that this accounting policy represents commercial practice and complies with guidance given by the National Housing Federation in its Statement of Recommended Practice.

(i) Pension costs

The Association participates in six multi-employer defined benefit pension schemes, all of which are now closed to new members. The Association also participates in defined contribution money purchase pension schemes, the details of which are given in note 30.

Defined benefit pension schemes

Where the Association can identify their share of scheme assets and liabilities these are included in the Statement of Financial Position and the expected cost of pensions is charged to the Statement of Total Comprehensive Income so as to spread the cost of pensions over the service lives of employees. For the defined benefit pension schemes, the liability for the benefits earned by employees in return for service rendered in the current and prior periods is determined using the projected unit credit method as determined annually by qualified actuaries. This is based upon a number of assumptions, the determination of which is significant to the valuation.

The following are charged to operating profit:

- the net finance expense measured using the discount rate applied in measuring the defined benefit obligation;
- the increase in the present value of pension scheme liabilities arising from employee service in the current period (current service cost);
- the increase in the present value of pension scheme liabilities as a result of benefit improvements over the period during which such improvements vest (past service cost);
- gains and losses arising on settlements/curtailments; and
- scheme administration costs.

Actuarial gains and losses are recognised in full in other comprehensive income in the period in which they occur.

Defined contribution schemes

The Association also participates in defined contribution money purchase pension schemes which are open to new members, the details of which are given in note 30. In respect of the defined contribution schemes, employers' contributions are charged to the Statement of Total Comprehensive Income in the year incurred.

(j) Value Added Tax

The group undertakings are registered for Value Added Tax (VAT), but a large proportion of their income, including rents, is exempt for VAT purposes and the majority of its expenditure is subject to VAT which cannot be reclaimed. Expenditure is therefore shown inclusive of VAT. The Group recovers VAT where appropriate and this is credited against expenditure within the income statement.

(k) Joint ventures

Joint ventures are contractual arrangements where two or more parties enter into an economic activity that they jointly control. The Group has the following type of joint venture:

- Jointly controlled entities – these are joint ventures that involve the establishment of a corporation, partnership or other entity in which each partner has an interest. They are accounted for using the equity method in the member organisation. The Group includes an investment to the extent of any undistributed profits on an individual LLP basis.
- The Member of the joint venture includes investments at the cost of the investment, with dividends received credited to revenue in the period they are received.

These investments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

(l) Leased assets

Operating leased assets

Rentals paid under operating leases are charged to the Statement of Total Comprehensive Income on an accruals basis.

Finance leased assets

Leasing agreements that transfer to the Group substantially all of the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged to the Statement of Total Comprehensive Income in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the lease term.

(m) Sale of housing properties

Sales of housing properties are recognised on the completion date. Where houses are sold, the surplus or deficit in the Statement of Total Comprehensive Income is calculated by comparing sale proceeds and the carrying amount.

Sales of properties originally transferred from local authorities and sold under the right to buy legislation, and sales of shared ownership properties other than the initial tranche, are classified in the Statement of Total Comprehensive Income as sales of housing properties.

Due to the nature of the transfer agreements with local authorities it is not possible to identify precisely the historical cost of individual transferred properties. Management's estimate of cost is used to determine the historical cost surplus on sales of these properties.

(n) First tranche shared ownership sales

Shared ownership sales are treated under the SORP 2018 as follows:

- Shared ownership properties are split proportionally between current and fixed assets based on the first tranche proportion;
- First tranche proportions are shown in current assets and the sale proceeds shown in turnover;
- The remaining element of the shared ownership property is accounted for as a fixed asset and any subsequent sale is treated as a disposal or part disposal of a fixed asset;
- Any surplus on first tranche shared ownership sales on mixed tenure developments is restricted to the net present value of future cash flows on shared ownership properties.

(o) Depreciation

Freehold land is not depreciated. Depreciation is charged so as to write down the cost of freehold properties other than freehold land to their estimated residual value on a straight line basis over their estimated useful economic lives at the following annual rates:

Housing properties	120 years
Kitchens	23-25 years
Bathrooms	25-30 years
Windows	25-30 years
Heating systems	30-40 years
Roofs	56-60 years
Boilers	15 years

These components have been determined as the areas where most expenditure on replacement will occur during the lifetime of a property and which are integral to its continued effective use. The useful economic lives are based on historical data on the life span of previous installations of each type of component.

Depreciation is charged on a straight line basis over the expected useful economic lives of the other fixed assets at the following annual rates:

Office furniture and equipment	10-30% on cost
Computer equipment	20-50% on cost
Motor vehicles	over life of hire purchase contract or 20% per annum straight line
Leasehold premises	over life of lease
Leasehold office improvements	10% per annum straight line
Freehold offices	1% on cost
Scheme furniture and equipment	10-33.3% per annum straight line
Scheme lifts	3.33-6.67% per annum straight line

(p) Social housing properties and other fixed assets

Social housing properties are stated at cost or deemed cost valuation (as part of the FRS 102 transition, taken at 1 April 2014) less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bring the asset to its working condition for its intended use and borrowing costs capitalised.

The valuation as at 31 March 2014 on which the carrying values of housing properties was taken for deemed cost valuations was based on 'Existing use value - social housing'. The aggregate surplus or deficit on revaluation is the difference between the valuation and the costs of the property less depreciation. The aggregate surplus or deficit on revaluation is included in a revaluation reserve.

Housing properties developed on behalf of other housing associations are stated at cost less Social Housing Grant if applicable and are treated as current assets rather than fixed assets in line with the SORP 2018.

Housing properties in the course of construction, excluding the proportion of costs related to first tranche sales of shared ownership property are stated at cost and are transferred into housing properties when completed. Development costs include the cost of acquiring land and buildings, the valuation of contracted works to date, and acquisition and development costs including directly attributable internal costs. Interest payable is capitalised by applying the Association's cost of borrowing to expenditure during the construction of the property up to the date of practical completion.

Recoverability of properties constructed for outright sale is measured by reviewing the current net present value against the original appraisal. Allocation of costs for mixed tenure developments are generally based on a metre square calculation of the entire scheme for the different tenure types.

Purchases from other housing associations are included at the purchase price. Social housing grant relating to the purchase of such properties is disclosed as a contingent liability within social housing properties (note 14).

Office buildings are held at original cost less accumulated depreciation and accumulated impairment losses.

Commercial buildings are held at valuation based on the rental yield in the relevant geographical location of each property. Valuations are carried out annually.

Plant and equipment is capitalised at cost and depreciated in line with the depreciation policy of the Association.

(q) Impairment

At each reporting date fixed assets that are held at cost are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset is estimated and compared with its carrying amount. If the estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised as operating expenditure.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss. Indicators considered which may give rise to impairment include government policy announcements, significant declines in future cash flows and physical evidence of obsolescence or damage.

Impairment reviews are carried out for all properties where the scheme appraisal has worsened since approved by the Board in accordance with the SORP 2018.

(r) Investment properties

The Group holds properties for the purpose of investment gains with a view to a future sale or in order to receive market rates of return and categorises these as investment properties. Investment properties are initially recognised at cost and subsequently held at valuation. Valuations are performed annually by a professional valuer and are at open market value. Any gains or losses arising from changes in the fair value are recognised in profit or loss in the period in which they arise. Depreciation is not provided in respect of freehold and long leasehold investment properties. Investment properties held on a short term lease are reported at fair value and depreciated over the remaining life of the lease.

Commercial buildings held as investment properties are included at valuation based on the rental yield in the relevant geographical location of each property. Valuations are carried out annually.

(s) HomeBuy loans and grants

HomeBuy loans to individuals are considered to be a public benefit entity concessionary loan and are accounted for in accordance with paragraphs PBE34.90 to PBE34.97 of FRS 102. Initial recognition is at the amount paid to the purchaser. Subsequent value is the loan value adjusted for any accrued interest less any impairment loss. If a HomeBuy loan is considered irrecoverable, an impairment loss is recognised in the Income Statement.

HomeBuy grants are accounted for as grant received in advance and are recognised as deferred income in the Statement of Financial Position until the point that the related HomeBuy loan is redeemed.

Other housing grants are receivable from local authorities and other organisations. Capital grants are utilised to reduce the capital costs of housing properties, including land costs. Grants in respect of revenue expenditure are credited to the Income Statement in the same period as the expenditure to which they relate. Other housing grants are repayable under certain circumstances, primarily following the sale of a property, but will normally be restricted to net proceeds of sale.

(t) Stock

Inventories of consumables are stated at the lower of cost and net realisable value.

A proportion of shared ownership properties costs relevant to the planned first tranche sale proportion are held as stock. These are shown split between completed properties unsold at 31 March and those still under construction for clarity.

Properties developed for outright sale which have not been sold at 31 March are shown as stock.

(u) Social Housing Grant

Social Housing Grant is accounted for using the accrual method of accounting for government grant and any new grant received or receivable is included in creditors. The grant is amortised in line with the depreciation policy for housing properties. If Social Housing Grant is received in advance of related expenditure on housing construction, it is shown as a current liability. The Group has the option to recycle Social Housing Grant on sold properties which would otherwise become payable to Homes England. This grant is transferred to the Recycled Capital Grant Fund to be used to finance future development. Social Housing Grant is repayable under certain circumstances and in such circumstances will be classed as a current creditor.

(v) Recycled Capital Grant Fund and Disposal Proceeds Fund

The purpose of the funds is to provide replacement properties for rent, at no greater cost than properties provided through the approved development programme. If unused within a three year period it may be repayable to Homes England with interest unless a time extension or waiver is received. The development programme of the Group is such that the funds are likely to be used before they become repayable.

Changes made by the Housing and Planning Act 2016 and associated regulations that came into force on 6 April 2017 no longer require the Group to account for net proceeds of 'Right to Acquire' sales which occur after this date and therefore no further proceeds will be recycled to the Disposal Proceeds Fund.

(w) Provisions

Provisions are included when there is a probable, but uncertain, economic obligation. Any provisions included are expected to cover the future obligation and are recognised within the Statement of Financial Position.

Holiday pay accrual

A liability is recognised to the extent of any unused holiday entitlement which has accrued at the reporting date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the reporting date.

(x) Contingencies

Contingent liabilities are not accounted for in the financial statements, including those relating to grants transferred with stock swap properties. Contingent liabilities arise as a result of past events when (i) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date or (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the Group's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote. Contingent assets are not accounted for in the financial statements. Contingent assets are disclosed in the financial statements when an inflow of economic benefits is probable.

(y) Housing loans

Mortgage loans are advanced by banks or building societies under the terms of individual mortgage deeds in respect of each property or housing scheme. Loan finance issue costs are off-set against the gross proceeds of the loan. Loans are accounted for in the Statement of Financial Position at transaction price and subsequently at amortised cost using the effective interest method.

(z) Revaluation reserve

The revaluation reserve represents the difference between the deemed cost of housing properties (see 2(p)) and the historic cost, net of depreciation.

(aa) Basic financial instruments

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument. Rental arrears payment plans are determined as financing arrangements and are discounted at a rate management believes is appropriate for the level of risk involved in recovery of tenant arrears.

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents comprise cash balances and instant access deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

(bb) Other financial instruments

Financial instruments not considered to be basic financial instruments are defined as other financial instruments. Other financial instruments are recognised initially at fair value. Subsequent to initial recognition these are measured at fair value with changes recognised in the surplus or deficit for the year except hedging instruments in a designated hedging relationship shall be recognised as set out below:

Derivative financial instruments and hedging

Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the surplus or deficit for the year. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged. The Association includes derivatives in its financial statements which qualify for cash flow hedge accounting.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in other comprehensive income. Any ineffective portion of the hedge is recognised immediately in the surplus or deficit in the year. For cash flow hedges, where the forecast transactions resulted in the recognition of a non-financial asset or non-financial liability, the hedging gain or loss recognised in other comprehensive income is included in the initial cost or other carrying amount of the asset or liability. Alternatively, when the hedged item is recognised in profit or loss the hedging gain or loss is reclassified to the surplus or deficit in the year.

When a hedging instrument expires or is sold, terminated or exercised, or the entity discontinues designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the Income Statement immediately.

(cc) Taxation

Corporation tax is provided on the taxable profits of each member of the Group at the current rate. Deferred taxation would normally be recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, when transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. However, deferred tax assets and liabilities are not recognised as any timing differences do not give rise to any material deferred tax charge or credit.

3. Turnover, operating costs and operating surplus by class of business

Group	Note	Turnover £'000	Cost of sales £'000	Operating costs £'000	Other £'000	**2020 Operating surplus £'000**	2019 Operating surplus £'000
Income and expenditure from social housing lettings:							
Housing accommodation		288,626	-	(190,144)	-	**98,482**	112,107
Shared ownership accommodation		23,284	-	(13,304)	-	**9,980**	10,533
	4	311,910	-	(203,448)	-	**108,462**	122,640
Other social housing income and expenditure:							
External income generated from development services		130	-	(109)	-	**21**	17
Community investment		-	-	(2,117)	-	**(2,117)**	(905)
Other		1,933	-	(611)	-	**1,322**	444
		2,063	-	(2,837)	-	**(774)**	(444)
Development for sale							
Shared ownership first tranche sales		75,796	(61,382)	-	-	**14,414**	11,998
		75,796	(61,382)	-	-	**14,414**	11,998
Total social housing activities		389,769	(61,382)	(206,285)	-	**122,102**	134,194
Non-social housing activities							
Market rented properties		7,433	-	(5,077)	-	**2,356**	1,979
Commercial properties		3,634	-	(2,139)	-	**1,495**	1,686
Outright sales		7,618	(7,216)	-	-	**402**	3,937
Other		2,750	-	(2,632)	-	**118**	(1,461)
		21,435	(7,216)	(9,848)	-	**4,371**	6,141
Other activities							
Housing assets disposals		-	-	-	10,748	**10,748**	6,618
Movement in fair value of investment properties		-	-	-	(1,365)	**(1,365)**	2,458
		-	-	-	9,383	**9,383**	9,076
Total		411,204	(68,598)	(216,133)	9,383	**135,856**	149,411

Other activities within 'Other social housing' include management services, administration services and HomeBuy activities.

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3. Turnover, operating costs and operating surplus by class of business (continued)

Association	Note	Turnover £'000	Cost of sales £'000	Operating costs £'000	Other £'000	**2020 Operating surplus £'000**	2019 Operating surplus £'000
Income and expenditure from social housing lettings:							
Housing accommodation		288,604	-	(189,880)	-	**98,724**	109,633
Shared ownership accommodation		23,284	-	(13,304)	-	**9,980**	10,533
	4	311,888	-	(203,184)	-	**108,704**	120,166
Other social housing income and expenditure:							
Income from Group undertakings		256	-	-	-	**256**	2,843
External income generated from development services		130	-	(109)	-	**21**	17
Community investment		-	-	(2,117)	-	**(2,117)**	(905)
Other		1,072	-	(123)	-	**949**	(46)
		1,458	-	(2,349)	-	**(891)**	1,909
Development for sale							
Shared ownership first tranche sales		75,366	(60,992)	-	-	**14,374**	11,790
Outright sales		-	-	-	-	**-**	-
		75,366	(60,992)	-	-	**14,374**	11,790
Total social housing activities		388,712	(60,992)	(205,533)	-	**122,187**	133,865
Non-social housing activities							
Market rented properties		5,297	-	(5,011)	-	**286**	187
Commercial properties		3,634	-	(2,139)	-	**1,495**	1,686
Other		451	-	(8)	-	**443**	(1,981)
		9,382	-	(7,158)	-	**2,224**	(108)
Other activities							
Housing assets disposals		-	-	-	10,748	**10,748**	6,618
Movement in fair value of investment properties		-	-	-	(1,689)	**(1,689)**	678
		-	-	-	9,059	**9,059**	7,296
Total		398,094	(60,992)	(212,691)	9,059	**133,470**	141,053

Other activities within 'Other social housing' include management services, administration services and HomeBuy activities.

4. Income and expenditure from social housing lettings

Group	General needs	Shared ownership	Supported housing/ Housing for older people	Keyworker	Other	**2020 Total**	2019 Total
	£'000	£'000	£'000	£'000	£'000	**£'000**	£'000
Rent receivable net of identifiable service charges	258,805	20,160	6,724	7,641	809	**294,139**	286,661
Service charges	7,408	2,853	1,669	2,655	90	**14,675**	14,878
Supporting people block subsidy	37	-	446	-	-	**483**	486
Amortised government grants	2,342	271	-	-	-	**2,613**	2,601
Turnover from social housing lettings	268,592	23,284	8,839	10,296	899	**311,910**	304,626
Management	(57,716)	(8,841)	(4,283)	(2,577)	(233)	**(73,650)**	(60,652)
Service costs	(11,875)	(1,810)	(877)	(474)	(48)	**(15,084)**	(11,929)
Routine maintenance	(27,783)	-	(1,780)	(962)	(97)	**(30,622)**	(34,013)
Planned maintenance	(27,261)	-	(1,747)	(944)	(95)	**(30,047)**	(12,478)
Major repairs expenditure	(8,721)	-	(555)	(245)	(30)	**(9,551)**	(23,306)
Bad debts	(1,527)	(233)	(113)	(61)	(6)	**(1,940)**	(988)
Depreciation of housing property	(33,582)	(2,420)	(2,307)	(1,247)	(126)	**(39,682)**	(37,765)
Other costs	(2,632)	-	(150)	(81)	(9)	**(2,872)**	(855)
Operating costs on social housing activities	(171,097)	(13,304)	(11,812)	(6,591)	(644)	**(203,448)**	(181,986)
Operating surplus/(deficit) on social housing activities	97,495	9,980	(2,973)	3,705	255	**108,462**	122,640
Rent receivable is net of void losses of:	2,136	92	11	1,295	56	**3,590**	3,896

Sovereign Housing Association uses key income streams and associated costs to determine appropriate management information and has adopted this approach to report segmentally on its social housing operating surplus.

4. Income and expenditure from social housing lettings (continued)

Association	General needs	Shared ownership	Supported housing/ Housing for older people	Keyworker	Other	**2020 Total**	2019 Total
	£'000	£'000	£'000	£'000	£'000	**£'000**	£'000
Rent receivable net of identifiable service charges	258,784	20,160	6,724	7,641	808	**294,117**	286,640
Service charges	7,408	2,853	1,669	2,655	90	**14,675**	14,878
Supporting people block subsidy	37	-	446	-	-	**483**	486
Amortised government grants	2,342	271	-	-	-	**2,613**	2,601
Turnover from social housing lettings	268,571	23,284	8,839	10,296	898	**311,888**	304,605
Management	(57,744)	(8,841)	(4,283)	(2,577)	(233)	**(73,678)**	(60,586)
Service costs	(11,875)	(1,810)	(877)	(474)	(48)	**(15,084)**	(11,929)
Routine maintenance	(27,787)	-	(1,780)	(962)	(97)	**(30,626)**	(36,539)
Planned maintenance	(27,261)	-	(1,747)	(944)	(95)	**(30,047)**	(12,478)
Major repairs expenditure	(8,721)	-	(555)	(245)	(30)	**(9,551)**	(23,306)
Bad debts	(1,527)	(233)	(113)	(61)	(6)	**(1,940)**	(988)
Depreciation of housing property	(33,582)	(2,420)	(2,307)	(1,247)	(126)	**(39,682)**	(37,765)
Other costs	(2,337)	-	(150)	(81)	(8)	**(2,576)**	(848)
Operating costs on social housing activities	(170,834)	(13,304)	(11,812)	(6,591)	(643)	**(203,184)**	(184,439)
Operating surplus/(deficit) on social housing activities	97,737	9,980	(2,973)	3,705	255	**108,704**	120,166
Rent receivable is net of void losses of:	2,136	92	11	1,295	56	**3,590**	3,896

5. Number of units in management

	Group 2020 Units	Group 2019 Units	Association 2020 Units	Association 2019 Units
Owned and managed:				
General needs	**38,688**	38,390	**38,688**	38,390
General needs - affordable	**5,082**	4,298	**5,082**	4,298
Shared ownership	**6,700**	6,138	**6,700**	6,138
Housing for older people	**2,339**	2,430	**2,339**	2,430
Housing for older people - affordable	**32**	32	**32**	32
Supported	**871**	995	**871**	995
Keyworker	**1,707**	1,707	**1,707**	1,707
Intermediate market rent	**396**	417	**396**	417
Other social	**305**	182	**302**	179
Non-social - market rent	**737**	617	**595**	485
Non-social - other	**106**	74	**106**	74
Managed not owned:				
Owned by an external company - social	**22**	22	**25**	25
Owned by an external company - non-social	**2,506**	2,414	**2,648**	2,546
Owned by an external company - keyworker	**26**	26	**26**	26
Total in management	**59,517**	57,742	**59,517**	57,742
Owned and not managed:				
Managed by third parties	**157**	236	**157**	226
Freehold/Long leasehold (incl. Right to Buy leasehold)	**7**	9	**7**	9
Total owned not managed	**164**	245	**164**	235
Total owned or managed	**59,681**	57,987	**59,681**	57,977

6. Surplus on ordinary activities before taxation

	Group 2020 £'000	Group 2019 £'000	Association 2020 £'000	Association 2019 £'000
Surplus on ordinary activities before taxation is stated after charging:				
Depreciation and amortisation:				
- housing properties	**37,476**	35,628	**37,472**	35,624
- other owned assets	**4,791**	4,261	**4,352**	3,919
Rentals payable:				
- plant, vehicles and machinery	**3,227**	3,154	**3,114**	1,970
- other assets	**1,657**	169	**1,657**	169
- operating leases	**39**	36	**39**	36
Auditor's remuneration:				
- in their capacity as auditor	**190**	178	**139**	130
- in respect of other work	**70**	5	**70**	5
Other:				
- impairment of investment in subsidiary	**-**	-	**2,365**	-
- impairment of loan receivable	**202**	2,180	**-**	-

The impairment of the loan relates to the interest due on an amount lent to Linden Homes (Sherford) LLP, a joint venture previously within the group.

The impairment of an investment in a subsidiary relates to amounts invested by Sovereign Housing Association in Spectrum Property Ventures Limited. This subsidiary lent to Linden Homes (Sherford) LLP and suffered a loss on the loan to this joint venture as mentioned above. Spectrum Property Ventures is wholly owned by Sovereign Housing Association and due to this loss the parent will not recover the full amount invested.

7. Surplus on disposal of property, plant and equipment

	Group		Association	
	2020	2019	**2020**	2019
	£'000	£'000	**£'000**	£'000
Proceeds from other fixed asset sales	**-**	2	**-**	-
Cost of sales	**(1,032)**	-	**(1,032)**	-
Net (deficit)/surplus	**(1,032)**	2	**(1,032)**	-

8. Interest receivable and similar income

	Group		Association	
	2020	2019	**2020**	2019
	£'000	£'000	**£'000**	£'000
Interest receivable on investments	**2,117**	1,029	**1,915**	242
Interest receivable on bank deposits	**260**	142	**186**	135
Interest receivable from Group undertakings	**-**	-	**2,349**	3,470
Interest receivable	**2,377**	1,171	**4,450**	3,847
Amortisation of investment to nominal value	**-**	(17)	**-**	(17)
Interest receivable and similar income	**2,377**	1,154	**4,450**	3,830

9. Interest payable and financing costs

	Group		Association	
	2020	2019	**2020**	2019
	£'000	£'000	**£'000**	£'000
In respect of loans:				
Interest payable on loans and bank overdrafts	**(60,864)**	(56,269)	**(37,026)**	(34,875)
Interest payable on hedging arrangements	**(7,490)**	(7,768)	**(7,490)**	(7,768)
On hedging arrangements - non cash	**3,495**	3,480	**3,495**	3,480
Interest payable to Group undertakings	**-**	-	**(24,348)**	(21,936)
Interest payable on recycled capital grant and disposal proceeds funds	**(167)**	(89)	**(167)**	(89)
Interest payable on finance leases	**(256)**	(255)	**(256)**	(255)
Interest payable	**(65,282)**	(60,901)	**(65,792)**	(61,443)
Less interest capitalised	**9,435**	6,687	**8,511**	6,011
	(55,847)	(54,214)	**(57,281)**	(55,432)
Unwind discounted cash flows	**-**	(35)	**-**	(35)
Net interest payable on pension liabilities	**(1,553)**	(1,758)	**(1,553)**	(1,758)
Interest and financing costs	**(57,400)**	(56,007)	**(58,834)**	(57,225)

Interest is capitalised on active development schemes at 4% (2019: 4%).

As the sole purpose of the hedging arrangements is to reduce interest payable on the bank loans, hedging interest receivable is shown within and offsetting hedging interest payable.

10. Movement in fair value of investment properties

	Note	Group		Association	
		2020	2019	**2020**	2019
		£'000	£'000	**£'000**	£'000
Fair value (decrease)/increase in investment properties	17	**(1,365)**	2,458	**(1,689)**	678
Fair value adjustments		**(1,365)**	2,458	**(1,689)**	678

11. Taxation

Sovereign Housing Association is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the charity is potentially exempt from taxation in respect of income or capital gains received within categories covered by Chapter 3 Part 11 Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

	Group		Association	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000
UK corporation tax				
Current tax on income for the period	**-**	8	**-**	-
Prior year released	**(15)**	(13)	**-**	-
Total current tax	**(15)**	(5)	**-**	-
Tax credit on surplus on ordinary activities	**(15)**	(5)	**-**	-

Factors affecting the tax charge for the current period

The current tax credit for the year is lower (2019: lower) than the standard rate of corporation tax in the UK of 19% (2019: 19%). The differences are explained below:

	Group		Association	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000
Current tax reconciliation				
Surplus on ordinary activities before tax	**79,321**	98,924	**79,936**	96,532
Surplus chargeable to corporation tax	**79,321**	98,924	**79,936**	96,532
Current tax at 19% (2019: 19%)	**15,071**	18,796	**15,188**	18,341
Effects of:				
Surplus not within the scope of taxation due to charitable status	**(15,071)**	(18,788)	**(15,188)**	(18,341)
Other timing differences	**(15)**	(13)	**-**	-
Total tax credit	**(15)**	(5)	**-**	-
Current tax (see above)	**(15)**	(5)	**-**	-
Tax credit for the year	**(15)**	(5)	**-**	-

A UK corporation tax rate of 19% (effective from 1 April 2020) was substantively enacted on 17 March 2020, reversing the previously enacted reduction in the rate from 19% to 17%. This will increase the company's future current tax charge accordingly.

12. Board members and executive officers

The Board members are defined as the members of the Parent Management Board.

In accordance with the 'Excellence in Governance Code for Members of the NHF', set out below is the level of payments made to the Chair and individual board members of the Sovereign Board and its Committees.

	2020	2019
Annual rates of pay	**£**	£
Position held as at 31 March		
Chair	**32,000**	32,000
Vice chair	**18,000**	18,000
Board member	**13,000**	13,000
Independent committee member	**5,000**	5,000
Committee chair (in addition to Board member salary)	**5,000**	5,000

The table below sets out all group Non-Executive Board members who served during the year:

	2020	2019
Non-Executive Directors	**£**	£
Barbara Anderson	**18,000**	18,000
Lee Bambridge	**18,000**	18,000
Christopher Broe (appointed 12 September 2019)	**10,750**	-
Jennifer Dykes	**13,000**	13,000
Gordon Holdcroft	**32,000**	31,627
Stuart Laird	**23,000**	18,000
Simon Lindley (resigned 30 September 2019)	**8,123**	18,000
Claire O'Shaughnessy	**13,000**	13,000
Christine Turner (resigned 30 September 2019)	**8,123**	18,000
John Weguelin (appointed 14 December 2018, resigned 31 December 2019)	**9,750**	3,850
Angela Williams	**18,000**	18,000
Jane Wynne (appointed 12 September 2019)	**10,750**	-
	182,496	169,477

Jennifer Dykes is a resident, her lease and tenancy is on normal commercial terms and she cannot use her position on the Board to her advantage.

Total expenses paid to Board members that are subject to income tax were £5,086 (2019: £3,875).

12. Board members and executive officers (continued)

In addition, the following remuneration was paid to subsidiary Board members during the year:

	2020 £	2019 £
Gerard Boyle	**7,500**	10,000
Martin Lawton	**5,000**	5,000
David Todd	**5,000**	5,000
	17,500	20,000

Executive Directors' emoluments

	2020 £'000	2019 £'000
Emoluments (including pension contributions and benefits in kind)	**1,496**	1,400
Total pension contributions to Executive Officers	**47**	21
Emoluments (excluding pension contributions and payments in lieu of pension contributions) include amounts paid to:		
The highest paid director	**285**	222

Pension contributions to the highest paid director were £nil (2019: £nil).

12. Board members and executive officers (continued)

The level of emoluments to members of the Executive Board during 2019/20 is shown below:

	Taxable pay £	Pension contri-butions £	In lieu of pension £	Benefits in kind £	2020 Total £	2019 Total £
Executive Directors:						
Ann Santry [1]	-	-	-	-	**-**	174,660
Mark Washer [2]	284,825	-	31,200	518	**316,543**	245,895
Mark Hattersley [3]	-	-	-	-	**-**	126,532
Tracey Barnes [4]	94,972	-	10,500	216	**105,688**	-
Members of the Executive Board:						
Keith Astill	175,250	-	19,065	518	**194,833**	182,904
Steve Barford [5]	65,312	9,600	-	-	**74,912**	179,650
Heather Bowman	196,250	-	21,000	518	**217,768**	200,818
Ben Denton [6]	-	-	-	-	**-**	53,863
Dale Meredith [7]	-	-	-	-	**-**	62,696
Nicole Sharp [8]	112,838	19,065	-	-	**131,903**	-
Phil Stephens [9]	-	-	-	-	**-**	10,000
Tom Titherington [10]	180,200	18,500	-	-	**198,700**	37,327
	1,109,647	47,165	81,765	1,770	**1,240,347**	1,274,345

[1] Resigned 18 June 2018
[2] Appointed 18 June 2018
[3] Resigned 15 October 2018
[4] Appointed 21 November 2019
[5] Resigned 30 June 2019 – aggregate payment of notice amounted to £30,000
[6] Resigned 7 July 2018
[7] Appointed 3 July 2018, resigned 31 January 2019
[8] Appointed 30 June 2019
[9] Resigned 31 October 2017
10 Appointed 21 January 2019

Barry Nethercott was appointed on 2 January 2019 and resigned on 21 November 2019. The Association paid £256k (2019 £71k) for his services as Chief Financial Officer in the year.

Heather Bowman and Mark Washer are deferred members of the Sovereign Pension Plan (SPP) which is one of the defined benefit schemes that the Association participates in (see note 30). Of the current Executive Board, Nicole Sharp is a member of the Dorset Local Government Pension Scheme, a defined benefit scheme, and Tom Titherington is an ordinary member of the Scottish Widows defined contributions scheme. Funding is by employer and employee contributions and no enhanced or special terms apply to the Chief Executive and any other Director. The Chief Executive does not have any other individual pension arrangement (including a personal pension) to which the Association or any of its subsidiaries make a contribution.

We benchmark Executive Board's pay, with salaries in the medium quartile of executive pay among comparative housing associations. However, in order to recruit and retain the best talent, our Remuneration committee has developed a performance related pay structure. Executive Board members can earn up to a maximum 15% of their basic pay by achieving the four performance measures of underlying margins, resident satisfaction levels, employee engagement and personal performance. The Executive Board elected to waive this in the current year.

No pension contributions are accruing to former executives (2019: £nil).

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13. Employee information

Highest paid employees

Sovereign has the following numbers of employees, including Executive Board members with remuneration of £60,000 or more, shown in bands of £10,000.

Salary £'000	2020 Number	2019 Number
>60 to 70	**47**	54
>70 to 80	**34**	31
>80 to 90	**19**	11
>90 to 100	**8**	7
>100 to 110	**6**	3
>110 to 120	**6**	8
>120 to 130	**3**	3
>130 to 140	**1**	2
>140 to 150	**2**	-
>150 to 160	**3**	-
>160 to 170	**1**	-
>170 to 180	**1**	2
>180 to 190	**-**	1
>190 to 200	**2**	-
>200 to 210	**-**	1
>210 to 220	**2**	-
>240 to 250	**-**	1
>310 to 320	**1**	-

13. Employee information (continued)

The number of persons (including executives) employed during the year has been calculated using an average of the total employees for each month:

	Group		Association	
	2020 FTE	2019 FTE	**2020 FTE**	2019 FTE
Expressed in full time equivalents (FTE):				
Central administrative services	**397**	380	**397**	380
Developing or selling housing stock	**75**	73	**75**	73
Managing or maintaining stock	**1,458**	1,427	**1,458**	1,427
Staff providing support to tenants	**28**	15	**28**	15
	1,958	1,895	**1,958**	1,895

	Group		Association	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000
Staff costs (for the above persons):				
Wages and salaries	**67,743**	65,669	**67,743**	65,665
Social security costs	**6,678**	6,058	**6,678**	6,058
Pension costs	**3,849**	3,109	**3,849**	3,109
Oxfordshire LGPS cessation value	**-**	1,771	**-**	1,771
	78,270	76,607	**78,270**	76,603

14. Social housing properties

Group	Completed Housing properties (rental)	Completed Shared ownership properties	Under construction Housing properties	Under construction Shared ownership properties	**2020 Total**	2019 Total
	£'000	£'000	£'000	£'000	**£'000**	£'000
Deemed cost						
At 1 April	3,362,444	401,937	186,551	85,943	**4,036,875**	3,819,310
Reclassification of schemes	-	-	3,105	(3,105)	**-**	-
Transfer to current assets	(474)	(87)	-	-	**(561)**	-
Schemes completed	93,851	55,001	(93,851)	(55,001)	**-**	-
Additions - new units	41,679	11,730	124,736	83,765	**261,910**	214,048
Additions - improvements to stock	26,750	-	-	-	**26,750**	17,024
Disposals	(9,370)	(7,576)	-	-	**(16,946)**	(13,507)
As at 31 March	3,514,880	461,005	220,541	111,602	**4,308,028**	4,036,875
Depreciation						
At 1 April	356,225	15,344	-	-	**371,569**	338,406
Charge for year	35,056	2,420	-	-	**37,476**	35,628
Transfer to current assets	(55)	(8)	-	-	**(63)**	-
On disposals	(2,689)	(439)	-	-	**(3,128)**	(2,465)
As at 31 March	388,537	17,317	-	-	**405,854**	371,569
Net book value at 31 March 2020	3,126,343	443,688	220,541	111,602	**3,902,174**	
Net book value at 31 March 2019	3,006,219	386,593	186,551	85,943	**3,665,306**	

14. Social housing properties (continued)

Group	Completed Housing properties (rental)	Completed Shared ownership properties	Under construction Housing properties	Under construction Shared ownership properties	**2020 Total**	2019 Total
	£'000	£'000	£'000	£'000	**£'000**	£'000
Cost or valuation at 31 March is represented by:						
Gross cost	3,149,874	437,752	220,541	111,602	**3,919,769**	3,648,212
Historic cost depreciation	(350,343)	(15,555)	-	-	**(365,898)**	(336,118)
	2,799,531	422,197	220,541	111,602	**3,553,871**	3,312,094
Revaluation reserve	326,812	21,491	-	-	**348,303**	353,212
	3,126,343	443,688	220,541	111,602	**3,902,174**	3,665,306
Existing use value and properties under construction	3,378,846	453,094	220,541	111,602	**4,164,083**	3,762,328

Additions to housing properties under construction during the year include capitalised interest of £9,435k (2019: £6,687k) and major repairs capitalised of £26,750k (2019: £17,024k). Interest is capitalised on development schemes as set out in the accounting policy in note 2(p).

During the year, housing properties with a net book value of £58k were sold to other housing associations (2019: £110k). No properties were purchased from other housing associations (2019: £24.0m)

Following purchases of housing properties from other housing associations in previous years, the Association has a contingent liability of £164.7m (2019: £165.0m) for Social Housing Grant which requires recycling into new social housing development on sale of the properties originally purchased.

There are no indicators of impairment in the current year and a detailed impairment review has not been required.

In addition to the capital improvements to housing properties shown above, £70,221k (2019: £69,797k) was spent on routine, planned and major repairs.

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14. Social housing properties (continued)

Association	Completed Housing properties (rental)	Completed Shared ownership properties	Under construction Housing properties	Under construction Shared ownership properties	**2020 Total**	2019 Total
	£'000	£'000	£'000	£'000	**£'000**	£'000
Deemed cost						
At 1 April	3,383,807	401,937	176,708	84,497	**4,046,949**	3,821,399
Reclassification of schemes	-	-	3,105	(3,105)	**-**	-
Transfer to current assets	(474)	(87)	-	-	**(561)**	-
Schemes completed	93,851	55,001	(93,851)	(55,001)	**-**	-
Additions - new units	43,106	11,730	125,713	84,336	**264,885**	222,033
Additions - improvements to stock	26,750	-	-	-	**26,750**	17,024
Disposals	(9,370)	(7,576)	-	-	**(16,946)**	(13,507)
As at 31 March	3,537,670	461,005	211,675	110,727	**4,321,077**	4,046,949
Depreciation						
At 1 April	356,200	15,344	-	-	**371,544**	338,385
Charge for year	35,052	2,420	-	-	**37,472**	35,624
Transfer to current assets	(55)	(8)	-	-	**(63)**	-
On disposals	(2,689)	(439)	-	-	**(3,128)**	(2,465)
As at 31 March	388,508	17,317	-	-	**405,825**	371,544
Net book value at 31 March 2020	3,149,162	443,688	211,675	110,727	**3,915,252**	
Net book value at 31 March 2019	3,027,607	386,593	176,708	84,497	**3,675,405**	

14. Social housing properties (continued)

Association	Completed Housing properties (rental)	Completed Shared ownership properties	Under construction Housing properties	Under construction Shared ownership properties	**2020 Total**	2019 Total
	£'000	£'000	£'000	£'000	**£'000**	£'000
Cost or valuation at 31 March is represented by:						
Gross cost	2,978,316	437,752	211,675	110,727	**3,738,470**	3,463,934
Historic cost depreciation	(367,690)	(15,555)	-	-	**(383,245)**	(353,465)
	2,610,626	422,197	211,675	110,727	**3,355,225**	3,110,469
Revaluation reserve	538,536	21,491	-	-	**560,027**	564,936
	3,149,162	443,688	211,675	110,727	**3,915,252**	3,675,405
Existing use value and properties under construction	3,378,567	453,094	211,675	110,727	**4,154,063**	3,750,760

Total grant liability included in creditors, reserves and contingent liabilities is £1,033.2m (2019: £978.2m).

15. Other fixed assets

Group	Freehold shops	Freehold offices	Leasehold offices	Office furniture and equipment	Scheme plant, furniture and equipment	Computer hardware and software	Plant	Motor vehicles	**2020 Total**	2019 Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	**£'000**	£'000
Cost or valuation										
At 1 April	7,395	19,643	2,065	8,278	11,209	37,602	426	1,436	**88,054**	82,174
Additions	-	-	-	-	-	10,392	-	-	**10,392**	6,187
Disposals	-	-	(1,145)	-	-	(18)	-	-	**(1,163)**	(307)
As at 31 March	7,395	19,643	920	8,278	11,209	47,976	426	1,436	**97,283**	88,054
Depreciation										
At 1 April	-	5,755	463	7,632	7,928	23,618	313	1,098	**46,807**	42,802
Charge for year	-	362	59	400	428	3,221	7	166	**4,643**	4,261
On disposals	-	-	(113)	-	-	(18)	-	-	**(131)**	(256)
As at 31 March	-	6,117	409	8,032	8,356	26,821	320	1,264	**51,319**	46,807
Net book value at 31 March 2020	7,395	13,526	511	246	2,853	21,155	106	172	**45,964**	
Net book value at 31 March 2019	7,395	13,888	1,602	646	3,281	13,984	113	338	**41,247**	

Freehold shops are held at valuation and have a historic cost of £2,514k. All other fixed assets included in this note are held at historic cost.

Group	Freehold shops	Freehold offices	Leasehold offices	Office furniture and equipment	Scheme plant, furniture and equipment	Computer hardware and software	Plant	Motor vehicles	**2020 Total**	2019 Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	**£'000**	£'000
Cost or valuation at 31 March is represented by										
Net book value of assets held at valuation	7,395	-	-	-	-	-	-	-	**7,395**	7,395
Net book value of assets held at historic cost	-	13,526	511	246	2,853	21,155	106	172	**38,569**	33,852
	7,395	13,526	511	246	2,853	21,155	106	172	**45,964**	41,247

15. Other fixed assets (continued)

Association	Freehold shops	Freehold offices	Leasehold offices	Office furniture and equipment	Scheme plant, furniture and equipment	Computer hardware and software	Plant	Motor vehicles	**2020 Total**	2019 Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	**£'000**	£'000
Cost or valuation										
At 1 April	7,395	19,643	2,065	7,474	11,209	37,081	-	620	**85,487**	79,361
Additions	-	-	-	107	-	10,441	106	-	**10,654**	6,126
Disposals	-	-	(1,145)	-	-	(18)	-	-	**(1,163)**	-
As at 31 March	7,395	19,643	920	7,581	11,209	47,504	106	620	**94,978**	85,487
Depreciation										
At 1 April	-	5,755	463	7,055	7,928	23,157	-	583	**44,941**	41,022
Charge for year	-	362	59	280	428	3,210	-	13	**4,352**	3,919
On disposals	-	-	(113)	-	-	(18)	-	-	**(131)**	-
As at 31 March	-	6,117	409	7,335	8,356	26,349	-	596	**49,162**	44,941
Net book value at 31 March 2020	7,395	13,526	511	246	2,853	21,155	106	24	**45,816**	
Net book value at 31 March 2019	7,395	13,888	1,602	419	3,281	13,924	-	37	**40,546**	

Freehold shops are held at valuation and have a historic cost of £2,514k. All other fixed assets included in this note are held at historic cost.

Association	Freehold shops	Freehold offices	Leasehold offices	Office furniture and equipment	Scheme plant, furniture and equipment	Computer hardware and software	Plant	Motor vehicles	**2020 Total**	2019 Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	**£'000**	£'000
Cost or valuation at 31 March is represented by:										
Net book value of assets held at valuation	7,395	-	-	-	-	-	-	-	**7,395**	7,395
Net book value of assets held at historic cost	-	13,526	511	246	2,853	21,155	106	24	**38,421**	33,151
	7,395	13,526	511	246	2,853	21,155	106	24	**45,816**	40,546

16. Non-housing fixed assets – valuation methodology

Freehold shops were last professionally valued by Jones Lang LaSalle on the basis of open market value as at 31 March 2016 and in accordance with the RICS Appraisal and Valuation Standards. The valuer is neither an employee nor an officer of the Association. A desktop exercise was undertaken internally to assess the fair value of these properties as at 31 March 2020.

17. Investment properties

	Group		Association	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000
Valuation				
At 1 April	**134,338**	130,481	**96,383**	94,306
Additions new units	**3,964**	1,399	**4,069**	1,399
Improvements to existing units	**3,075**	-	**3,075**	-
Fair value (decrease)/increase	**(1,365)**	2,458	**(1,689)**	678
At 31 March	**140,012**	134,338	**101,838**	96,383
Historic cost net book value	**126,200**	121,674	**94,487**	89,857

Investment properties, which primarily comprise market rent properties, were professionally valued by Jones Lang LaSalle at open market value as at 31 March 2020. The valuation was undertaken in accordance with the RICS Appraisal and Valuation Standards. See also note 38 for estimates and judgements used by the valuer.

18. Investments in joint ventures

	David Wilson £'000	Linden Homes £'000	Kier £'000	Crest £'000	**Total £'000**
Investment					
At 1 April 2019	-	-	-	-	**-**
Additions	-	-	-	833	**833**
Amortisation	-	-	-	(148)	**(148)**
At 31 March 2020	-	-	-	685	**685**
Share of profits					
At 1 April 2019	-	904	1,047	-	**1,951**
Profit for the year	-	183	960	-	**1,143**
Equity adjustment	150	-	-	-	**150**
Dividend distribution	(150)	(800)	(1,715)	-	**(2,665)**
At 31 March 2020	-	287	292	-	**579**
Net book value at 31 March 2020	-	287	292	685	**1,264**
Net book value at 31 March 2019	-	904	1,047	-	**1,951**

The investment in joint ventures is grouped by venture partner for risk profile and exposure purposes. There are losses of £0.5m (2019: £2.0m) from joint ventures not shown on the statement of financial position as negative investments are not recognised. The group will recognise profit from those joint ventures when there is sufficient profit to eliminate the accumulated losses for each joint venture.

19. Investments - HomeBuy loans

	Group		Association	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000
At 1 April	**11,739**	12,036	**11,739**	12,036
Loans repaid	**(770)**	(297)	**(770)**	(297)
At 31 March	**10,969**	11,739	**10,969**	11,739

Loans are made to individuals to purchase a property. There is no interest charge on the loan but it is repayable on sale of the property with an appreciation of property value being included in the repayment. There are 361 loans outstanding (2019: 386).

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20. Financial Assets

	Group		Association	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000
Cost or valuation				
Bonds	**634**	557	**634**	557
Debt service reserve	**3,830**	3,812	**3,830**	3,812
Collateral deposits	**1,987**	1,351	**1,987**	1,351
Assets measured at fair value through the income statement (derivatives)	**4,909**	4,106	**4,909**	4,106
Shares in subsidiary undertakings	**-**	-	**3,929**	6,294
	11,360	9,826	**15,289**	16,120

Collateral deposits represent amounts held by counterparties as a result of margin calls on out-of-the-money interest rate swaps. Cash collateral deposit levels will increase or decrease in line with interest rate market movements, or if the Association places or withdraws alternative non-cash collateral. In any collateral deposit, requirements reduce towards zero by the maturity date of the underlying financial instruments giving rise to the collateral obligation.

Sovereign Housing Association has taken an impairment loss on its investment in Spectrum Property Ventures Limited of £2,365k. The loss is included in exceptional items in the Association's Statement of Total Comprehensive Income. Spectrum Property Ventures Limited are wholly owned by the Association. The impairment has arisen through a loss on exiting a joint venture.

21. Stock

	Group		Association	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000
Properties under construction	**61,306**	48,710	**51,016**	36,479
Completed properties	**4,505**	5,147	**4,505**	5,147
Consumable stock	**2,773**	1,579	**2,773**	924
	68,584	55,436	**58,294**	42,550

22. Debtors

	Group		Association	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000
Rental arrears				
Gross	**12,572**	10,370	**12,553**	10,592
Discounted repayment schedules	**(690)**	(690)	**(690)**	(690)
Less bad debt provision	**(8,558)**	(6,630)	**(8,544)**	(6,863)
Net rental income due	**3,324**	3,050	**3,319**	3,039
Social Housing Grant receivable	**70**	704	**70**	704
Prepayments and accrued income	**8,533**	9,432	**7,356**	6,399
Due from other Group undertakings	**-**	-	**50,595**	69,949
Other loans	**43,892**	19,629	**43,866**	338
Other debtors	**1,464**	4,281	**1,575**	4,774
	57,283	37,096	**106,781**	85,203
Amounts falling due within one year:	**45,297**	36,309	**57,499**	21,609
Amounts falling due after more than one year	**11,986**	787	**49,282**	63,594
	57,283	37,096	**106,781**	85,203

Loans from the Association to other members of the Group are charged at a market rate of interest of 2.10% to 6% (2019: 3.75% to 6%).

Long term debtors consist of prepayments and amounts due from joint ventures. Amounts are repayable dependent on sales and operating performance within the joint venture. No repayment is due within the next 12 months.

Within other loans are amounts due from Crest Sovereign (Brooklands) LLP of £20.2m (2019: £nil), Sovereign BDW (Hutton Close) LLP of £4.1m (2019: £nil), Sovereign Kier LLP of £0.3m (2019: £151k) and Linden Sovereign Brockworth LLP of £7.8m (2019: £nil). Other loans also include an amount due from Linden Limited of £11.2m (2019: £nil).

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23. Cash and cash equivalents

	Group		Association	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000
Cash and cash equivalents	**72,217**	45,228	**69,686**	42,125
	72,217	45,228	**69,686**	42,125

24. Creditors – amounts falling due within one year

		Group		Association	
	Note	**2020 £'000**	2019 £'000	**2020 £'000**	2019 £'000
Housing loans	26	**27,816**	39,201	**27,273**	38,657
Trade creditors		**16,463**	7,277	**13,141**	12,185
Social housing grant in advance		**20,001**	476	**20,001**	476
Social housing grant - properties	28	**2,782**	2,678	**2,782**	2,678
Due to Group undertakings		**-**	-	**24,933**	18,087
Other loans		**222**	494	**179**	569
Taxation and social security		**1,848**	1,666	**1,848**	1,666
Recycled capital grant fund	29	**18,671**	13,886	**18,671**	13,886
Rents received in advance		**10,066**	6,585	**10,046**	6,550
Other creditors		**6,329**	4,633	**6,740**	5,209
Accruals and deferred income		**42,929**	57,094	**28,003**	35,745
		147,127	133,990	**153,617**	135,708

25. Creditors – amounts falling due after more than one year

		Group		Association	
	Note	**2020 £'000**	2019 £'000	**2020 £'000**	2019 £'000
Housing loans	26	**1,866,552**	1,667,077	**1,191,950**	1,234,852
Finance lease		**2,722**	2,716	**2,722**	2,716
Derivative financial instruments		**112,831**	92,598	**112,831**	92,598
Social housing grant - properties	28	**323,682**	289,954	**323,682**	289,666
Deferred income		**10,969**	11,739	**10,969**	11,739
Recycled capital grant fund	29	**68**	10,885	**68**	10,885
Other creditors		**554**	551	**554**	551
Long term Group loans	26	**-**	-	**667,921**	425,000
		2,317,378	2,075,520	**2,310,697**	2,068,007

The repayment profile of the Group's gross undiscounted long term bond liabilities including interest is as follows:

	On demand £'000	Less than 12 months £'000	1 to 5 years £'000	More than 5 years £'000	**Total £'000**
March 2020					
Amounts due to 2009 bond investors	-	9,986	39,942	319,790	**369,718**
Amounts due to 2012 bond investors	-	11,920	47,680	470,520	**530,120**
Amounts due to Affordable Housing Finance	-	2,748	10,993	145,844	**159,585**
Amounts due to 2019 bond investors	-	5,938	23,750	392,500	**422,188**
	-	30,592	122,365	1,328,654	**1,481,611**

26. Housing loans

	Note	Group 2020 £'000	Group 2019 £'000	Association 2020 £'000	Association 2019 £'000
Repayable other than by instalments in more than five years	25	**840,405**	520,000	**833,326**	520,000
Repayable by instalments within one year	24	**27,816**	39,201	**27,272**	38,657
Repayable by instalments in more than one but less than two years	25	**29,406**	35,807	**28,912**	35,263
Repayable by instalments between two and five years	25	**159,915**	111,379	**158,559**	109,940
Repayable by instalments in more than five years	25	**836,826**	999,891	**839,075**	994,649
		1,894,368	1,706,278	**1,887,144**	1,698,509

All loans are held at amortised cost.

The housing loans are provided by a combination of bank debt and capital markets funding. The bank facilities are provided by our core relationship banks, and a number of supportive smaller banks. Loan interest rates range from 0.46% to 15.90% per annum (2019: 0.72% to 15.90%). The average rate achieved over the year was 3.8% (2019: 3.9%). Interest on housing loans is charged to the Statement of Total Comprehensive Income or capitalised in the year that it is incurred. The housing loans are secured by first fixed charges over certain of the Group's housing properties. The total undrawn loan facilities at 31 March 2020 were £650m (2019: £370m).

27. Provisions

	Group Property £'000	Group Other £'000	Group Total £'000	Association Property £'000	Association Other £'000	Association Total £'000
At 1 April 2019	2,907	3,219	**6,126**	2,818	3,219	**6,037**
Arising during the year	348	2,978	**3,326**	338	2,978	**3,316**
Utilised during the year	(1,345)	(1,568)	**(2,913)**	(1,345)	(1,568)	**(2,913)**
At 31 March 2020	1,910	4,629	**6,539**	1,811	4,629	**6,440**
Current	1,910	2,810	**4,720**	1,811	4,629	**6,440**
Non-current	-	1,819	**1,819**	-	-	**-**
At 31 March 2020	1,910	4,629	**6,539**	1,811	4,629	**6,440**

Provisions recognised by the Group and Association are based on reliable estimates determined by management of the amounts payable based on available information. The amounts recorded in the above tables are continually evaluated by management.

The Property provision relates to the cost of replacing defective cladding to one property. Cost of work is estimated and is expected to be incurred within one year.

Other provisions mainly relate to additional costs on existing development schemes and additional cost from Oracle for software licences already in use by Sovereign.

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28. Grant

	Note	Group 2020 £'000	Group 2019 £'000	Association 2020 £'000	Association 2019 £'000
At 1 April		**292,632**	293,761	**292,344**	293,473
Grants received during the year		**28,311**	3,387	**28,311**	3,387
Grants recycled from the recycled capital grant fund		**9,142**	1,272	**9,047**	1,272
Grant re staircasing sales		**(872)**	(557)	**(872)**	(557)
Grant re other property		**(136)**	(274)	**(136)**	(274)
Grant adjustment		**-**	(2,356)	**-**	(2,356)
Grant amortisation		**(2,613)**	(2,601)	**(2,613)**	(2,601)
Transfer from subsidiary		**-**	-	**383**	-
At 31 March	24, 25	**326,464**	292,632	**326,464**	292,344

29. Recycled Capital Grant Fund and Disposal Proceeds Fund

	Note	Group 2020 £'000	Group 2019 £'000	Association 2020 £'000	Association 2019 £'000
Recycled Capital Grant Fund					
At 1 April		**24,771**	22,829	**24,771**	22,829
Reclassification		**-**	669	**-**	669
Grants recycled		**2,943**	2,456	**2,943**	2,456
Interest accrued		**167**	89	**167**	89
New build		**(9,142)**	(1,272)	**(9,142)**	(1,272)
At 31 March	24, 25	**18,739**	24,771	**18,739**	24,771
Disposals Proceeds Fund					
At 1 April		**-**	669	**-**	669
Reclassification		**-**	(669)	**-**	(669)
At 31 March	24, 25	**-**	-	**-**	-

Amounts held for longer than 3 years potentially become repayable if not allocated to new schemes. Sovereign has an agreement with Homes England that those amounts over 3 years old at 31 March 2020 will not be recalled.

30. Pension arrangements

The Association participates in six defined benefit pension schemes which are multi-employer defined benefit schemes providing benefits based on final pensionable pay. All of the defined benefit schemes are now closed to new members. New employees are able to join a defined contribution scheme operated either by the Social Housing Pension Scheme or Scottish Widows.

Defined benefit pension plans assets and liabilities

	SPP £'000	LGPS £'000	2020 Total £'000
Assets and liabilities			
Present value of funded obligation	(155,105)	(69,679)	**(224,784)**
Fair value of scheme assets (bid value)	129,444	42,607	**172,051**
Net liability	(25,661)	(27,072)	**(52,733)**
Present value of unfunded obligation	-	(88)	**(88)**
Net liability (including unfunded obligations)	(25,661)	(27,160)	**(52,821)**

Defined benefit pension plans – amounts charged to the income statement

	SPP £'000	LGPS £'000	2020 Total £'000
Charged to operating costs			
Current service cost	-	805	**805**
Past service cost	-	155	**155**
Administration costs	118	20	**138**
Total charged to operating costs	118	980	**1,098**
(Credit)/charge to other finance costs			
Expected return on pension fund assets	(2,846)	(1,106)	**(3,952)**
Interest on pension scheme liabilities	3,696	1,809	**5,505**
Net charge to other finance costs	850	703	**1,553**

30. Pension arrangements (continued)

Defined benefit pension plans - amounts charged to other comprehensive income

	SPP £'000	LGPS £'000	2020 Total £'000
Defined benefit costs recognised in other comprehensive income			
Return on plan assets (less interest income)	(5,179)	(4,180)	**(9,359)**
Experience gains arising on plan liabilities	2,641	1,786	**4,427**
Effects of changes in the demographic and financial assumptions underlying the present value of the defined benefit obligation - gain	15,915	5,724	**21,639**
Other actuarial losses	-	(367)	**(367)**
Total gain recognised in other comprehensive income	13,377	2,963	**16,340**

(a) Sovereign Pension Plan (SPP)

At the beginning of the year, Sovereign Housing Association participated in the Social Housing Pension Scheme (SHPS), a multi-employer scheme which provides benefits to some 500 non-associated employers. The scheme is a defined benefit scheme in the UK. On 1 October 2019, Sovereign enacted a 'bulk transfer' of all pension assets and liabilities away from the defined benefit scheme held within the SHPS fund to a new defined benefit scheme, the Sovereign Pension Plan (SPP). This scheme is also closed to new members.

Sovereign embarked on a thorough review of its pension strategy, considering both the internal and external implications of withdrawing from SHPS and running a stand-alone pension fund. The fund, like SHPS, is administered by The Pensions Trust but allows greater flexibility in investment choices that can be tailored to Sovereign's individual requirements.

The Scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator and Technical Actuarial Standards issued by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension schemes in the UK.

For accounting purposes, two actuarial valuations for the Scheme were carried out with effective dates of 30 September 2019 and 31 March 2020. The initial valuation was used as the transfer value of assets and liabilities into the SPP with the remaining six months covered by a separate valuation required to apply the correct accounting treatment to 31 March 2020.

For completeness, the following disclosures show the period before and after the transfer. It is believed that the new SPP investment strategy will be beneficial to Sovereign in future years.

The net defined benefit liability to be recognised is £25.661m.

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30. Pension arrangements (continued)

The table below gives a summary of the plan asset and benefit liability:

Present values of defined benefit obligation, fair value of assets and defined benefit liability	31 Mar 2020 £'000	30 Sep 2019 £'000	2019 £'000
Present value of defined benefit obligation	(155,105)	(184,573)	(173,924)
Fair value of plan assets	129,444	144,960	129,291
Deficit in plan	(25,661)	(39,613)	(44,633)
Unrecognised surplus	-	-	-
Defined benefit liability to be recognised	(25,661)	(39,613)	(44,633)

A reconciliation from previous accounting date to the current accounting date is shown below for the pension benefit obligation and associated pension asset:

Benefit obligation	31 Mar 2020 £'000	30 Sep 2019 £'000	2019 £'000
Defined benefit obligation at the beginning of the period	184,573	173,924	160,615
Expenses	63	55	107
Interest expense	1,682	2,014	4,108
Actuarial (losses)/gains	(29,445)	10,889	12,988
Benefits paid and expenses	(1,768)	(2,309)	(3,894)
Defined benefit obligation at the end of the period	155,105	184,573	173,924

Asset reconciliation	31 Mar 2020 £'000	30 Sep 2019 £'000	2019 £'000
Fair value of scheme assets at the beginning of the period	144,960	129,291	122,016
Interest income	1,340	1,506	3,158
Experience on plan assets (less interest income) - gain	(19,513)	14,334	4,117
Contributions by employer	4,425	2,138	3,894
Benefits paid and expenses	(1,768)	(2,309)	(3,894)
Fair value of scheme assets at the end of the period	129,444	144,960	129,291

The Trustee of the Scheme commissions a full actuarial valuation of the Scheme every three years. The actuarial valuation assesses whether the Scheme's assets at the valuation date are likely to be sufficient to pay pension benefits obligation by members as at the valuation date. Asset values are calculated by reference to market levels. Pension obligations are valued by discounting expected future events discount rate calculated by reference to the expected future investment returns.

30. Pension arrangements (continued)

The following table sets out the assumptions used to arrive at the pension asset and liability for 31 March 2020 and 31 March 2019 (using market conditions as at the respective date).

SPP defined benefit	2020	2019
Major assumptions	%	%
Price increases RPI	2.60	3.26
Price increases CPI	1.60	2.26
Discount rate	2.35	2.34
Salary increase	3.60	3.26
Allowance for commutation of pension for cash at retirement	75	75

The assumed life expectancy from the age of 65 is as follows:

	2020 Years	2019 Years
Retiring today		
Males	22.0	21.8
Females	23.7	23.5
Retiring in 20 years		
Males	23.3	23.2
Females	25.0	24.7

30. Pension arrangements (continued)

Below is a summary of the overall impact of the defined cost recognised in the other comprehensive income:

	31 Mar 2020 £'000	30 Sep 2019 £'000	**2020 Total £'000**	2019 £'000
Defined benefit costs recognised in other comprehensive income				
Return on plan assets (less interest income)	(19,513)	14,334	**(5,179)**	4,117
Experience gains/(losses) arising on plan liabilities	1,588	1,053	**2,641**	(605)
Effects of changes in the demographic and financial assumptions underlying the present value of the defined benefit obligation - gain/(loss)	27,857	(11,942)	**15,915**	(12,383)
Total gain/(loss) recognised in other comprehensive income	9,932	3,445	**13,377**	(8,871)

Below is a summary of the overall impact of the defined cost recognised in the Income Statement:

	31 Mar 2020 £'000	30 Sep 2019 £'000	**2020 Total £'000**	2019 £'000
Charged to operating costs				
Administration costs	63	55	**118**	107
Total charged to operating costs	63	55	**118**	107
(Credit)/charge to other finance costs				
Expected return on pension fund assets	(1,340)	(1,506)	**(2,846)**	(3,158)
Interest on pension scheme liabilities	1,682	2,014	**3,696**	4,108
Net charge to other finance costs	342	508	**850**	950

30. Pension arrangements (continued)

SHPS defined contributions

The Association paid employer's contributions up to 12% for the SHPS and SPP defined contribution schemes. The rate is variable dependent on the contributions rate selected by the employee. Total contributions amounted to £3,498k (2019: £3,108k).

(b) Royal Berkshire Pension Fund (Berkshire)

The Royal County of Berkshire Pension Fund was closed to new members in 1989.

The last full actuarial valuation was carried out as at 31 March 2019 and was updated to 31 March 2020 by a qualified independent actuary.

Future pension increases have been assumed to be at CPI.

It was agreed that an employer contribution rate of 24.7% of pensionable pay would apply in the year ended 31 March 2020 (2019: 24.7%). An additional allowance is payable each year in respect of past service deficits. The allowance for the year ended 31 March 2020 was £465k (2019: £438k).

(c) Local Government Pension Scheme administered by Dorset County Council (Dorset – legacy Sovereign Housing Association Limited)

This is a statutory, funded, occupational final salary scheme which is now closed to new members. The assets of the scheme are held in separate trustee administered funds.

The last full actuarial valuation was carried out as at 31 March 2019 and was updated to 31 March 2020 by a qualified independent actuary.

Future pension increases have been assumed to be at CPI.

It was agreed that an employer contribution rate of 16.3% of pensionable pay would apply in the year ended 31 March 2020 (2019: 16.3%). Past service deficit payments of £154k were made during the year (2019: £146k).

(d) Local Government Pension Scheme administered by Hampshire County Council (Hants)

The last full actuarial valuation was carried out at 31 March 2019 and was updated to 31 March 2020 by a qualified independent actuary.

An employer contribution rate of 30.4% of pensionable pay applied for the year ended 31 March 2020 (2019: 30.4%). An additional allowance is payable each year in respect of past service deficits. The allowance for the year ended 31 March 2020 was £367k (2019: £354k).

Future pension increases have been assumed to be at CPI.

(e) Local Government Pension Scheme administered by Dorset County Council (Dorset – legacy Spectrum Housing Group Limited)

The last full actuarial valuation was carried out at 31 March 2019 and was updated to 31 March 2020 by a qualified independent actuary.

An employer contribution rate of 17.3% of pensionable pay applied for the year ended 31 March 2020 (2019: 17.3%). Past service deficit payments of £252k were made during the year (2019: £250k).

Future pension increases have been assumed to be at CPI.

(f) Local Government Pension Scheme administered by Isle of Wight Council (IOW)

The last full actuarial valuation was carried out at 31 March 2019 and was updated to 31 March 2020 by a qualified independent actuary.

An employer contribution rate of 26.9% of pensionable pay applied for the year ended 31 March 2020 (2019: 26.9%). An additional allowance is payable each year in respect of past service deficits. The allowance for the year ended 31 March 2020 was £139k (2019: £139k).

Future pension increases have been assumed to be at CPI.

30. Pension arrangements (continued)

(g) Assumptions

The assumptions used by the actuaries for the individual schemes are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescales covered, may not necessarily be borne out in practice.

Assumptions	2020 % per annum					2019 % per annum				
Major assumptions	**Berks**	**Dorset**	**Hants**	**Dorset**	**I.O.W.**	Berks	Dorset	Hants	Dorset	I.O.W.
Price increases RPI	**2.9**	**2.8**	**-**	**2.8**	**-**	3.5	3.5	3.3	3.5	-
Price increases CPI	**2.0**	**1.9**	**2.1**	**2.0**	**1.9**	2.5	2.5	2.2	2.5	-
Pension increases	**2.0**	**1.9**	**2.1**	**2.0**	**1.9**	2.5	2.4	2.2	2.4	2.5
Pension accounts revaluation rate	**-**	**-**	**2.1**	**-**	**-**	-	-	2.2	-	-
Discount rate	**2.3**	**2.4**	**2.3**	**2.4**	**2.3**	2.3	2.4	2.4	2.4	2.4
Salary increase	**3.0**	**2.9**	**3.1**	**3.0**	**2.7**	4.0	4.0	3.7	3.9	2.9
Return assumptions										
Asset portfolio	**2.3**	**2.4**	**2.3**	**2.4**	**2.3**	2.3	2.4	2.4	2.4	2.4

The return on assets is quoted as the same value as the discount rate in each of the actuarial reports.

The assumed life expectancy from the age of 65 is as follows:

	Berks Years	**Dorset Years**	**Hants Years**	**Dorset Years**	**I.O.W. Years**
Retiring today					
Males	**21.5**	**23.3**	**23.0**	**23.3**	**21.7**
Females	**24.1**	**24.7**	**25.5**	**24.7**	**23.8**
Retiring in 20 years					
Males	**22.9**	**24.7**	**24.7**	**24.7**	**22.4**
Females	**25.5**	**26.2**	**27.2**	**26.2**	**25.2**

(h) Historic data

Berkshire	**2020 £'000**	2019 £'000	2018 £'000	2017 £'000	2016 £'000
Assets and liabilities value as at:					
Present value of funded obligation	**(15,336)**	(17,944)	(18,503)	(19,274)	(16,871)
Fair value of scheme assets (bid value)	**8,176**	9,152	8,814	8,810	7,844
Net liability	**(7,160)**	(8,792)	(9,689)	(10,464)	(9,027)
Experience adjustments					
Experience adjustments on scheme assets	**-**	-	-	-	-
Experience adjustments on scheme liabilities	**-**	-	-	(73)	-

Dorset (legacy Sovereign Housing Association Limited)	**2020 £'000**	2019 £'000	2018 £'000	2017 £'000	2016 £'000
Assets and liabilities value as at:					
Present value of funded obligation	**(9,873)**	(10,819)	(10,948)	(11,217)	(9,210)
Fair value of scheme assets (bid value)	**4,744**	5,439	5,329	5,357	4,665
Net liability	**(5,129)**	(5,380)	(5,619)	(5,860)	(4,545)
Present value of unfunded obligation	**(22)**	(23)	(25)	(27)	(31)
Net liability (including unfunded obligations)	**(5,151)**	(5,403)	(5,644)	(5,887)	(4,576)
Experience adjustments					
Experience adjustments on scheme assets	**-**	-	-	-	-
Experience adjustments on scheme liabilities	**-**	-	-	(228)	-

30. Pension arrangements (continued)

Hampshire	2020 £'000	2019 £'000	2018 £'000	2017 £'000	2016 £'000
Assets and liabilities value as at:					
Present value of funded obligation	**(8,887)**	(8,890)	(8,880)	(8,910)	(7,850)
Fair value of scheme assets (bid value)	**7,164**	7,330	6,600	6,370	5,460
Net liability	**(1,723)**	(1,560)	(2,280)	(2,540)	(2,390)
Experience adjustments					
Experience adjustments on scheme assets	**-**	-	-	-	-
Experience adjustments on scheme liabilities	**-**	-	-	-	-

Dorset (legacy Spectrum Housing Group Limited)	2020 £'000	2019 £'000	2018 £'000	2017 £'000	2016 £'000
Assets and liabilities value as at:					
Present value of funded obligation	**(22,575)**	(24,562)	(24,841)	(25,640)	(20,378)
Fair value of scheme assets (bid value)	**12,165**	13,893	13,521	13,401	11,066
Net liability	**(10,410)**	(10,669)	(11,320)	(12,239)	(9,312)
Present value of unfunded obligation	**(66)**	(70)	(74)	(78)	(70)
Net liability (including unfunded obligations)	**(10,476)**	(10,739)	(11,394)	(12,317)	(9,382)
Experience adjustments					
Experience adjustments on scheme assets	**-**	-	-	-	-
Experience adjustments on scheme liabilities	**-**	-	-	-	-

Isle of Wight	2020 £'000	2019 £'000	2018 £'000	2017 £'000	2016 £'000
Assets and liabilities value as at:					
Present value of funded obligation	**(13,008)**	(14,759)	(13,041)	(12,734)	(11,057)
Fair value of scheme assets (bid value)	**10,358**	10,995	9,918	9,599	8,361
Net liability	**(2,650)**	(3,764)	(3,123)	(3,135)	(2,696)
Experience adjustments					
Experience adjustments on scheme assets	**-**	-	-	-	-
Experience adjustments on scheme liabilities	**-**	-	-	-	-

30. Pension arrangements (continued)

Consolidated (Group and Association) Local Government Pension Schemes	2020 £'000	2019 £'000	2018 £'000	2017 £'000	2016 £'000
Assets and liabilities value as at:					
Present value of funded obligation	**(69,679)**	(76,974)	(102,631)	(104,596)	(87,990)
Fair value of scheme assets (bid value)	**42,607**	46,809	71,370	70,554	60,523
Net liability	**(27,072)**	(30,165)	(31,261)	(34,042)	(27,467)
Present value of unfunded obligation	**(88)**	(93)	(99)	(105)	(101)
LGPS net liability (including unfunded obligations)	**(27,160)**	(30,258)	(31,360)	(34,147)	(27,568)

(i) Analysis of pension costs in the income statement – LGPS

	2020 £'000	2019 £'000
Charged to operating costs		
Current service cost	**805**	857
Past service cost	**155**	-
Administration costs	**20**	21
Oxfordshire LGPS cessation charge	**-**	1,771
Total charged to operating costs	**980**	2,649
(Credit)/charge to other finance costs		
Expected return on pension fund assets	**(1,106)**	(1,132)
Interest on pension scheme liabilities	**1,809**	1,940
Net charge to other finance costs	**703**	808

30. Pension arrangements (continued)

(j) Analysis of pension costs in Other Comprehensive Income – LGPS

	2020 £'000	2019 £'000
Defined benefit costs recognised in other comprehensive income		
Return on plan assets (less interest income)	**(4,180)**	1,466
Experience gains/(losses) arising on plan liabilities	**1,786**	-
Effects of changes in the demographic and financial assumptions underlying the present value of the defined benefit obligation - gain/(loss)	**5,724**	(259)
Other actuarial losses	**(367)**	460
Total gain recognised in other comprehensive income	**2,963**	1,667

(k) Asset and liability obligation reconciliations - LGPS

Benefit obligation	2020 £'000	2019 £'000
Defined benefit obligation at the beginning of the year	**77,067**	102,730
Service cost	**805**	857
Interest cost	**1,809**	1,940
Change in financial assumptions	**(4,874)**	3,152
Change in demographic assumptions	**(850)**	(2,893)
Experience gains	**(1,786)**	-
Estimated benefits paid (net of transfers in)	**(2,694)**	(2,462)
Past service cost	**155**	8
Contributions by scheme participants	**140**	159
Unfunded pension payments	**(5)**	(6)
Exit Oxfordshire LGPS	**-**	(26,418)
Defined benefit obligation at the end of the year	**69,767**	77,067

30. Pension arrangements (continued)

Asset reconciliation	2020 £'000	2019 £'000
Fair value of scheme assets at the beginning of the year	**46,809**	71,370
Interest on assets	**1,106**	1,132
Return on assets less interest	**(4,180)**	1,466
Other actuarial gains	**(367)**	460
Administration expenses	**(20)**	(21)
Contributions by employer	**1,818**	1,899
Contributions by scheme participants	**140**	159
Estimated benefits paid (net of transfers in)	**(2,699)**	(2,468)
Exit Oxfordshire LGPS	**-**	(27,188)
Fair value of scheme assets at the end of the year	**42,607**	46,809

(l) Guaranteed minimum pensions

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 Social Housing Pension Scheme has been recognised in 2020.

31. Financial instruments

(a) Carrying amount of financial instruments

The carrying amount of the financial assets and liabilities includes:

	2020 £'000	2019 £'000
Assets measured at amortised cost	**6,451**	5,720
Liabilities measured at fair value through income statement (derivatives)	**(112,831)**	(92,598)
Assets measured at fair value through income statement (derivatives)	**4,909**	4,106
Liabilities measured at amortised cost (housing loans)	**(1,894,368)**	(1,706,278)
	(1,995,839)	(1,789,050)

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31. Financial instruments (continued)

(b) Financial instruments measured at fair value

Derivative financial liabilities at fair value are calculated using quoted market prices to establish expected future cash flows, which are discounted at a market derived interest rate.

(c) Hedge accounting

The following table indicates the periods in which the cash flows associated with cash flow hedging instruments are expected to occur as required by FRS 102.29(a) for the cash flow hedge accounting models:

	2020						2019					
	Carrying amount	Expected cash flows	1 year or less	1 to <2 years	2 to <5 years	5 years and over	Carrying amount	Expected cash flows	1 year or less	1 to <2 years	2 to <5 years	5 years and over
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Interest rate swaps												
Liabilities	108,164	115,510	8,557	8,723	23,277	74,953	88,491	98,959	7,494	7,271	20,400	63,794
	108,164	115,510	8,557	8,723	23,277	74,953	88,491	98,959	7,494	7,271	20,400	63,794

The Group uses cash flow hedges to manage interest rate risk arising from uncertain future interest rates on its floating rate loans. Interest rate swaps (the hedging instrument) are used to swap a proportion of the Group's floating rate interest cash flows (the hedged items) for fixed rate cash flows, thereby reducing the cash flow and income statement uncertainty. The Group recognises interest rate exposure as a key risk to be managed as an integral part of its strategy for managing its overall business risks and costs.

Change in fair value (Group and Association)	2020 £'000	2019 £'000
Recognised through other comprehensive income	(21,354)	(11,148)
Recognised through the income statement	(1,571)	2,611
Decrease in fair value	(22,925)	(8,537)

(d) Fair values

The amounts for all financial assets and financial liabilities carried at fair values are as follows:

	2020 £'000	2019 £'000
Derivatives measured at fair value through income statement	107,922	88,492
	107,922	88,492

32. Called up share capital

Each shareholder of the Parent holds a non-equity share of £1 in the Parent. The shares carry no rights to dividends and are non-redeemable. They carry the right to vote at meetings of the Parent on the basis of one share one vote. No rights to participate in the net assets of the Parent in the event of a winding up are conferred by the shares.

	2020 £	2019 £
Allotted issued and fully paid		
At 1 April	118	119
Issued in the year	2	3
Cancelled during the year	(7)	(4)
At 31 March	113	118

33. Reserves

Called up share capital – represents the nominal value of shares that have been issued.

Income and expenditure reserve – includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

Hedging reserve – gains and losses on hedge effective financial instrument.

Revaluation reserve – the difference between historic cost and valuation or deemed cost of fixed assets.

Non-controlling interest – the share of distributable reserves of interest within the Group held by parties from outside of the Group.

34. Capital commitments

	Group		Association	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	522,298	412,979	498,143	398,614
Capital expenditure that has been authorised by the Executive Board but has not yet been contracted for	173,464	81,382	173,464	81,793

At 31 March 2020, the Group had cash and short term deposits of £72.2m (2019: £45.2m) and a further £650m of undrawn committed funding (2019: £370m), of which £464m was secured and available immediately (2019: £197m). These funds, along with cash generated from operating activities are expected to fund the above capital expenditure.

35. Operating leases

The Group and Association hold office premises and equipment, and vehicles under non-cancellable operating leases. Non-cancellable operating lease rentals are payable as follows:

	Group		Association	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000
Land and buildings				
- within one year	**1,634**	45	**1,557**	45
- between two and five years	**6,146**	3,626	**6,011**	3,538
- in over five years	**18,387**	23,701	**18,218**	23,239
Temporary social housing initiatives				
- within one year	**39**	-	**39**	-
- between two and five years	**39**	107	**39**	107
- in over five years	**-**	-	**-**	-
Other				
- within one year	**1,366**	1,153	**1,352**	1,124
- between two and five years	**623**	1,389	**617**	988
- in over five years	**-**	-	**-**	-
	28,234	30,021	**27,833**	29,041

36. Group analysis of change in net debt

	As at 1 April 2019	Cashflows	Other changes	**As at 31 March 2020**
Cash at bank and in hand	45,228	26,989	-	**72,217**
Debt due within one year	(39,201)	11,385	-	**(27,816)**
Debt due within more than one year	(1,759,675)	(199,475)	(20,233)	**(1,979,383)**
	(1,753,648)	(161,101)	(20,233)	**(1,934,982)**

37. Group company information and related parties

	Status	**Activity**	**Holding**
Sovereign Housing Association Limited	Registered Co-operative and Community Benefit Societies	Non - charity housing registered provider	
Subsidiary			
Sovereign Housing Design and Build Limited	Private Limited Company	Design and build	100%
Sovereign Housing Developments Limited	Private Limited Company	Commercial investment	100%
Sovereign Living Limited	Registered Co-operative and Community Benefit Societies	Non - charity housing registered provider	100%
Sovereign Advances Limited	Private Limited Company	Capital funding	100%
Sovereign Housing Partnerships Limited	Private Limited Company	Joint venture holding company	100%
Spectrum Property Care Limited	Private Limited Company	Repairs and maintenance	100%
Spectrum Property Ventures Limited	Private Limited Company	Capital funding	100%
Spectrum Premier Homes Limited	Private Limited Company (by guarantee)	Development and sale of housing properties	100%
Sovereign Housing Capital Plc	Public Limited Company registered	Capital funding	100%
Joint venture			
Sovereign BDW (Newbury) LLP	Limited Liability Partnership	Development and sale of residential accommodation	50%
Linden Homes Westinghouse LLP	Limited Liability Partnership	Development and sale of residential accommodation	50%
Kier Sovereign LLP	Limited Liability Partnership	Development and sale of residential accommodation	50%
Linden Sovereign Brockworth LLP	Limited Liability Partnership	Development and sale of residential accommodation	50%
Crest Sovereign (Brooklands) LLP	Limited Liability Partnership	Development and sale of residential accommodation	50%
Sovereign BDW (Hutton Close) LLP	Limited Liability Partnership	Development and sale of residential accommodation	50%

The Association also holds 2% of the share capital of Sovereign Housing Capital Plc, with 98% held by Sovereign Advances Limited.

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37. Group company information and related parties (continued)

Sovereign Housing Association Limited also owns a non-charitable company Points West Housing Limited which is dormant and its net assets are not material. Points West Housing Limited is not consolidated within the Group's financial statements. Sovereign Housing D1 Limited, Sovereign Property Care Limited and Sovereign Maintenance Limited are dormant and net assets are zero in each.

Sovereign Housing Partnerships Limited is a member in six joint ventures with equal interests from two Partners in each case. These are Linden Homes Westinghouse LLP, Sovereign BDW (Newbury) LLP, Sovereign BDW (Hutton Close) LLP, Kier Sovereign LLP, Linden Sovereign Brockworth LLP and Crest Sovereign (Brooklands) LLP.

The Group entered into a loan agreement with Linden Limited, a joint venture partner. The monies owed to the Group are lent on commercial terms. The amount outstanding at 31 March 2020 is £11.2m (2019: £nil).

Lee Bambridge is a Non-Executive Board member of Sovereign and an Executive Board member of Newbury Building Society (NBS). During the year Sovereign executed the following transactions with NBS:

- The repayment of £2.5m of loans owed to NBS
- An agreement to sell an office building to NBS, which subsequently completed in June 2020

Both transactions were undertaken on an arms-length basis and Mr Bambridge had no involvement or influence in Sovereign's decision-making process.

Related parties

(a) Pension schemes

FRS 102 considers defined benefit pension schemes for the benefit of the reporting entity as related parties. During the year Sovereign Housing Association Limited had transactions with the below pension providers:

Social Housing Pension Scheme
Sovereign Pension Plan
LGPS - Dorset County Council
LGPS - Royal Berkshire Pension Fund
LGPS - Hampshire County Council
LGPS - Isle of Wight Council
LGPS - Oxfordshire County Council

Please refer to the pension note 30, which provides the full details of the pension providers and impact on the statement of total comprehensive income.

(b) Inter company

During the year Sovereign Housing Association Limited and Sovereign Living Limited had the following intra-group transactions with non-regulated members of the Group:

	2020 £'000	2019 £'000
Payment of interest at commercial rates	**24,348**	21,936
Purchase of design and build services at cost plus commercial mark-up	**140,570**	122,590
Repairs and maintenance service at costs agreed during competitive tender	**1,078**	37,305
Management charges on a cost sharing basis (income)	**(215)**	(2,798)
	165,781	179,033

Interest is payable to Sovereign Housing Capital Plc and Sovereign Advances Limited. Design and Build Services and contracted with Sovereign Design and Build Limited and Spectrum Premier Homes Limited. Repairs and maintenance services are contracted with Spectrum Property Care Limited. Management charges are received from all non-regulated subsidiaries.

38. Accounting estimates and judgements

There were no estimates, judgement and assumptions which had a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities or income and expenditure within the financial period. Below are the key estimates and judgements which management has applied

Pension liability (LGPS)

Assumptions for the Local Government Pension Schemes have been obtained from the annual reports performed by qualified actuaries. An estimate of the Group's future cash flows is made using notional cash flows based on the estimated duration. These estimated are then used to derive a Single Equivalent Discount Rate (SEDR). The discount rate derived is such that the net present value of the notional cash flows, discounted at this single rate, equates to the net present value of the cash flows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve (where the spot curve is assumed to be flat beyond the 30 year point). The approach has changed from the "spot rate" approach adopted in the previous year.

Pension liability (SPP)

The Sovereign Pension Plan year end liability is obtained from The Pensions Trust using analysis provided by a qualified actuary. To derive the discount rate a £GBP AA Corporate Bond yield curve is used which is supplied by Bank of America Merrill Lynch at the reporting date. The rates from the yield curve are used to calculate a present value of the pension scheme's future agreed deficit reduction contributions at the reporting date. A single equivalent discount rate is then derived.

Rental arrears

Rental arrears payment plans are discounted at a rate which management believes is appropriate for the level of risk in the recovery of such debt.

Investment properties

The valuation exercise was carried out in March 2020 with a valuation date of 31 March 2020. In applying the Royal Institute of Chartered Surveyors (RICS) Valuation Global Standards 2017 ('Red Book'), the valuer has declared a 'material valuation uncertainty' in the valuation report. This is on the basis of uncertainties in markets caused by COVID-19. The valuer's report clarifies that "the inclusion of the 'material valuation uncertainty' declaration... does not mean that the valuation cannot be relied upon. Rather, the phrase is used in order to be clear and transparent with all parties, in a professional manner that – in the current extraordinary circumstances - less certainty can be attached to the valuation than would otherwise be the case." The values in the report have been used to inform the measurement of property assets at valuation in these financial statements. With the valuer having declared this material valuation uncertainty, the valuer has continued to exercise professional judgement in providing the valuation and this remains the best information available to the group.

Measurement of stock

Costs in determining the carrying value of housing properties in current assets are applied as prescribed in the relevant SORP. The apportionment is based on the out turn of the scheme at the reporting date but is subject to future influences from government policy changes and economic conditions.

Basis and estimate for overhead allocation

Overhead cost that can be directly linked to business stream (cost centres) are recognised against them. For general overheads, the costs are allocated to the business stream based on number of properties. Management deem property numbers a key driver for the level of overhead cost incurred in the business and therefore provides an appropriate and realistic basis for allocating overhead. Other allocation basis under consideration and continuously reviewed are turnover, expenses level and employee time analysis.

Estimates and judgements for tax

The tax payable for the year comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as Other Comprehensive Income or to an item recognised directly in equity is also recognised in Other Comprehensive Income or directly in equity respectively. Deferred tax is estimated using the current tax rate. Management have made this judgement with the understanding that the application of a discounted tax rate will add little or no value to the reader of the financial statement.

Estimates and judgements for recognising stock

An element of completed and work in progress shared ownership properties are recognised as stock at each balance sheet date. This is the disposable first tranche portion. Management have estimated the first tranche portion held in stock as 40% of the total cost incurred at the balance sheet date, this is a realistic estimate as it is consistent with current trend of first tranche equity sale pattern.

38. Accounting estimates and judgements (continued)

Estimate on useful life housing properties
Housing properties other than investment properties are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets are based on the NHF guidance and may vary slightly depending on a number of factors that are relevant to the underlying asset. Fixed assets are expected to come to a nil value at the end of its useful economic life however management reviews the estimate of the useful lives at each reporting date to ensure they are consistent with survey report, making changes to individual units or component as appropriate. Such changes could impact insignificantly the surpluses for the year.

Grant amortisation
Deferred capital grants are amortised over the economic useful life of the structure of housing properties. Although share ownership properties tend to have a shorter actual life span compared to their expected useful life (EUL) of their structure, management deem the current approach of amortisation to be prudent and not distorting the business performance.

Judgement on provisions
Provisions are recognised in the financial statement based on the likelihood of a liability occurring and an appropriate estimate is known for such liability. In estimating provisions, judgement on likelihood of occurrence is determined by expert opinion and past indicative trend of similar items. The value of provisions is arrived at considering the worst case scenario. The amounts recorded in note 28 are continually evaluated by management.

Estimates and judgements on pensions
Estimates and judgements applied to the pension deficit are based on the pension estimate and assumption provided by the pension provider. Please refer to note 30 for the underlying assumption.

Discounted items
Assets and liabilities with cash flow implications of more than one year are recognised in the accounts at fair value which is arrived at by applying a discount rate that reflects the level of risk relevant to those items.

Judgement on the risk level and rate is informed by expert opinion and items with similar risk profile. Discounted items include long term debtor and financial instrument.

Judgement on capitalised major repairs
The Group's capitalisation policies align with FRS 102 principles, in applying this, management take an aggregated view in making capitalisation decisions which match the accounting standard criteria requirements.

Judgement on mixed tenure split
Where a development relates to two or more tenures, construction cost is allocated to the different tenures using a dynamic apportionment basis. The dynamic approach applies a mix of standard apportionment basis to reflect substance of the development. Management deem this allocation basis effective as it results in a similar cost if the tenures are built independently. Cost allocation methods are reviewed annually for effectiveness. This basis for apportionment impacts depreciation charged for the year and the profit on sale of fixed assets.

Impairment
In determining any possible impairment of the Group's assets, factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the economic viability and expected future financial performance of that unit. Where impairment is found, the carrying value of the properties in the cash generating unit is reduced to depreciated replacement cost.

39. Post balance sheet events

Covid-19
The organisation has experienced a period of decreased activity in terms of day to day operations and the construction of new properties. During lockdown there were no active development sites and only compliance and emergency repairs and tenancy services were provided.

The programme for developing new homes has been impacted by the pause in construction, with lower unit numbers now expected to be delivered during 2020/21. All development sites are now active, although operating at reduced capacity in line with Government Covid-19 response recommendations. The operational focus is on clearing the lockdown generated backlog of general repairs.

Bond issue
Sovereign increased its available liquidity through issuing £125m Retained Bonds in April 2020 (due November 2048).

A £175m Covid Corporate Financing Facility was completed in May 2020. The latter is immediately available for up to one year. Sovereign does not expect to draw from this facility, it has been entered into as a contingency measure to be more flexible in the event of any major disruptions to its cash flows relating to Covid-19.