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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

Annual Report 2021

Annual Report and Financial Statements

CORP-31511 July21WG

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, more opportunity	**81%** customer satisfaction with Sovereign remained steady at 81% **£4.72m** invested in communities **1,182** customers completed training to support their aspirations	**327** customers into work or better work **100%** fire risk assessment completed within required time scale **77,133** repairs made during lockdowns
More homes, better places	**£216.5m** Investment in new homes **£100.4m** Investment in our existing homes **1,099** new homes delivered	**60,538** Homes owned or managed **£417.4m** Turnover **£13.0bn** Open market value of properties
Strong foundations, more choice	**£719m** cash and undrawn committed facilities available **£78.0m** Surplus before tax **G1/V1** Regulatory ratings **A+ and A2** A+ Standard and Poor's A2 Moody's credit ratings	**£1.3m** invested in customer-facing technology **Living wage** accredited employer **Gold** Investors in People **50/50** representation men and women on our Executive Board

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Foreword by CEO

In my foreword to the 2020 annual report, I said that our focus at Sovereign would be on the future. In the late spring of 2020 it was hard to read that future; I certainly didn't predict either the bleakness of the winter lockdown or the hope brought by the vaccine. It is too early to say whether the pandemic will be seen as a watershed, whether we will live entirely differently in a "post-Covid era". At Sovereign we remain focused on the future, thinking in terms not of months and years but of lifetimes.

When I think of the homes we are building now, I picture them being lived in and enjoyed well into the next century. Because we have built – and are building – strong foundations now and because we are taking bold decisions today, we can be more confident than ever that we are having a positive impact on our planet, on our customers and on the built environment we will leave behind.

We are making steady progress against the commitments we made in our 2019 corporate plan. We promised quality services and more opportunity and in 2021 we are delivering the plans we developed with our customers. We recognised that some of our communities feel unloved, and this year we are embarking on a major new programme of development and regeneration so that every home we own meets our new Homes and Place Standard.

Despite the pandemic, we are making steady progress against the commitments we made in our corporate plan.

Future generations enjoying the homes we build today should be a source of inspiration and pride to us all.

We promised more homes and better places, and we are building towards our target of 2,000 homes a year – in the last year which was adversely affected by Covid-19, we still delivered 1,099 new homes and we now have a pipeline of over 7,000. Of those, nearly half are land-led, a step-change that will allow us to grow, whatever the level of state support for affordable housing. The strategic asset management plan is core to our purpose, but we are committed to more than just bricks and mortar, leveraging nearly £1million of matched funding to support over 150 community projects that have benefitted more than 80,000 people.

We also promised that because we have strong foundations, we could offer more choice. Our ratings have improved, and our investments are beginning to pay off. Throughout the year we have brought in new talent across the business, building our skills and capacity at every level. We have published a new strategy on equality, diversity and inclusion, and, as people return to working in offices, we will harness the potential of our new workplaces, retaining the benefits of a truly flexible approach to work.

Later this year we will refresh our corporate plan, setting out how we will build on the progress we have made and looking at those areas where there is more work to do. In resetting our plans we can account for the impact of the pandemic, the good and the bad. Because our finances are sound, we can hold to the course we set in 2019. We have not allowed the challenges of the present to knock us off course - despite everything, this has been a year of delivery - shoring up our foundations to make a reality of our ambitions.

Since the start of the pandemic, the UK has been lucky enough to rely on a health service that was built by another generation, with its eyes fixed on the future. The post-war government created the NHS. But it was an earlier government, which in 1942 commissioned the Beveridge Report, imagining a new social contract with the NHS at its heart. Every generation since has benefited from the wisdom and the foresight of decisions that were made in the darkest days of the Second World War. If the pandemic is to mark a similar turning point, calling out the structural inequalities it has brought to light, then housing must be central to the public policy debate. Just as debates in the past settled public health and public transport as critical infrastructure for the nation, we cannot avoid the arguments on public housing.

The last twelve months have brought much sadness and pain. There is much uncertainty ahead. But it is exciting to think that a child born this year, at the height of the pandemic, can expect to live well into the twenty-second century. They might live in a Sovereign home that we built this year. And I hope they might look back at the year of their birth and reflect that the generation that came before them had the wisdom and the foresight to make decisions that benefited them into old age. Indeed, the thought of future generations enjoying the homes we build today should be a source of inspiration and pride for us all.

Mark Washer
Chief Executive

Chair's statement

Since I joined Sovereign as chair just under a year ago, I have been impressed by the energy and passion of our people to deliver great customer outcomes and get more homes built. Whatever the challenges of the last year, that focus on 'doing the right thing', has been clear from every encounter I have had with colleagues throughout the business.

The last year has been challenging in many respects and as the world returns to normal, I am looking forward to getting out and meeting customers and colleagues in person and hearing from them first hand of the challenges and opportunities that they face.

That passion for doing right by our customers is most visible for our people on the frontline and in our contact centre, but it also has to be embedded at every level of the business. But passion on its own is not enough, we understand that we can only meet our ambitions if we have the resources we need to invest.

The good news is that our credit rating was reaffirmed, with Standard and Poors improving our outlook from 'negative' to 'stable'. This made us more attractive to external funders and gave us the opportunity to go further and faster in upgrading our homes and improving our customer services. Although our operating surplus (£135.6m) and our retained surplus (£78.0m) were adversely affected by the pandemic, they are ahead of our March 2020 'Covid resilience reforecast' and our operating margin (32.5%) is ahead of budget.

Furthermore we have kept building, handing over 1,099 homes, and 96% of these are affordable either to rent or to buy, including 151 for social rent and 434 for affordable rent. Because we have stuck to our plan, we saw 474 new homes for shared ownership give new customers the chance to start their journey towards home ownership. We are proud to say that the scale of our ambition around managing our assets and upgrading our stock to our new Sovereign Homes and Place Standard makes us a leading player in our sector. I look forward to our using our strength and growing reputation to help shape the policy environment in which we will be operating.

Our sector plays a vital role in achieving carbon neutrality - making a positive impact on the environment while also benefiting our customers.

Our passion for doing right by our customers is embedded at every level of our business.

Alongside sustainable financing, Sovereign is leading the way in creating new vision for an environmentally sustainable housing sector – something recognised by our investors. Decarbonising our housing stock and making a positive impact on the environment is a critical driver of our Strategic Asset Management plan – doing for our customers what no one else can do, taking them out of fuel poverty and reducing our carbon footprint. Alongside the investment we will make in biodiversity and moving to carbon neutral offices in the next few years, policy makers are starting to recognise the vital role this sector will play in achieving carbon neutrality by 2050. Our first Environment Social Governance (ESG) report, led by 48 principles established in the Sustainability Reporting Standard for Social Housing will lay out our commitments in more detail.

We've continued to engage with government and to respond to the significant new policy developments in the planning and social housing White Papers. As new planning policy emerges, we will continue to work constructively with government to ensure that the sector can continue to deliver the affordable homes the country needs. In implementing new policies on social housing we will be, in many cases, formalising best practice which is already in place.

Over the last twelve months we have added to the team by recruiting from inside and outside the housing sector, strengthening our leadership and benefiting from a broad range of experience. It was a pleasure to welcome Sally Hyndman to our Executive Board as Chief People Officer and see Nicole Sharp become our new Chief Operating Officer. I am delighted as well that Pamela Leonce has joined the board bringing expertise of many years from Inquilab, a BME housing association based in London. This is the team that will carry the business over the life of the next corporate plan and beyond.

We also said farewell to some colleagues, including Heather Bowman, Chief Operating Officer, who retired after almost 20 years at Sovereign. She joined us in 2001 and was on our Executive Board for 12 years, playing a massive role in making Sovereign what it is today. Her commitment to putting customers at the heart of all that we do is her lasting legacy to us and the sector.

This annual report necessarily looks back, reflecting on a year like no other. The way that Sovereign's people responded to the challenges of the pandemic has inspired me, and it is reflected in the strong performance set out in this report. But what inspires me even more is to imagine what we will do with this team, this vision, this passion, as we move out of the pandemic and in the coming year ahead. When tested we did not prove wanting, and that fills me with pride. We are committed to delivering on behalf of our customers both today and into the future.

Paul Massara
Chair

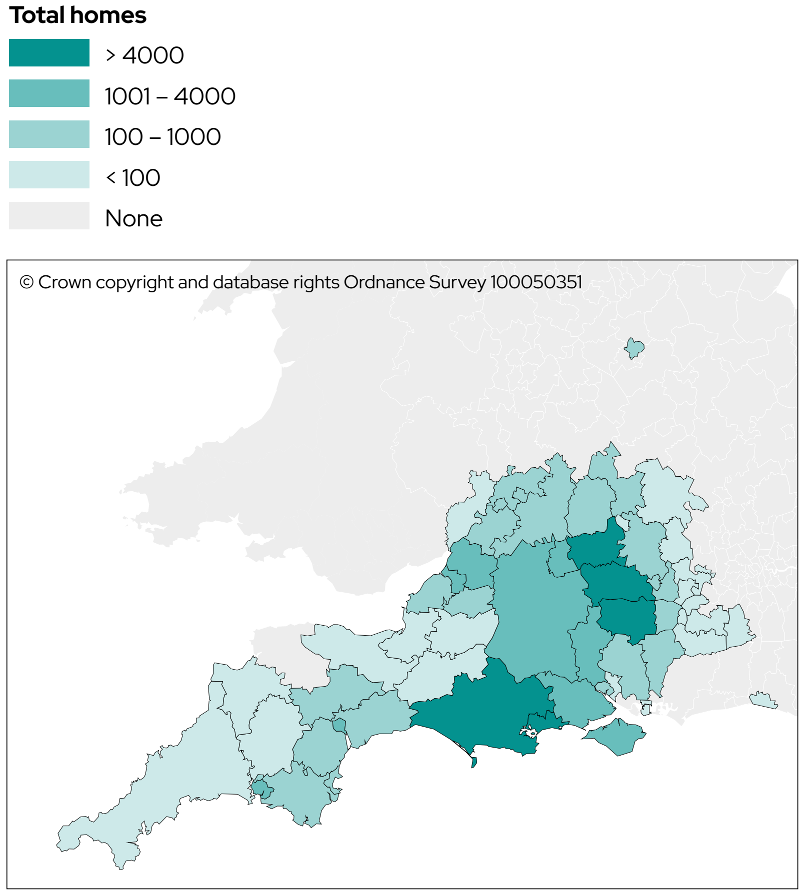
Beechfields, Torquay

About us

We are a leading housing association, striving to provide quality, affordable homes in happy, successful places.

We have deep roots in the south of England, with more than 60,000 homes focused in a core area covering Berkshire, Cornwall, Devon, Dorset, Gloucestershire, Hampshire, Isle of Wight, Oxfordshire, Surrey, Wiltshire, and the West of England.

We're driven by our social purpose, with customers at the heart of everything we do. We build homes and provide great services, but our work doesn't stop at the front door – we invest for the long-term, creating great places to live, working with our customers and partners to support them in realising their potential.



Our history, our future

Sovereign's origins began more than 30 years ago through the transfer of homes from West Berkshire Council. Through merger and building more new homes year on year, we have grown both in scale and ambition.

Our mission hasn't changed: we exist to provide homes for those that need them most. But our approach to meeting housing need is changing. Our aim is to increase our output to 2,000 new homes every year and we will continue to focus on those areas where housing need is clear, and our contribution will have the biggest effect.

But because we want to add to the overall number of homes, not just compete for a bigger share, we are moving to a land-led approach. We will still engage with the government's new infrastructure levy as it replaces Section 106 where we can. But even before the government said it would replace Section 106, we had made the strategic commitment that our development programme would be 50% land-led.

+2,000 more new homes every year

50% land-led development programme commitment

We don't just deliver one of the largest new affordable housing programmes in the country, we make great places too.

We don't just deliver one of the largest new affordable housing programmes in the country, we make great places too. As we implement our strategic asset management plan to implement our new Homes and Place Standard we are still keeping our promise to be a leading placemaker. Whether it's new build, conversions or regeneration schemes, we focus on design, quality and sustainability to make places people want to live, today and tomorrow.

We continue on our ambitious journey, one outlined in our corporate plan, which lays out what we want to achieve by 2024 and how we'll achieve it. We believe that what we do in the next three years will create the foundations for Sovereign's development over the next 30 years and beyond.

Left:
Play areas at Victory Oak, Ringwood.

Housing and planning policy: the external context

This year there has been a steady flow of policy announcements from government that affect our sector.

In the autumn of 2020, the government published two planning and housing White Papers:

- Planning for the Future
- Social Housing White Paper

Sovereign also responded to government consultations on fire safety, the future of shared ownership and planning on publicly-owned land.

In responding to *Planning for the Future*, we acknowledged the government's ambition to simplify the planning system. Measures to make planning processes more accessible, transparent and to introduce standardisation have the potential to provide for greater certainty around decisions and timings.

We can also see the benefits of ingraining high-quality design through national and – more importantly – local design codes, though we expressed concern about the practicality of applying them. Our principal concerns are around the government's proposals to replace Section 106 with a new Infrastructure Levy and the impact of the First Homes policy on provision of homes for social and affordable rent. The government states that the new levy should increase the supply of affordable homes and we know that Section 106 is not perfect. However, it is vital that whatever replaces it enables the sector to continue to increase the supply of affordable homes. As with much of the White Paper, we await further detail with interest.

The Social Housing White Paper – *The Charter for Social Housing* follows on from the 2018 Housing Green Paper, which was in large part published as a response to the tragic fire at Grenfell Tower and its aftermath. The White Paper's aim is to provide "greater redress, better regulation and improve the quality of social housing." Primary legislation will be needed to implement the proposals on building safety, complaints and landlord performance. There are also proposals on resident engagement.

We have considered the implications of the White Paper with our Resident and Board Partnership. We note that it recognises the link between public health and decent homes and we see it as an opportunity for the sector to develop and enhance best practice. There are provisions to improve transparency and accountability for our customers and recommendations around key performance indicators. Many of the recommendations of the White Paper formalise arrangements which Sovereign already has in place and improve the powers of the ombudsman to act on Sovereign's behalf.

We will continue to increase our influence on local and national decision making so that we can deliver on our corporate objectives, to build more homes and better places and to ensure our customers' voices are heard.

It is expected that the Draft Building Safety Bill will come into law later in 2021, with further regulations to follow in 2022 and 2023. We're engaged with others in the sector to help us prepare for this. The Fire Safety Act 2021 passed into law in May 2021. We have signed up to the Building Safety Charter, modelled on the Considerate Contractor Scheme, with a focus on changing leadership and culture in the industry.

We have continued to engage directly with government, MPs and local political stakeholders throughout the year. Our CEO Mark Washer met with the Secretary of State for Housing, Communities and Local Government along with other leading figures in the sector in January 2021.

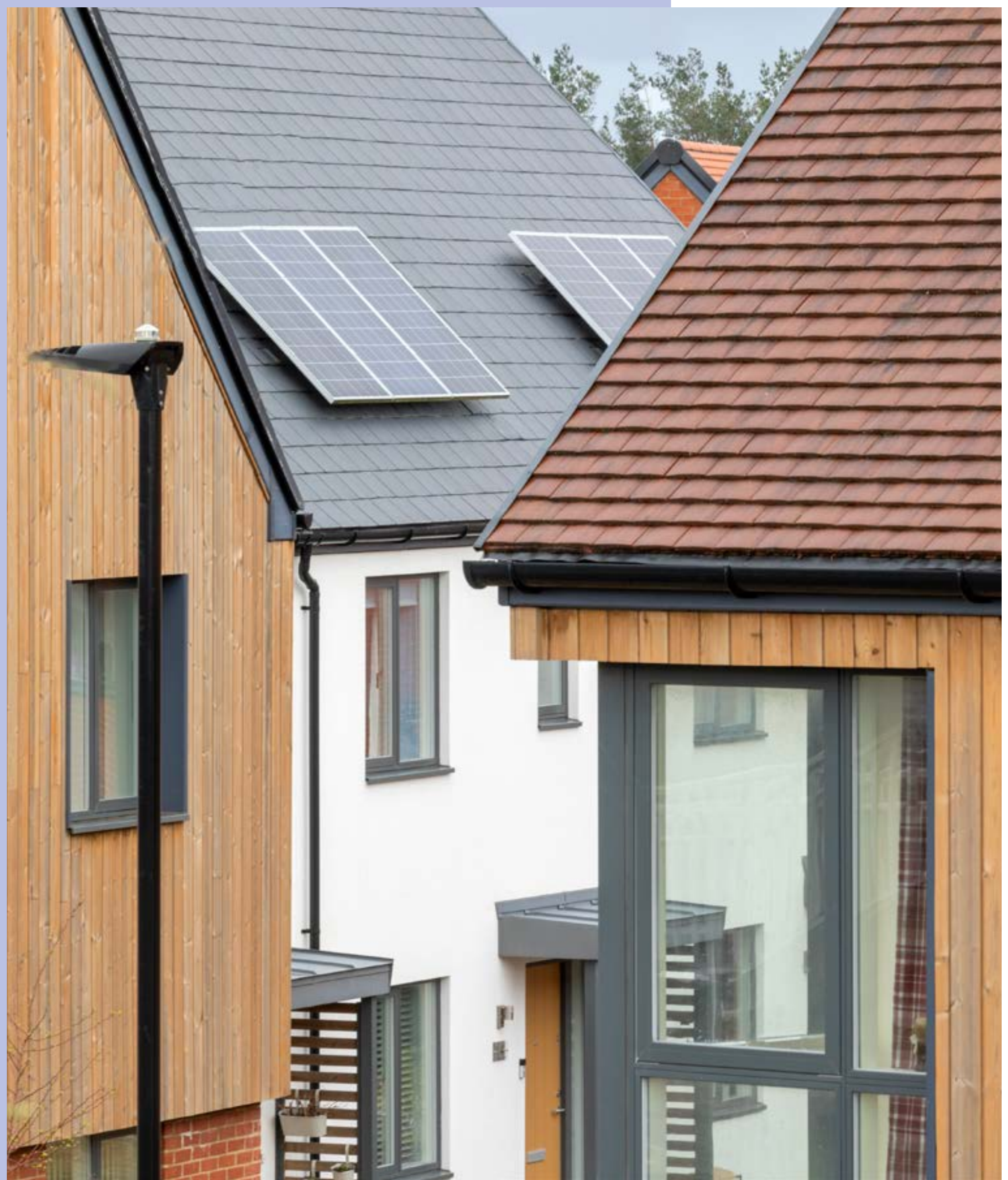
As a member of the National Housing Federation and of Homes for the South West we have met with senior policy makers in Downing Street, political candidates and think tanks. We will continue to increase our influence on local and national decision making so that we can deliver on our corporate objectives, to build more homes and better places and to ensure our customers voices are heard.

Above:
Development on site at Springfield Meadows, Oxfordshire.

Housing in a time of coronavirus

The Covid-19 pandemic has dominated the lives of every Sovereign customer and every employee. It is a mark of our strength as a business that we have not had to make anyone redundant because of the pandemic. And because our finances are fundamentally sound, we are still delivering against the objectives set out in our corporate plan. But our surplus was not as much as it would have been, mostly due to lower property sales. We completed fewer homes than originally planned, although we've outperformed compared with the initial reassessment we made at the start of the first lockdown.

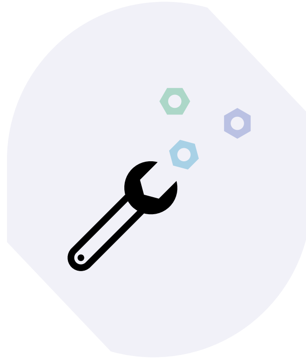
Below:
Homes will be designed to be flexible so they can meet the changing needs of households over the long-term.



Carried out **100,000** customer check-in calls in the first lockdown

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

Households unable to shield or isolate were more vulnerable. The contributing factors are complicated, but the link between housing and coronavirus is real.



More than **77,000** repairs across three lockdowns

Housed several long-term homeless households through **Housing First**

At the start of the lockdown, as the 2019-20 financial year ended, and the year covered by this report began, supporting our customers for whatever lay ahead became our top priority. We carried out 100,000 customer check-in calls in the first lockdown. We created a new partnership with the domestic abuse charity WomanKind and housed several long-term homeless households through Housing First. We brought forward £200,000 in community funding to help feed vulnerable people. We continued our essential visits at all times, making more than 77,000 repairs across the three lockdowns.

During the first national lockdown, and again in January 2021, we made the decision to suspend planned works, in both cases bringing them back as quickly as we could while protecting our customers' and our employees' safety.

As so many businesses have done in the UK, we quickly adapted to new ways of working, ensuring that people could work from home. As we return to our offices later this year we'll implement a truly flexible policy that enables people to make the most of the benefits of collaboration and teamwork in the office, but also take advantage of home working.

Coronavirus will continue to cast a shadow into the next financial year for us, and for all housing associations, in practical terms. There will be areas of work where will have to play catch-up. But the fundamentals of our plans for the future remain the same. In the longer term, the impact of the pandemic should force a rethink in aspects of housing policy in our sector and beyond.

For many households the lockdown will have prompted people to reassess their housing needs, where they want to live and what they need from a home. People's shopping habits and the value they place on spending time with their families may shift patterns of behaviour a little - or in some cases a lot.

Above all, the pandemic must force us as a society to address housing inequalities. We have long understood the link between poor housing and poor health outcomes. Areas with the some of highest death rates from the virus have the worst overcrowding in the country. Households unable to shield or isolate were more vulnerable. The contributing factors are complicated, but the link between housing and coronavirus is real.

The impact of the pandemic should force a rethink in aspects of housing policy in our sector and beyond.

Financial and delivery highlights

Highlights

In 2020-21, a year where our customers, communities and colleagues experienced the unprecedented impacts of the Covid-19 pandemic, Sovereign's financial resilience has been demonstrated through the delivery of a strong set of operational results with an operating surplus matching that of last year at £135.6m (2020: £135.9m) and overall surplus of £78.0m (2020: £79.3m). An increase in EBITDA MRI has been driven by lower activity in capitalised major repairs.

During the twelve months to March 2021, we completed 1,099 new homes, a slow down against our original plans, due to the pandemic, of which 1,059 (95.9%) were affordable housing tenures. We invested £216.5m (2020: £368m) in developing new homes.

Turnover has increased by 1.5%, driven by our social housing portfolio and open market sales, and thanks to strong development figures from the previous year, which contributed to new rental streams provided by new properties in 2020-21.

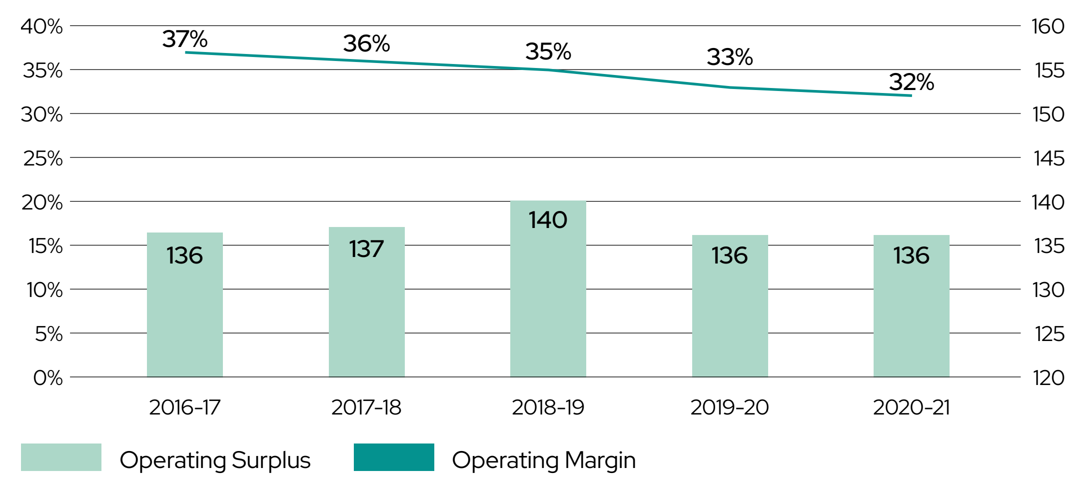
We continued to invest in our existing homes and the modernisation of our workspaces in addition to our commitment to invest in our people, digital and technology transformation to lay the foundations for future cost efficiencies.

Interest and financing costs have increased with the issue of the remaining £125m of a £375m public bond (originally issued November 2019) in the early part of the financial year. This bond strengthens our ability to further invest in new affordable homes in the south and south west of England.

Measure	2021	2020	Change
Operating surplus £m	135.6	135.9	0.2
Operating margin %	32%	33%	1.0
Overall surplus £m	78.0	79.3	(1.3)
EBITDA MRI £m	158.6	137.3	21.3
EBITDA MRI %	38%	33%	5.0

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

Operating Margin (%) and Operating Surplus (£m)



Above:
New homes at Frenchay Park, Bristol.

Turnover

Despite the detrimental economic impact of Covid-19 during the year, our total income increased in 2021, up £6.2m to £417.4m. A reduction in receipts from shared ownership first tranche sales of £14.8m to £61.0m has been more than offset by an increase in total social and private rental income of £14.3m and an increase in receipts for open market sales of £8.9m.

We completed 512 (2020: 648) shared ownership first tranche sales, five intermediate market rent sales (2020: nil) and a further 28 open market sales in the year (2020: 16). Net margins on overall sales (including asset disposals) have reduced to 19.7% from 23.5%, but despite the fall in margins there is still a relatively strong market for existing and new affordable and market rent properties.

Social housing rent income has increased by £13.5m, driven by new homes and improved occupancy rates.

Turnover (£m)	2021	2020	Change
Social housing rent	325.4	311.9	13.5
Other social housing income	2.0	2.0	0.0
Shared ownership first tranche sales	61.0	75.8	(14.8)
Open market sales	16.5	7.6	8.9
Private rent	11.9	11.1	0.8
Other non-social housing activities	0.6	2.8	(2.2)
Total	**417.4**	**411.2**	**6.2**

Operating costs

Our operating costs have increased by £9.2m to £225.3m (2020: £216.1m) driven by an increase in maintenance costs, offset partially by lower management costs. The overall increase in 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

We continue to focus on efficiency improvements, as demonstrated by a reduction in the social housing cost per property from £3,357 in 2019-20 to £3,262 in 2020-21. Despite the Covid-19 pandemic we have continued to invest in existing homes as part of our corporate plan whilst continuing to look for ways to be more efficient, through further reducing administration costs and improving processes. Management costs have reduced due to lower activity and lockdowns, bringiing lower facilities and employee costs.

In Q3 2020-21, we launched an organisation-wide, multi-year cost efficiency programme 'Fit for Growth', which aims to identify further sustainable efficiencies through procurement savings, process improvements and eliminating unnecessary activities. The aim is to deliver an overall 10% reduction in our operating costs by the end of 2023-24. This will enable more capacity to reinvest in front line services supporting our existing and future residents – and to provide more quality homes and great places to live, whilst delivering value for money.

Operating costs (£m)	2021	2020	Change
Social housing activities			
Management costs (excl. depreciation)	64.3	70.9	(6.6)
Maintenance costs	102.0	85.3	16.7
Other costs	5.6	7.7	(2.1)
Non-social housing activities	7.4	9.9	(2.5)
Depreciation	46.0	42.3	3.7
Total	**225.3**	**216.1**	**9.2**

Above:
Integrating new architecture into existing historic features.

Other costs and activities

The Covid-19 pandemic and subsequent lockdowns have impacted the surplus from sales of housing assets (disposals classed as property, plant and equipment rather than stock), which decreased by £2.5m to £8.2m (2020: £10.7m). The prior year was positively impacted by land sales to joint venture partners, strong activity in shared ownership staircasing and Right to Buy programmes, as well as the sale of some non-core property assets.

Statement of Comprehensive Income (£m)	2021	2020
Turnover	417.4	411.2
Cost of sales	(66.6)	(68.6)
Operating expenditure	(225.4)	(216.1)
Sale of housing properties	8.2	10.7
Movement in fair value of investment properties	2.0	(1.3)
Operating surplus	**135.6**	**135.9**

The Group Statement of Financial Position

We continue to report a strong balance sheet position with net assets increasing to £1.9bn. At March 2021, fixed assets totalled £4.3bn (2020: £4.1bn) an increase of £142m on the previous year, reflecting the continuing investment in both new and existing homes.

Sovereign remains in a strong financial position with net debt remaining at £1.9bn and available cash of £63m and committed liquidity facilities of £667m at the end of March 2021, providing sufficient liquidity to support both our operational cash requirements in response to Covid-19 and our short-term future development plans.

Our interest and financing cost was £63.3m, an increase as we locked in long term low fixed rate debt which increased our level of available cash and liquidity, we used part of these funds to repay cheaper variable rate debt.

Cash and short-term investments have decreased to £63m (2020: £72m), but remains at a high level, 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.

Statement of Financial Position (£m)	2021	2020
Fixed assets	4,254.1	4,111.7
Current assets	178.5	198.1
Creditors amounts falling due within one year	(171.2)	(147.1)
Net current assets	7.3	51.0
Creditors amounts falling due after more than one year	(2,402.6)	(2,376.7)
Total net assets	**1,858.8**	**1,786.0**
Income and expenditure reserve	1,562.1	1,498.6
Other reserves	296.7	287.4
Capital and reserves	**1,858.8**	**1,786.0**

Cash flow

The operating cash flow at £175m was up £55m on last year (2020: £120m). The sale of properties held as stock, absorbing cash at the beginning of the year and no significant new loans to joint venture partners has significantly improved the impact of changes in working capital.

We also continued to invest in more homes and better places with net cash outflow from investing activities of £134m in 2021 (2020: £217m). The reduction in cash outflow compared to 2020 was impacted by the Covid-19 restrictions imposed on the construction industry during the various lockdowns, which reduced the scale and pace of development. Purchases of tangible fixed assets, nearly all of which being new housing development, reduced by £100m to £194m as a consequence (2020: £294m).

During the year, the sale of 551 new properties generated receipts of £78m (2020: £83m) which is included in operating activities..

The restrictions in capacity on development sites curtailed the number of new properties delivered and being currently developed. As a result, operating activities were able to cover any development spend, and net debt increased by just £5m to £1.94bn.

Cash flow (£m)	2021	2020
Net cash inflow from operating activities	**175.3**	**119.5**
Cash flow from investing activities		
Net cash flow from jointly controlled entities	0.5	2.7
Purchase of other fixed assets	–	(0.8)
Purchase of tangible fixed assets	(193.6)	(294.4)
Proceeds from sale of tangible fixed assets	26.9	25.4
Grants received	31.1	47.4
Interest received	0.7	2.3
Net cash from investing activities	**(134.4)**	**(217.4)**
Cash flow from financing activities		
Interest paid	(73.6)	(61.9)
Interest element of finance lease rental payment	(0.2)	(0.3)
Movement in collateral deposits	2.0	(0.7)
Net new borrowing	21.9	188.1
Finance lease rental repayments	(0.3)	(0.3)
Net cash used in financing activities	**(50.2)**	**124.9**
Net change in cash and cash equivalents	**(9.3)**	**27.0**

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 customers 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 opposite, published by the Regulator of Social Housing in May 2021, demonstrates how Sovereign performed against the averaged quartiles of over 250 Registered Providers with over 1,000 homes under management in 2019-20 and Sovereign's performance for 2020-21.

Sovereign's performance for 2019-20 was upper quartile on six measures and median on three, demonstrating strong VfM performance relative to the sector, but with opportunity for improvement. The three measures where we are median (with a tolerance of 5% from the median value) were reinvestment, gearing and return on capital employed. These measures are determined by development activity, which was expected to increase significantly but this has been suppressed in 2020-21 due to the pandemic. Sovereign's performance in 2020-21 continues to be strong within the sector despite the unprecedented impact from the Covid-19 pandemic. Sovereign has demonstrated financial and operational resilience during 2020-21 prioritising the needs of our customers whilst continuing to deliver against its strategic aims.

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

For more information on Value for Money please visit our website to view our 2020-21 Value for Money statement.

We want to:

- Ensure that the organisation operates as efficiently, effectively and economically as possible in order to deliver the best outcomes for customers.
- Meet a wide range of housing needs, through the delivery of new homes as well as making the best use of our existing homes.
- Maximise the number of new homes we deliver, to help tackle the country's housing crisis.
- 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.

Image:
Outdoor play spaces at Tadpole Farm, Swindon.

VfM Metric Tables	2019-20				2020-21
	Lower Quartile	Median	Upper Quartile	**Sovereign**	**Sovereign**
Reinvestment	4.9%	7.2%	10.0%	**7.6%**	**5.0%**
New supply social	0.7%	1.5%	2.4%	**3.0%**	**1.9%**
New supply non-social	0.00%	0.00%	0.15%	**0.11%**	**0.07%**
Gearing	33.0%	44.0%	54.7%	**45.3%**	**44.4%**
EBITDA MRI interest rate cover	126%	170%	227%	**205%**	**220%**
Headline social housing cost per unit (£'000)	4.86	3.83	3.34	**3.36**	**3.26**
Operating margin social housing lettings	20.8%	25.7%	32.3%	**34.8%**	**34.2%**
Operating margin overall	18.1%	23.1%	28.6%	**30.4%**	**30.5%**
ROCE	2.6%	3.4%	4.4%	**3.3%**	**3.2%**

Operating margin does not include asset sales or fair value movements.
Source: Regulator of Social Housing's annual report 'Value for Money metrics and reporting 2020', housing associations with >1,000 homes under management

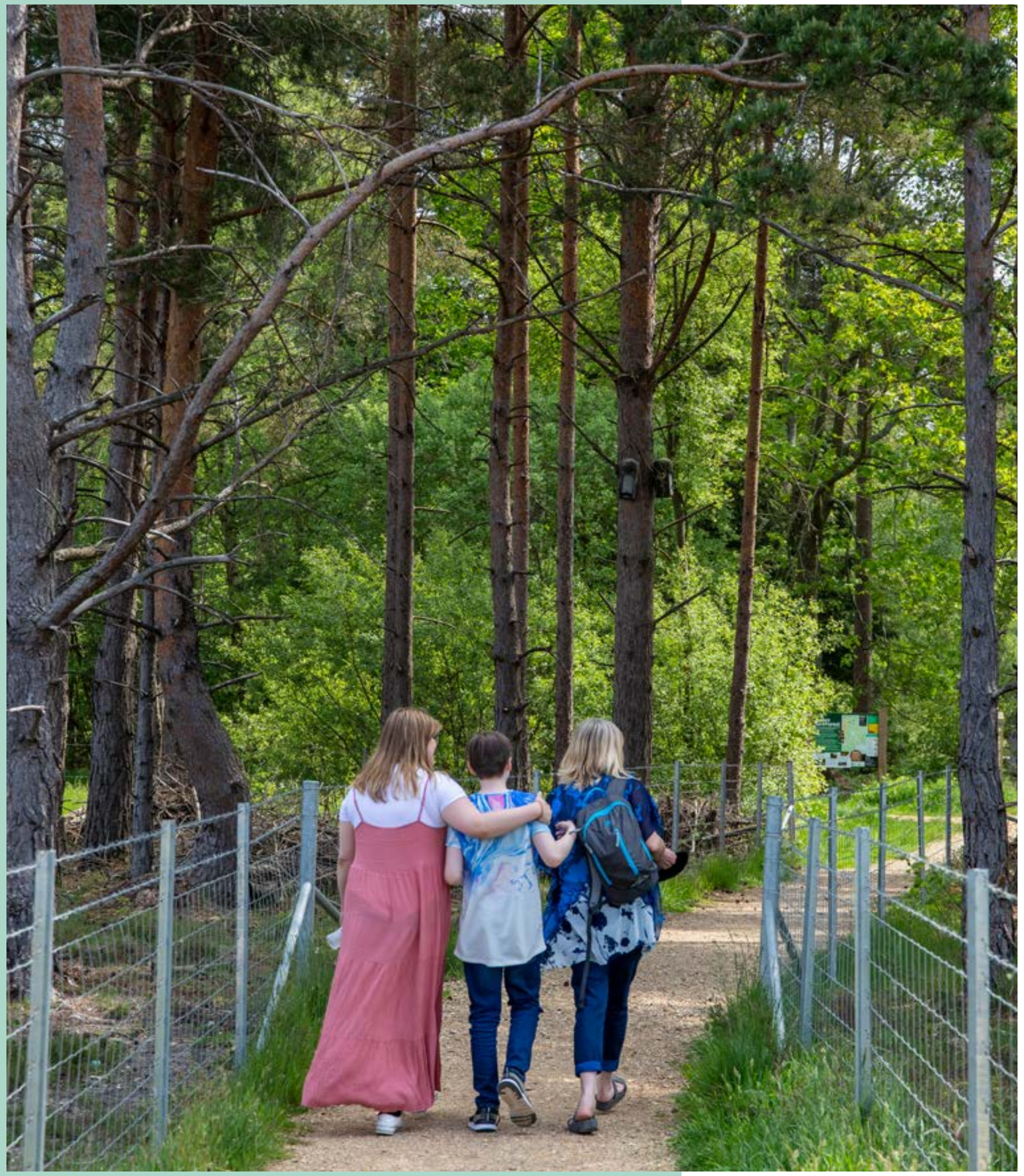
Quality services, more opportunity

Quality services, more opportunity

We believe that customers will always come first at Sovereign and that residents will remain at the heart of what we do, today and tomorrow. Whatever the number of homes we own or build, what matters to us most are the people that live in them. Maintaining the safety of our customers and employees, while continuing to provide essential services was our priority through all lockdowns.

Adjusting our working practices, we made sure that we were there for our customers, making reassurance calls, maintaining safety and compliance standards and using innovative ways to communicate and carry out previously in-person processes from afar.

Below:
Enjoying woodland close to Victory Oak, Ringwood.



We strove to deliver excellence even while our service offer was limited.

Our customers' trust in us has gone up from 8.1 to 8.3 out of 10, we believe reflecting the fact that customers recognised our commitment to running essential services.

1,500
customers gave us STAR feedback this year

68.9%
approval for getting things 'right first time'

Delivering for our customers

We want our customers to have a great experience with us, living in a community where they feel safe and welcomed. Our customers are the reason we exist, and as we embark on the next phase of our corporate plan, developing new homes and regenerating our existing neighbourhoods, it's improving that quality and shaping those communities that will continue to inspire us for generations to come.

Our newly launched Customer Impact Strategy (CIS), which incorporates many of the recommendations made in the NHF Together with Tenants strategy, will help us deliver the best customer outcomes in a changing world.

Built around nine customer outcomes – the strategy examines what we and our customers want to feel about Sovereign. We want to embed a 'culture of customer' that drives our people across the organisation to take ownership, to care, and to really listen. In setting ourselves clear measurements and targets we'll know we're on the right track.

Customer surveys

Although customer satisfaction ratings fell across the UK in many different sectors, we are proud that our customer satisfaction rating of 81.3% held steady and our trades teams carried on working throughout to keep our customers safe.

Our quarterly Survey of Tenants and Residents (STAR) surveys ask customers to rate us based on a range of factors. Over 1,500 customers took part this year, with their feedback enabling us to make constant improvements – we've seen an increase in support for us getting things 'right first time' up from 65.1% to 68.9% but we know there's more we can do.

At several points throughout the year, we moved to an 'emergency repairs only' footing and were unable to attend as many repairs as usual. Given the impact of Covid, it was not unexpected that satisfaction with our responsive repairs service fell slightly during the year from 90% to 85%. However, after this initial fall, satisfaction then went back up to 90% in the final survey of the year. This reflects a tremendous effort on the part of our in-house Property Services team to get work back on track.

One of the other measures we monitor is the effort we go to to get things right. Our effort score saw a slight dip from 2020, though this was forecast and is due to a new and improved way of measuring this criteria as we changed from 'ease of getting in touch' to 'ease of getting an issue resolved'. It is a tougher measure, but also a fairer way to gauge how well we are delivering our service.

Our extensive programmes of work will ensure our buildings perform how we would expect them to and keep our residents safe in the event of an incident.

5,188 electrical checks achieved

99.99% of all gas checks achieved

Keeping our customers safe

Following the tragedy at Grenfell Tower, how landlords listen, understand and respond to customer need has been at the top of the agenda when it comes to ensuring safety and rebuilding trust.

Making sure we were on top of all essential emergency works required to keep our customers safe was a high priority. 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.

In 2021, we achieved 99.99% of all gas checks, with just two properties unreachable as customers were shielding – which have since been completed. We also achieved 5,188 electrical checks and 6,220 tests and assessments were carried out for legionella.

Work on fire prevention methods also continued in many of our properties with £9.7m invested in fire safety over the year.

We've completed a significant amount of work to ensure our customers who live in blocks of flats are safe from fire risk. With a focus on our taller buildings we know and understand the detail of all our external wall finishes and have carried out compartmentation surveys in all these blocks. Our extensive programmes of work will ensure our buildings perform how we would expect them to and keep our customers safe in the event of an incident.

The Primary Authority Hampshire Fire and Rescue visited our taller buildings for the second year running and endorsed our approach. We're keen to implement change ahead of future legislation and there are a number of areas we've strengthened over 2020-21.

Along with improvements to the buildings, these include conversations with any customer in a taller building who can't evacuate in the event of a fire - to support them in the action they need to take. We've provided information to local fire and rescue services, and have installed special signage to help the rescue services respond in the event of an incident.

We've also signed up to the Building Safety Charter to demonstrate our commitment to ensuring that buildings are safe for those living and working in them, and to protect life by putting safety first.

1,000
Evacuation plans for elderly or vulnerable customers living in flatted schemes

100%
of lifts had an in-date inspection

Left:
Checking the safety of our buildings.

Customer journey mapping

Customer journey mapping is about 'taking a walk in our customers' shoes'. We map a customer's experience of a particular service and come up with ideas of how we can improve it, highlighting where things are going well.

This year, our customer-led Scrutiny Group mapped journeys for customers who pay an extra charge for services like grounds maintenance and communal cleaning, as well as taking a look at our anti-social behaviour service.

Service charge:
- Hosted three workshops
- Customer feedback exercise for 63 customers and 15 employees
- Recommended 13 service improvements

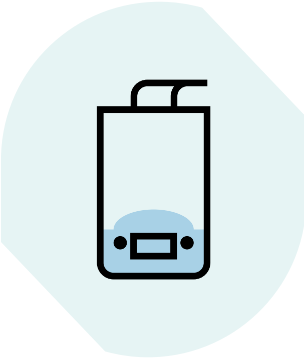
Anti-social behaviour service
- Hosted three workshops
- Customer feedback exercise for 33 customers and 8 employees
- Recommended 11 service improvements

In 2021-22 we will be investigating shared ownership staircasing and our resales service, our keyworker rental service and the type of experiences people have when they buy a new home from Sovereign.

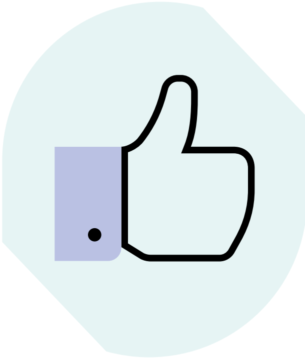
11
recommended service improvements for anti-social behaviour

6
workshops hosted by our customer-led Scrutiny Group

Maintaining the safety of our customers and employees, while continuing to provide essential services was our priority through all lockdowns.



More than **2,000** outdated gas boilers and electric heating systems replaced

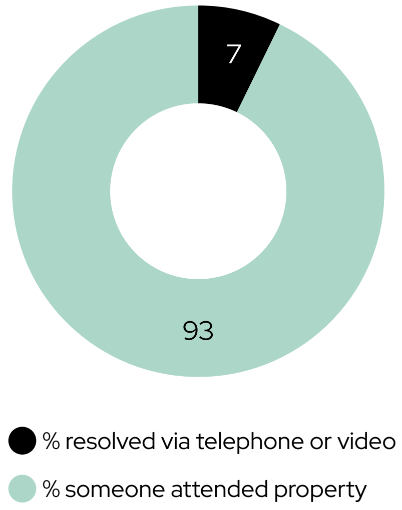


86.6% of repairs completed Right First Time

This year we trialled a 'remote fix' service where our gas engineers supported customers over the phone. Early indications are that this service is of value and we are looking at wider roll out later this year.

- Of the 315 people that participated in our pilot 57% were happy to use a video call so we could see the issue in their homes, with the others talking to us on the phone.
- The virtual assistant has been used to complete a full conversation 291 times in 10 weeks (10 Feb – 18 April).

'Remote fix' service



Keeping works on track

Our tradespeople continued to respond to customers to make our homes safe and better, attending almost 190,000 repairs in 2021.

Despite the challenges presented by Covid we were also still able to carry out a range of planned investment works for our customers, including using the time when we were locked down to move our response team onto work in our empty homes, where we could continue making homes ready for new customers, while still observing social distancing measures.

Although work on window and door and kitchen and bathroom replacements slowed dramatically, we did manage to continue with replacement work on more than 2,000 outdated gas boilers and electric heating systems, making use of government funding to fit 38 air source heat pumps.

We also sent out our surveyors to conduct tree surveys – noting those that needed attention and mapping them all onto our databases for future reference – that's more than 30,000 trees across our geography.

Right:
Our people were available for emergency call outs throughout the pandemic.

57% of gas trial customers used a video call so we could see the issue in their homes

Virtual assistant completed **291** full conversations in 10 weeks

Above:
Tradeswomen working together to support our customers.

We're increasing the size of our Apprenticeship and Trainee programmes over the next two years, with plans to more than double our intake.

One of our own won 'Apprentice of the Year' a second year running

5 of our 26 apprentices and improvers are women

Learning on the job

Our successful Apprenticeship and Trainee programme in Property Services saw all eleven of our apprentices complete their training, and go on to become 'improvers' despite the real challenges of virtual learning and assessment. We held a graduation and celebration ceremony for all apprentices and trainees and this year one of our own won 'Apprentice of the Year' a second year running at Basingstoke College of Technology.

We're increasing the size of the programme over the next two years, with plans to more than double the number of apprentices and trainees we take on, providing them with first class training and development at our new hub in Greenham, Berkshire.

This modern training facility, and the potential for partnership with local colleges, will offer the very best in training and development. We are also committed to expanding our Women in Trades programme and, through partnership with Women into Construction, we'll increase the number of women beginning trades careers and joining our programme. At the moment, five of our 26 apprentices and improvers are women, and across the department we have 3.5% female employees. We are aiming to bring this to 7% by 2023.

In the last year, we delivered programmes to support our customers to develop new skills and to secure lasting jobs, including enterprise support that gave 100 people access to tailored support and mentoring to start or grow their business.

Supporting our customers into employment

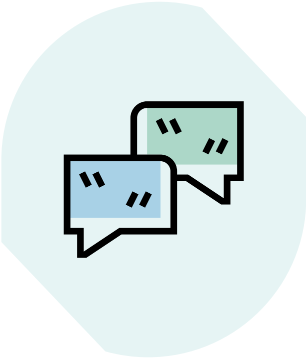
Our Employment and Training team works to support our customers to gain access to guidance, training and sustainable employment opportunities that help them to reach their full potential. The team provides a bespoke, professional service that is accessible, relevant and responsive to customers, regardless of where they live or their background.

In the last year, we delivered programmes to support our customers to develop new skills and to secure lasting jobs, including enterprise support that gave 100 people access to tailored support and mentoring to start or grow their business.

We also set up employer-focused training in sectors such as care and customer service and developed a comprehensive on-line offer to support customers' to develop functional IT skills, as well as offering vocational training and access to health and wellbeing services.

In January 2021, we launched our Skills for Work programme in partnership with Southern Housing, using a £100k grant from the European Social Fund. This innovative programme will provide 100 of our unemployed customers on the Isle of Wight with advice, guidance and employment and skills support.

Additionally, Sovereign will host 40 Kickstart placements in 2021, offering disadvantaged young people in our communities an exciting chance to begin a career in housing.



Delivered advice and guidance to **1,944** customers

£2.02m match funding secured

£24m of social wellbeing created

Below:
Our Your Community Your Choice funding supported green projects.

Keeping communities together

Through our Thriving Communities strategy, we've boosted our funding from £1m a year to £3.5m over the next five years, leveraging an additional £2.02m in match funding.

For every £1 invested, we've found that there's a return of £10 in social value, calculated using the HACT social value calculator.

As lockdown began at the end of March 2020, the Communities management team quickly responded by repurposing £200,000 of community funds to begin emergency initiatives, including:

- The Greenham Trust Coronavirus appeal fund - West Berkshire and North Hampshire
- Crowd Funder pay it forward fund - covering the rest of Sovereign's geography outside of West Berkshire
- The Good Exchange Covid-19 emergency fund - rest of Sovereign geography
- £15k towards Trussel Trust Food Banks in the south of England.

These different arrangements supported 169 community projects, with more than 80,000 people directly benefitting from the funding. Working with partners meant that an additional £921,126 was match or crowd funded.

Projects were many and varied, for example Newbury Community Resource Centre was supported with £40,559 to deliver their Essential Household Goods Scheme, a programme from which many of our customers benefitted.

We have just short of 1,000 homes within a mile radius of Thatcham in Berkshire and charity Thatcham Youth received £587 from us to provide home art and craft packs for members as well stationery packs essential for home schooling.

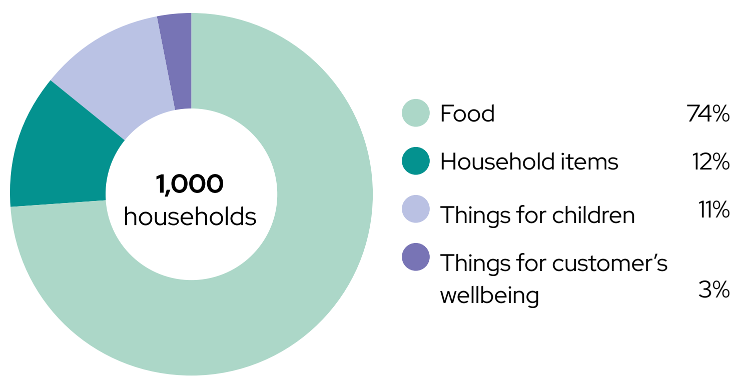
And Westside Community Association in Basingstoke aimed to encourage resident involvement in community activities and used £1,200 from us to continue their work providing emergency support via foodbank supplies, hot meals, prescriptions and grocery deliveries.

We also reached out to our customers with support vouchers: £50,000 was committed, with almost a thousand households using the scheme due to redundancy, furlough, reduction in hours, shielding or self-isolation as well as issues with benefit payments and the costs associated with home-schooling.

Those receiving the vouchers overwhelmingly spent them on food, but others bought craft kits, school and gardening supplies, music and books all designed to improve wellbeing.

We were also awarded a 'Covid19 Hero Award' in the Basingstoke 'Place to be proud of awards.'

How customers spent their support vouchers



Money matters

Our Money Matters service launched in June 2020, providing independent money and debt advice, support for those in fuel poverty, mental health support and budgeting to our customers via specialist agencies. Over the year 1,238 people accessed these services - and our independent money and debt advice service enabled customers to make savings of £31k by doing things like switching providers, or prioritising their spending differently.

We also provided 644 fuel vouchers, accessing external funding totalling £30k to help those struggling to pay their energy bills.

Getting everyone online

Our Digital Inclusion service enables our customers to make the most of the online world, by providing training, equipment and even connectivity through portable wi-fi devices.

Working with providers We are Digital and Learn My Way we helped 504 of our customers boost their abilities with tech and a further 368 people received equipment from us like iPads and laptops.

To help families with home-schooling during lockdown we also provided £25k in grants to schools. Additional pledged funding meant a total grants programme of £283k which provided 1,190 laptops for schools.

£283k in grants to schools to help families with home-schooling

504 customers used our Digital Inclusion service to boost their technical know-how

Left:
Housing First gives people who have been long term homeless a chance to feel safe and supported.

Our supported housing teams made thousands of reassurance calls to residents, providing guidance, support, signposting or just a friendly voice during challenging times.

Supporting the most vulnerable

This year we supported the UK government's 'Everyone in' campaign to support rough sleepers in the wake of the pandemic and the Next Step Programme, a scheme to provide more move on accommodation and prevent people returning to the streets.

We also worked with local authorities by extending our contracted temporary self-contained provision and offering direct lets into our homes. We formed new partnerships with local authorities, including West Oxfordshire and support partner Aspire to offer Housing First. Designed to support those experiencing long term homelessness in to their own homes – with wrap-around support we now have 23 Housing First customers, building towards our target of 50 Housing First homes by 2024.

Working with Basingstoke and Deane Borough Council we've been able to secure a Next Step Programme grant to create three more services for single homeless people. Uniquely, we've developed these with input from peer mentors who have experienced homelessness and with psychologists from Southampton University who will work with us to ensure the well-being of our customers.

Finally, securing a five-year contract to continue to deliver accommodation and support to homeless young people at the Foyer on the Isle of Wight as well as accreditation from The Foyer Federation was a fantastic achievement.

We also continue to promote our work on homelessness at conferences, including for the National Housing Federation, Homes for Cathy and Inside Government, as well as contributing to four national research projects.

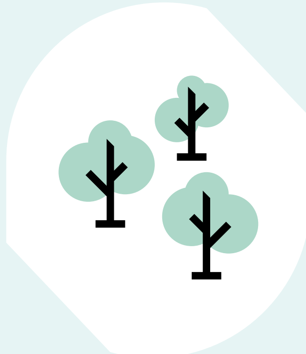
Offering supported housing accommodation for people to live independently is really important to us and includes provision for those with mental health needs, learning disabilities or care needs. We work in partnership with specialist support and care services to deliver our services.

Due to the vulnerability of our supported customers, many of them were particularly impacted by the pandemic. We took great care to adapt our services to keep them safe and to look after their wellbeing.

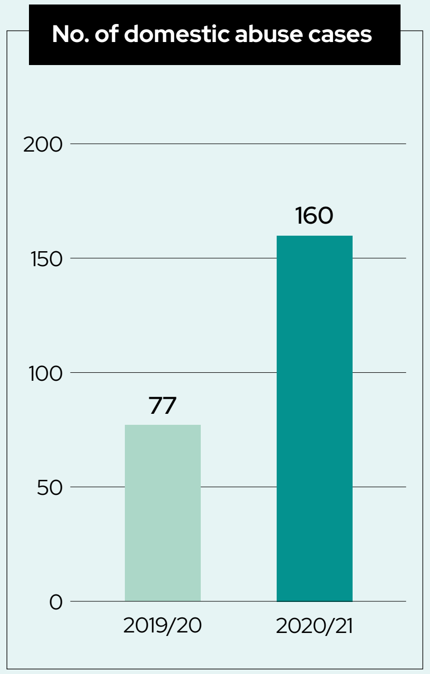
Our supported housing teams made thousands of reassurance calls to residents, providing guidance, support, signposting or just a friendly voice during challenging times.

We also worked to continue to provide online activities to keep our customers entertained, like art classes and our communities team distributed activity packs with puzzle books, sweets and other gifts as well as funding projects designed to encourage customers to get outside and get green-fingered.

23 Housing First properties support those experiencing long-term homelessness



9 environmental projects encouraged outdoor activity



“She was really understanding, a really good listener, but not too directive. It’s nice that Sovereign did that, as a housing association – because I wouldn’t have gone to look for support.”

Safe at home

At Sovereign we feel a strong sense of responsibility to support those who are affected by domestic abuse. The pandemic has been a catalyst to reshape our offer for our customers and employees to be more inclusive and progressive, endorsing a ‘whole housing’ approach.

Since April 2020, the number of domestic abuse incidents being reported by our customers has been, between three and six per week. The previous financial year had a total of 77 cases - we’ve seen an increase of 107% during 2020-21 to 160 cases.

Working with the charity Womankind we’ve supported women to make empowered choices around changing their circumstances, and the service has reduced waiting times for help by around a month.

We want to continue to develop our offer with specialist providers that cover all diversity streams, which will enable us to manage complex cases with the right kind of support for all our customers, whatever their gender or partnership status.

Outcomes for women participating in the service have been very positive:

- 59 referrals were made.
- 100% of clients completing ending evaluations showed increased mental wellbeing, scoring almost double their starting figures on the Warwick-Edinburgh scale.
- For some women who had been living with suicidal feelings, befriending has significantly reduced their suicide risk.
- For women who were self harming, befriending has helped them to develop healthier coping mechanisms to replace the self harming behaviours.

59
women supported through our partnership with Womankind

100%
of clients completing ending evaluations showed increased mental wellbeing

Above:
Providing homes for young families.

The housing ladder

In January, we launched our ‘Tenancy Ready’ web page which guides and supports customers looking for housing to get themselves in the best position, ready to take on a tenancy. In the first three months, the page received nearly 400 visits. As part of this programme we’ve formed a partnership with Yellow Brick Road, who provide support and training to young people looking for housing.

We have space for ten young people on the programme – they’ll be guided through topics like tenancy rights and responsibilities; employment and training; money management; and wellbeing.

Our expert tenancy support team also proactively makes around 800 calls per month to customers, as well as receiving referrals from around the business to support financial wellbeing. In the last year, more than 700 people were supported to open or make changes to Universal Credit accounts, as applications surged during the pandemic.

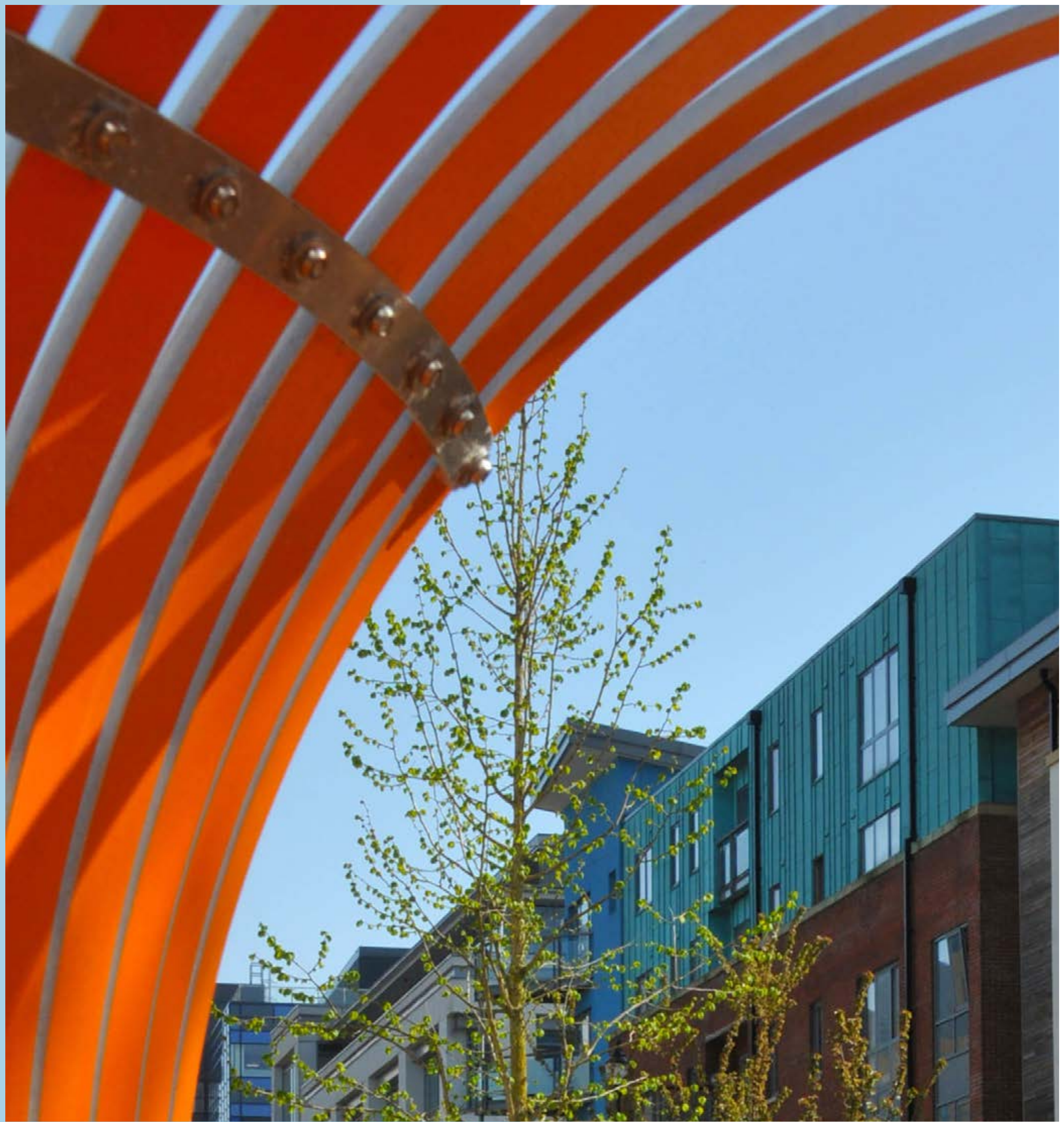
We now have around 15,500 customers in receipt of the benefit, and continue to support those making the move to the new system. Predicting the difficulties our customers might face with delays to payments enables us to support them through what might otherwise be a stressful transition.

More homes, better places

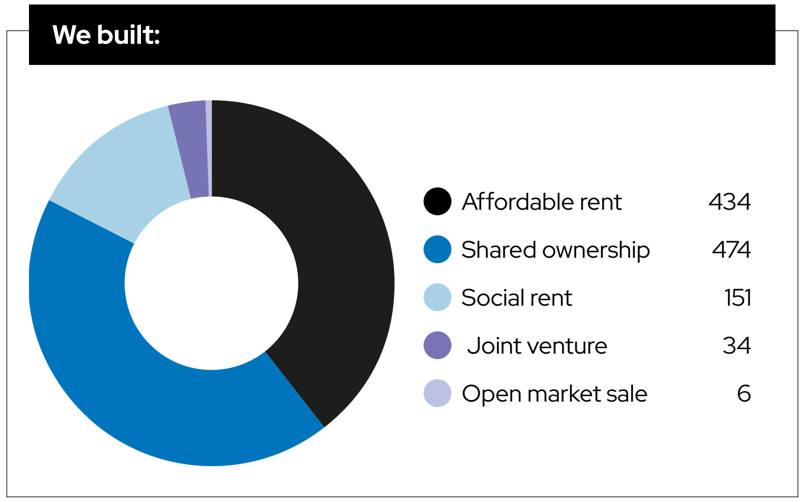
More homes, better places

The Homes and Place Standard marks Sovereign's commitment to building and maintaining good quality homes and better places to live. We're not only considering the homes that people live in, but the neighbourhoods that surround them - how they feel about where they live, and what is most important to them.

Below:
Providing great outside spaces.



The Homes and Place Standard will be applied to every Sovereign home. It provides the basis of a brief for architects to describe the sorts of houses and flats we will be build, including our approach to infrastructure, energy and carbon reduction.



Homes and Place Standard

The Standard promotes affordable homes of all tenures, which enhance wellbeing for people in every stage of life. It will ensure that our homes are built to last, adaptable, sustainable, and enjoyable to live in. We understand our responsibility to future generations – those who will inherit the built environment we are investing in today. The Standard is explicit about the need to build in a way that is sustainable and to build homes that can be sustainably maintained. Our homes will help people move towards zero carbon, reducing energy and water use and saving money.

The Homes and Place Standard will be our guide, but the Strategic Asset Management plan will be how we deliver it. The traditional approach to asset management has its limits. Replacing homes here and there, as and when, might have worked in the past. But our customers expect and deserve quality homes and we have a duty to improve our overall sustainability and reduce our carbon footprint. The age of our stock is another factor – we need to make tough decisions about whether some of our properties can be improved, regenerated or whether replacing them will deliver better long-term quality for our customers.

For Sovereign, the Strategic Asset Management plan represents a step-change in the way we invest in and develop our homes. It is the culmination of many years' work building up a strong asset base, a solid credit rating and a reputation as a trusted partner and quality landlord. But it is also a major undertaking, signalling a new phase in the life of Sovereign.

Over the last year, despite the Covid crisis, we delivered just under 1,100 new homes and continued to build our development pipeline to 7,000 homes. The majority of this pipeline was composed of Sovereign-led development - our own land purchases or partnerships with other developers. We made our first purchases of commercial portfolios with the plans to redevelop, creating new mixed use, mixed tenure communities. This is a prelude to further town and neighbourhood centre redevelopment, to meet the wider challenges of place.

Investment in homes is funded through the surpluses we generate – every pound we make in sales and rent is reinvested in new properties or improving and regenerating existing ones. In year, we began actively managing assets that were either not 'core to purpose' for example, commercial holdings, or garage portfolios and market-rented properties. We're also replacing homes no longer fit for purpose by releasing these to the market for owner occupation.

We have sought at every point to involve our customers in developing the Standard, as it was vital that it reflected what our customers need and want from the homes and places where they live. This included cooperating closely to co-create our approach to redecorating empty homes.

Working with Travis Perkins we developed interior design options where customers could pick paint colours and carpet types and we're now piloting choices made by customers in 20 homes, with another 30 coming up. We took a similar approach in developing our approach to new homes, using feedback from customers to inform decisions on materials, connectivity and the surrounding environment.

Rolling out our Strategic Asset Management Plan

We've begun the process of grading all of our homes against the new Home and Place Standard and expect to complete that work this summer, when we'll start detailed conversations with local authorities, the regulator, lenders and ratings agencies.

In some cases, conversations on specific projects are already underway. As with any complex property transaction we have to follow a prescribed planning process – that means we can't say everything to everyone all at once.

We know that lots of people will have questions about the impact that the Strategic Asset Management plan has on them, in our organisation, in the community and amongst our stakeholders. But above all we know that our customers will want to know how this will affect them and their homes. We expect that the vast majority of the properties we sell will be sold as they are vacated – very few customers will have to move home. But communication of specific plans will need to be sensitive and timely.

Just as customers will want to be kept fully informed of the impact that the Strategic Asset Management plan will have on them, local authorities, MPs and community leaders will want confidence that their local areas will continue to have the homes they need. In any given area our plan will seek to meet local need, adding social value and creating great homes and places. For some schemes there will be a time lag as we sell, replace and build; over the life of the plan we will be steadily increasing the number of affordable homes available.

For Sovereign, the Strategic Asset Management plan represents a step-change in the way we invest in and develop our homes. It is the culmination of many years work building up a strong asset base, a solid credit rating and a reputation as a trusted partner and quality landlord. But it is also a major undertaking, signalling a new phase in the life of Sovereign.

Social value reflects the positive impacts that come from our investment of time, energy and money.

Our approach to ESG

Housing is the second largest emitter of carbon in the UK after transport, with many homes poorly insulated, and ill-equipped for the future.

As one of the largest housing providers in the south of England we recognised the need to work closely with others to develop a recognised framework for reporting on Environmental Social and Governance (ESG) standards.

That's why we joined The Good Economy-led initiative which published a White Paper in May 2020: UK Social Housing: Building a Sector Standard Approach to ESG Reporting.

Working with fellow housing associations, the investment community, service providers and others in the sector, we developed a Sustainability Reporting Standard for Social Housing which ties in directly with UN Sustainable Development Goals.

Our Sustainability Strategy took these goals as a starting point and we have linked these to how we meet Environmental and Social Governance (ESG) obligations.

We're releasing a detailed ESG report that matches our achievements to 48 key points that show our commitment to improving our performance in these areas.

As we implement our Strategic Asset Management programme the assessment tool for the Homes and Place Standard will allow us to deliver in detail our broader commitments on achieving zero carbon overall. The Standard will also ensure we build in the right place, mitigating climate risks such as flooding, and boosting biodiversity.

Within our own structure we're also considering broader organisational environmental sustainability, with a Green Group made up from interested and passionate volunteers from a broad spectrum of departments across our business.

The ultimate goal of the group is to see a culture shift in the organisation where environmental impact is considered in all that we do on an individual and collective basis, from recycling to charging points, eco washing up liquid to reducing car usage.

Boosting eco communities

Many of our customers also want to do their bit for the environment. From #NoMowMay wildflower banks, to litterpicks and community gardens, we've funded or supported a wide range of projects.

Through Sovereign Communities Environmental Group, we aim to improve the environmental quality of our communities by partnering with community organisations and businesses to work together to create a clean, safe and happy place to live and work for everyone.

This group is currently working on projects in 29 neighbourhoods, and have collaborated with 10 external partners. By working in partnership with our customers on these projects, we create a sense of place and support them to shape the environment in which they live.

Procurement

We're looking to procure in a way that delivers efficiency and sustainability, with specifications that are future-proofed, focusing on creating more strategic relationships with our supply chain. This means embedding an ethos throughout Sovereign that maximises the success of environmental commitments made by bidders at the tender stage and includes continuous improvement initiatives in live contracts. We've embraced the concept of the circular economy, taking into account whole life carbon, reusing bricks and timber and embedding recycling.

Over the last financial year we've also worked with procurement consultants, Echelon to design a new Social Value Appendix for use in our tendering process. It's centred in HACT's Procurement Toolkit and drives the circular economy. We've started using the appendix with our materials contract valued at £10m per annum, as well as launching a partnership between Sovereign and The Social Value Exchange.

The Social Value Exchange is an online auction platform where bidding suppliers can make commitments of social value. The winning supplier links with community partners directly through the platform to fulfil commitments. Over the next 12 months, we'll procure £50m through this system.

Left:
Our homes at Springfield Meadows are negative carbon.

Placemaking

1 Blackberry Hill – Bristol
Working in partnership with Vistry and Bristol City Council, we are delivering 104 affordable homes in a scheme that also delivers retail and start-up business units, a community building, and green spaces. The regeneration celebrates Bristol's history, enhancing the heritage buildings while creating contemporary places to live. Community gardens, an arboretum, and wildflower meadows mean wildlife galore, with bird and bat boxes nestled in the trees.

2 Wapping Wharf – Bristol
This scheme of 93 shared ownership flats at the bustling Wapping Wharf in Bristol's harbourside is a vibrant development close to the city centre. The flats echo the area's heritage, we're proud to have created a real community feel, in partnership with developers Umberslade and Muse. Built around a courtyard, the homes have balconies and roof terraces with private outside space and views of the harbour.

3 Shalfleet Meadows – Isle of Wight
These 24 affordable homes – 13 affordable rent and 11 shared ownership – are on the first land-led site we've developed on the Island, that are in a rural location. We own and manage over 3,700 homes on the Isle of Wight and this development had investment of £650,408 from Homes England and £450,000 from Isle of Wight Council. Working with construction company Stoneham, we ensured local workers were used, including three apprentices and two work experience employees from the island.

4 Clifton Down – Bristol
The purchase of the multi-tenanted Clifton Down shopping centre and its 350-vehicle car park shows the step-change made in our approach to land-led development. The £27.2m deal from BlackRock UK Property Fund boosts our commercial property portfolio and will allow us to increase our development programme. In the medium and the long term there is the potential to redevelop the site to create a sustainable major mixed use development to include affordable and market housing.

5 Dorking Way – West Berkshire
80 new homes developed with Bellway, within five minutes' walk from the local supermarket, Ikea and other shops with quick access to the M4 and 10 minutes by car from Reading.

6 Bath Road – West Berkshire
Developed with small local builder, West Build Homes. 14 homes for social rent and shared ownership.

7 London Road – Hart
Croudace is building 250 homes on this site, of which 100 will be affordable. We have secured all the affordable homes in three phases and contract.

8 Reading Road – Vale of White Horse
Developer led by Ede, a small development of six homes.

9 Stonehams Farm – West Berkshire
Developer led by small local builder Darcliffe Homes. 26 homes for social rent and shared ownership homes.

10 Crown Yard – West Berkshire
A land-led site with developer EG Carter. We bought this site on the open market with outline planning consent. It's a former light industrial yard and residential bungalows. We are onsite building all 33 homes as affordable homes using Homes England Strategic Partnership Funding. Mark Washer met with local MP Laura Farris here in December 2020.

11 North East Didcot – South Oxfordshire
Developer-led with L&G/CALA Homes. 279 homes secured in one contract with a land charge and separate development agreements draw-downs.

Despite the challenges on the housing market and enforced pauses to customers moving home, shared ownership sales were strong: we did 512 shared ownership deals this year.

Below:
Stylish homes at Springfield Meadows, Oxfordshire.

Shared ownership sales strong

Despite the challenges on the housing market and enforced pauses to customers moving home, results for shared ownership sales were very positive for us this year, with 512 shared ownership home deals taking place.

We reviewed our ways of working and moved to an entirely digital process for home-buying, lining up virtual viewings and Covid-safe handovers. The move to online communication allowed our sales teams to spend more time in conversation with our shared ownership customers and we received some great feedback from our customers on their new homes.

Half of the homes sold were two-bedroom properties, a split of both apartments and houses. A further 30% were three-bedroom homes, 18% were one-beds and 2% were four-beds. Bristol, Basingstoke, Hart, Stroud and Dorset saw strong sales results across the board, with more than 50% of our sales achieved in these areas.

3%
rent arrears

98.2%
occupancy rates

512
shared ownership home deals took place this year

Top:
Flexible, open plan space at Steel Hill, Newbury.

Bottom:
A range of accommodation options at Tadpole Farm, Swindon.

We made a number of changes to our lettings service this year so we could continue to let our homes safely, including using key safes to allow customers to move out, and our Empty Homes Team to start making places ready as smoothly as possible.

Making lettings in innovative ways

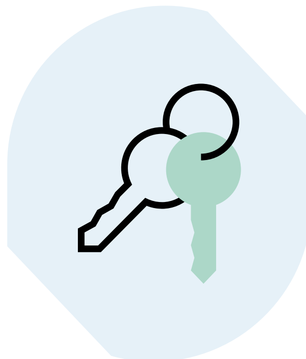
In October 2020 we changed our approach to the tenancies we offer to our customers and now only use fixed term tenancies on our four bed and larger homes.

This is because we are more likely to see a change in who's using our four bed and larger homes, as children grow up and move on. This allows us the opportunity to continue to free up larger homes for families in need, at the time of need and when those needs change we can help them find suitable alternative homes.

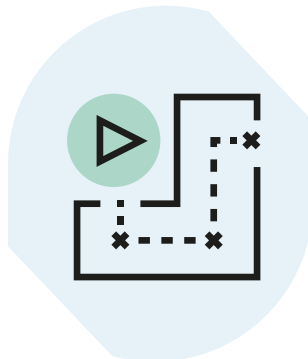
We made a number of changes to our lettings service this year so we could continue to let our homes safely, including using key safes to allow customers to move out, and our Empty Homes Team to start making places ready as smoothly as possible. This not only reduced travel time and time collecting and delivering keys, but meant that new customers could move in easily, and have a safe place to keep a spare key should they need it.

Introducing Docusign allowed our customers to complete forms and sign documents like tenancy agreements on their mobile phones, and we're also encouraging end of tenancy inspections via this route as well, with the option to share photographs. Nearly 60% of our homes were handed back 'virtually' last year.

We also trialled video walkthroughs of new homes, sending a private link to customers so they could watch the video via YouTube as many times as they liked, sharing the experience with others. We also now provide room measurements in the videos and we're piloting floor plans to support our virtual viewings too.



Key safes allowed people to move in and out safely and easily



Video walkthroughs of new homes were trialled for the first time

Strong foundations, more choice

Strong foundations, more choice

We're a business with a strong commercial brain and a beating social heart.

A place where people can bring their whole selves to work and be part of a thriving, inclusive working community. And where people are inspired to achieve more through excellent career opportunities plus recognition and benefits.

Below:
A warm welcome at Sovereign House.

Far right:
Keeping safe in Sovereign House.

We want to celebrate difference and demonstrate that a more diverse workforce is happier, more effective and more driven.

Where we work

Although lockdown delayed completion of our new headquarters, Sovereign House, in Basingstoke, until September 2020, and subsequent lockdowns have prevented our utilising this fantastic space, over the course of the coming months we're excited to say that at last people will be moving in and moving on with life.

As with all workplaces, many of our people have had to work from home this year in line with government guidelines. In October 2020, we set up a specific project to look at our return to the office and to ensure we do so safely. We've carried out risk assessments of all our offices and depots and we've reduced desk and meeting room capacity to maintain social distancing. We've also put in place new cleaning regimes, ventilation and a new desk booking system. We are providing lateral flow tests so that anyone who wants to work in the office can take a test first.

Earlier this year we paused Phase 2 of our Workplace Programme - which looked at how we will move from 22 offices to six major hubs - so we could appreciate the impact of the pandemic. The need for many of us to work from home has accelerated our thinking about where, when and how people work. As we move towards a hybrid model of more flexible working, our offices will continue to play a vital role enabling us to meet in a modern working environment which brings different teams, encourages collaboration and allows us to work creatively, productively and efficiently.

Pleasingly, work this year on our first operational hub at Greenham, Berkshire has moved on apace and we're on track to move in there later in 2021. This hub will bring our Berkshire, Hampshire and Oxfordshire property and housing teams together under one roof for the first time, making it easier for colleagues to deliver a great customer experience. As part of this hub we'll offer a training facility for trades and apprentices to support our ongoing investment and focus on developing our trades teams.

We'll use the coming year as a year of transition, using our return to offices as a catalyst, testing and learning as we go. This will also shape how we develop some of our smaller locations.

All of our new sites will have electric charging points

Sovereign House is BREEAM rated excellent

We must do more with the data we gather, using it to identify trends and to see round corners so that we can anticipate customer need.

Left:
Space to relax in Tadpole Farm, Swindon.

Right:
The roll out of Dynamics 365 links up our services.

Gathering insights

We are making good progress in our aim to use our data to generate insights so we can better understand our customers. Fundamental to data use is appropriate security and governance and we've defined frameworks which ensure our data is well managed and used consistently.

We're working towards integrating all our data into a secure, centralised system and our ultimate aim is to have consistent information flowing throughout the company, placing quality data at our fingertips and making it accessible to our customers and stakeholders. This will create the much-vaunted 'single version of truth'.

Using industry-leading reporting tools we're bringing our data to life, enabling us to understand historic and current performance and using artificial intelligence to model the future.

A great example of this is the way that we were able to respond to the unprecedented rise in the number of our customers moving to Universal Credit during the pandemic – three and a half times more in April 2020 than in a usual month. Forecasting new claimants helped us understand the impact on future workloads for Income, Finance and Contact teams, helping them to plan ahead to 2024.

We are also using data to support our wider sustainability strategy. We commissioned research into homes in Bournemouth where issues with energy use and heating had been identified, using machine learning to find correlations in the data. This showed where we can use data to help Sovereign's approach to decarbonisation and tackling fuel poverty.

We also use maps to bring our data to life and we invest around £30k in our Geographic Information System each year to help us understand more about our operating area. We map everything from the condition of trees in our communities to customer service satisfaction. This window into our customers' worlds keeps growing as more users start to digitise their data.

£30k
invested in our GIS platform each year

3.5x
more people moved to Universal Credit in April 2020 than in a usual month

Digital transformation

This year we've focused on enabling business change using digital technology. We have created a dedicated digital team within our CIO function, nurturing talent within the organisation and recruiting new team members. Strong partnerships with Microsoft, HCL, PowerObjects and MMT Digital mean that together we are continuously measuring product value and business benefits and we working to get our priorities right. Digital delivery over the last 12 months included the rollout of Dynamics 365, a website consolidation programme and investment of £950k in cloud services via Microsoft 365.

We have focused on product usability and accessibility, ensuring colleagues and customers can engage with digital services that are designed to be inclusive. We strive to embed a culture of continuous improvement in products to promote increased customer engagement.

This year we will launch a range of interactive self-help and chatbot tools, all focused on smarter homes. These products enable customers to understand what type of heating they have in their homes and will offer them more direct control over easy fixes.

An accelerated rollout of Microsoft Teams enabled colleagues to stay connected through the pandemic, supporting different ways of communicating, including a move away from a siloed approach. Cross-functional teams have emerged, reinforcing the importance of collaboration across the business in designing services end-to-end.

We are also implementing a Modern User Experience change programme which will enable us to work from anywhere with increased trust, productivity and satisfaction. We want digital technology to be more than a buzzword, instead recognised as a key enabler of positive change for our customers, colleagues and in our communities.

An accelerated rollout of Microsoft Teams enabled colleagues to stay connected through the pandemic.

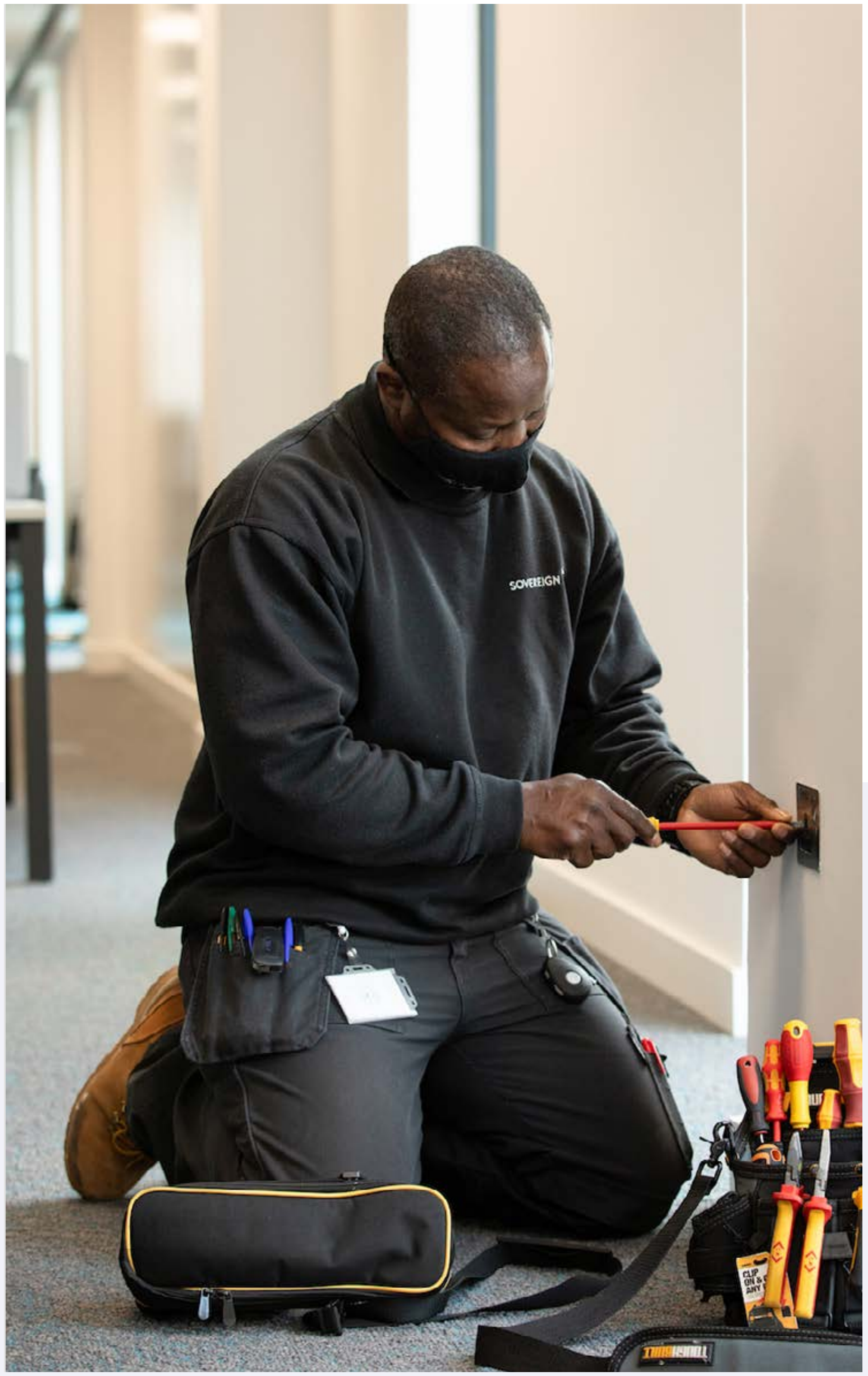
Getting everyone online

Bringing our Board meeting online as well as meetings for our Youth Housing Forum meant we saw great engagement throughout the year. We've also seen another uptick in those using our portal to carry out simple changes to their daily lives, like asking to keep a pet or paying their rent.

We've also stayed busy on the phones and email, taking more than 450,000 calls across the year.

93.2k total emails

450k total calls



86.7k total social messages

6.4k new portal registrations/migrations

Equality, diversity and inclusion

This year marked a milestone in our development and understanding of equality, diversity and inclusion (EDI) in the workplace. We used the time to pause and reflect on why EDI is important to us, and to consider our own approach to it.

We've always striven to create a culture which reflects our values and delivers a great customer experience. But we know that by having more meaningful engagement on EDI we'll gain a better understanding of our customers' needs. We also know we'll perform better as an organisation, attracting the best talent as we build a more diverse workforce. This year we have developed a new approach to EDI aimed at taking bold actions to achieve these ambitions.

In June 2020, the murder of George Floyd focused the world's attention on race and inequality. We provided a strong position statement in support of the Black Lives Matter movement and we developed our Race Action Plan, committing us to actions in support of Black, Asian and Minority Ethnic employees. Sovereign has signed up to the Race at Work Charter drawn up by Business in the Community (BITC), which includes a public commitment to improving outcomes for BAME employees. We also met with Basingstoke MP Maria Miller in November to discuss her review into the lived experiences of BAME residents.

For many, 2020 has been a year of isolation and separation and we felt it important to create opportunities to allow employees to feel a sense of belonging. During the year we launched two employee networks: supporting lesbian, gay, bi and trans colleagues and another for Black, Asian and Minority Ethnic colleagues and a third, new group – largely aimed at women, though open to men too - that offers members a chance to talk about gender equality. Our disability network is due to formally launch in 2021.

These groups have played important roles in supporting employees, celebrating difference and encouraging discussions on diversity and inclusion with colleagues across Sovereign. We also created a virtual café for colleagues to connect informally and to share their thoughts and ideas.

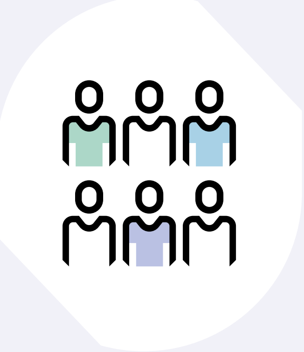
We have built strong foundations for our work on EDI and in 2021 we will strengthen that platform with the publication of our three-year EDI strategy and ambitious targets and plans. Over the strategy's lifespan our aim is to become a leader in diversity and inclusion, to build a diverse workforce that reflects our communities, to be recognised as a fair and inclusive employer and landlord and to be a force for change in EDI issues in the sector and beyond. We appointed a new EDI Manager to lead this work.

Our message on EDI is clear – it is important to us and we are determined to be an organisation that fully embraces inclusion and celebrates difference.

Far left:
Keeping customers informed by phone.

Left:
An inclusive and diverse workforce.

Equal gender balance in our senior leadership population



8% of our employee population identify as having a disability by 2022

Valuing our employees

We regularly seek feedback from employees about their experiences at work and we can make improvements. We issue a survey every quarter, sharing the results with managers and employees, measuring mood, engagement and more. Over 65% of employees took part in our Investors in People (IiP) reassessment and we were delighted to retain our Gold IiP accreditation. IiP gave feedback on our corporate plan, reporting that it has a clear vision, strategies and targeted outcomes, as well as a high level of trust and confidence that these are the right plans for Sovereign and our customers.

Our employees recognised our strong and evolving health and wellbeing offer, our approach to equality, diversity and inclusion and the wide range of learning and development resources available. They also have confidence in our commitment to customer service, with the ambition to do even better.

Our employees recognised our strong and evolving health and wellbeing offer, our approach to equality, diversity and inclusion and the wide range of learning and development resources available.

Below:
A working environment that encourages wellbeing.

Committed to equal opportunities

We're committed to having a workforce that's diverse, gender-balanced and fairly rewarded. All roles are evaluated and benchmarked against the housing sector and wider UK job market and we aim to be a median payer. We pay all our employees at least the living wage and the chief executive to average pay ratio is 8.9:1. This compares favourably with other FTSE 250 companies.

Our gender pay gap is 1.7% and the median gender pay gap is 0.6%. This compares favourably to the national ONS data and with other organisations. Nonetheless, we have committed to improve recruitment and progression of women through the business, improving our flexible working options, workplace flexibility, achieving gender pay balance in our workforce at every level and improving transparency in our promotion, pay and reward processes. In addition, we conduct our own fair pay audit every other year to assess pay against wider diversity and inclusion data and take positive pay action where we need to.

We conduct our own fair pay audit every other year to assess pay against wider diversity and inclusion data and we take positive pay action if we need to.

New appointments

Significant changes took place in our leadership teams following Heather Bowman's retirement as Chief Operating Officer, with Nicole Sharp appointed to the position. Sally Hyndman also joined the business as Chief People Officer.

There were 12 appointments this year into our senior leadership group, creating opportunities for promotion and the recruitment of new talent from a wide range of backgrounds, with 11 people recruited from outside Sovereign and one internal promotion.

Our wider leadership team saw 34 appointments this year as well, 16 through internal promotion and 18 external hires. Five of the six promotions within Property Services were internal, both people joining the CIO team were external and the remaining new employees were evenly split between internal and external candidates.

Our achievements

We received awards from Tpas for Outstanding Tenant Engagement, from IT Industry Awards for IT Service Support. We were shortlisted for the Housing Heroes – Inspirational Leader award, the Landlord of the Year and Best Affordable Development award by UK Housing. We came sixth in the Housing Digital top 30 listing for digital housing providers.

Our gender pay gap is **1.7%** and the median is **0.6%**

6th in the Housing Digital top 30 for digital housing providers

Treasury management

The management of treasury is key to ensuring that sufficient facilities are in place to support our corporate plan and its 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 every year and signed off by the Treasury Committee.

Capital structure

Sovereign is financed by a combination of capital market bonds, long-term bank debt, Social Housing Grant funding and retained surplus. We followed our previously issued bonds of 2009 and 2012 with a new issuance in 2019 totalling £375m (£125m retained) due November 2048. This year we issued the £125m retained element which saw significant investor appetite enabling pricing at sub 2% interest rates whilst improving our liquidity position to provide sufficient liquidity through the pandemic.

Security

Nearly all of Sovereign's debt facilities are secured facilities, with security provided by way of charges over housing properties (at year end only £12m remained unsecured). As at 31 March 2021 we had just over 21k units unsecured, with a value in the region of £1.7bn, of which £351m was charged but unallocated with our security trustee and is therefore ready and available to be pledged as security for any future funding requirement. Accordingly, considerable secured borrowing capacity remains available to support ongoing development.

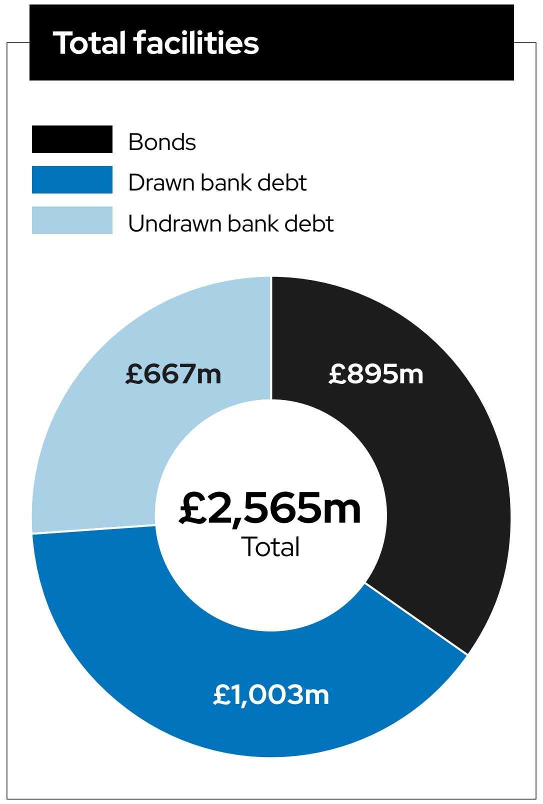
Our financial position makes Sovereign a strong investment proposition and continuing strong market appetite means that further funding to support our development programme should be available at competitive rates, as has been shown by the recent bond issuances.

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 with tighter embedded Golden Rules for interest cover and gearing metrics and there have been no covenant compliance or Golden Rules breaches during the financial year. Future compliance is considered 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. Regarding our asset cover covenants, we regularly review the level of security secured against our facilities, ensuing assets are values 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 homes or as part of our Strategic Asset Management programme.

Below:
Natural materials bring character to our developments.



Liquidity

Sovereign has a minimum liquidity Golden Rule in line with the Regulator's 18 month rule which is monitored monthly, whereby we require cash and immediately available finances to be in place to cover all net expenditure excluding all uncommitted or aspirational development spend and all sales income for at least the following 18 months. As at 31 March 2021, Sovereign's available liquidity totalled £719m, with £351m charged and immediately available at optimal value to support ease of access for any future facilities so we remain well placed to protect against any unexpected eventualities arising from economic, political or regulatory challenges.

Sovereign's finance facilities have a weighted average term of 15 years (2020: 15 years), with £353m 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 total amount of facilities maturing within the next three years to £103m (£83m currently drawn) of Sovereign's total £2,565m finance facilities (2020: £2,471m). 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% (2020: 3.8%).

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. Due to the issuance of our retained bonds as at 31 March 2021, 94% 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.

We expect this level of fixing to reduce as we draw under our variable facilities over the course of the next year.

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 2021.

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 31 March 2021

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.

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%
  - Linden Homes Westinghouse – LLP 50%
  - Keir Sovereign – LLP 50%
  - Sovereign BDW Newbury – LLP 50%
  - Crest Sovereign (Brooklands) – LLP 50%
  - Linden Brockworth – LLP 50%
  - Homes for West Berkshire – 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

Company Secretary

Claire McKenna, ACIS (resigned 3 December 2020)

Charlotte Ferris, ACIS (appointed 3 December 2020, resigned 13 May 2021)

Iain Mackrory-Jamieson (appointed 13 May 2021)

Registered office

Sovereign House
Basing View
Basingstoke
RG21 4FA

Advisors and Board members

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
Trowers & Hamlins LLP
3 Bunhill Row
London
EC1Y 8YZ

Board members as of 31 March 2021

Paul Massara
Chair
Appointed 2020

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

Barbara Anderson
Chair of Audit and Risk Committee
Appointed 2016 (joined Sovereign 2014)

Lee Bambridge
Chair of Treasury Committee
Appointed 2016 (joined Sovereign 2013)

Angela Williams
Chair of Remuneration Committee
Appointed 2017

Jennifer Dykes
Resident Board member and Board representative to the Resident and Board Partnership
Appointed 2016

Pamela Leonce
Board representative to the Resident and Board Partnership
Appointed 2021

Claire O'Shaughnessy
Appointed 2016 (joined Sovereign 2015)

Jane Wynne
Appointed 2019

Mark Washer
Chief Executive
Appointed June 2018

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

Board member resignations during the year

Chris Broe
Appointed 2019
Resigned February 2021

* Stuart ceased to be Chair of the PSC on 31 December 2020

Below:
Welcoming doorways at Victory Oak, Ringwood.

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.

Below:
Enjoying green spaces at Tadpole Farm, Swindon.

"Our customers need to be able to trust us – we have to ensure we deliver on what we say we will, as this can only make our relationship stronger."

Dr Aasia Nisar
Head of Resident Engagement

Working together with our customers

Our Resident and Board Partnership (RBP) provides an opportunity for our customers to influence our strategy, policies and service standards, as well as monitoring quality and performance.

This year the RBP looked at several different service areas to provide a customer perspective, including:

- Shaping our Customer Impact Strategy
- Co-creating the Homes and Place Standard
- Our new approach to tenancies
- Providing feedback on the government's Social Housing White Paper
- Our approach to fire safety

We also successfully recruited for new members this year ensuring that we maintain broad representation.

Our chair, Joyce Ward, has spoken at several housing conferences this year including the Chartered Institute of Housing London and South East Conference. She also attended Westminster Briefing seminars on improving resident involvement and the impact of the Social Housing White Paper on customer tenant engagement.

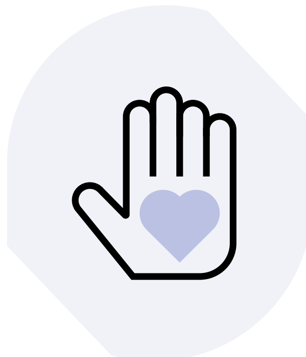
Youth panel

Our youth panel members provide a voice for young people living in our homes. Made up of nine 19 to 25-year-olds, the group works with our charity partner Creative Youth Network, to highlight housing and community issues and discuss ways we can make changes, as well as offering the young people involved an opportunity to grow their skills in the areas of policy and campaigning.

Customer-led service scrutiny

This year, among other things, the Scrutiny Coordination Group's (SCG) looked at how Sovereign deals with anti-social behaviour (ASB). During the lockdown in the spring and summer of 2020 there was an increase in reported ASB.

A team from the SCG interviewed customers and senior managers, commissioned a customer journey mapping exercise, a survey and focus groups to establish customers' views of the service. The group continues to monitor the implementation of these recommendations and is tracking customer satisfaction data to ensure that service improvements are having a positive impact.



Resident scrutineers completed over **100** hours of volunteering

80 survey responses analysed from customers reporting ASB

Meet our Board

Paul Massara
Chair
Appointed as a Board member and Chair in 2020

A former CEO of RWE Npower, with extensive experience in the energy industry at Board level.

An experienced non-executive and executive director, Paul is an active member on the executive committee of both RWE and Centrica/Direct Energy and a non-executive director of Electron.

Angela Williams
Remuneration and Nominations Committee (Chair)
Appointed as a Board member and Committee Chair in 2017

An experienced executive and non-executive who has worked across FTSE30, US (incl. NASDAQ) and French listed companies.

Angela's expertise includes strategy design and delivery, global transformation, leading and creating customer focused businesses and teams as well as culture development and change management. Other skills include mergers, due diligence, restructuring, reward and pensions, leadership and talent development, employment law, business turnarounds, digital transformation, growth delivery and corporate responsibility.

Barbara Anderson
Audit and Risk Committee (Chair)
Treasury Committee
Appointed as a Board member in 2014 and Committee Chair in 2016

Barbara is a senior private sector executive with business interests including corporate governance and compliance, strategy and brand, financial and investment planning, Board and stakeholder management and communications.

Claire O'Shaughnessy
Audit and Risk Committee member
Appointed as a Board member in 2016

Claire helped set up the Homes and Communities Agency before leading many of its major land, regeneration and investment programmes from 2008 to 2014.

Claire brings experience from the Defence Infrastructure Organisation and Deloitte Real Estate as a director in real estate consulting.

Claire was a Board member of Spectrum Housing Group Limited from 2015.

Jane Wynne
Major Projects Committee member
Appointed as a Board member in 2019

Jane is a senior executive with more than two decades of property asset management and business experience in driving organisational improvement for leading owners, investment managers, operators and advisors.

Jennifer Dykes
Resident Board member
Remuneration Committee member
Appointed as a Board member in 2016

Former NHS manager Jenny has been a social housing resident for over 40 years. Her focus is on ensuring Sovereign remains a strong organisation, committed to maintaining high standards of service and providing housing for those in need.

Lee Bambridge
Treasury Committee (Chair)
Appointed as a Board member in 2013 and Committee Chair in 2016

Chief Risk Officer at Newbury Building Society, Lee is a chartered accountant and corporate treasurer. He previously worked in the aerospace industry.

Mark Washer
Appointed as CEO and a Board member in 2018

Mark, a highly skilled executive and non-executive with 25 years in the housing sector, joined Sovereign from Clarion in 2018. He is a chartered accountant, having qualified with Deloitte.

Mark is also a former Board member and vice chair of the National Housing Federation and has been involved with a number of national charities, including the Citizens Advice.

Pamela Leonce
Resident and Board Partnership member
Appointed as a Board member in 2021

Pamela is an experienced housing professional with over 30 years' experience in the sector. She has extensive governance and leadership experience having been executive director across housing, health, social care, and in the criminal justice sector. She is CEO of Stowhill Consultancy, Chair of Inquilab Housing Association and an Equality, Diversity & Inclusion Advisor to an international executive search firm.

Pamela is passionate about good governance and the impact it has on creating sustainable and diverse organisations.

Stuart Laird
Vice Chair
Major Projects Committee Chair
Appointed as a Board member and Vice Chair in 2016

Stuart is a senior executive with a proven track record in facilities management and outsourcing markets, with expertise in leading on property acquisitions and disposals.

Tracey Barnes
Investment Committee (Chair),
Treasury Committee
Appointed as CFO and a Board member in 2019

Tracey, a PwC-trained chartered accountant, has an impressive 30-year career, here and abroad, most recently holding senior finance positions at Diageo, the international beer and spirits giant.

Tracey has a strong background in commercial finance, and is an experienced CFO, committed to developing successful teams as well as being passionate about equality.

The Board's focus in 2020-21 has been to oversee the continued transformation of the way Sovereign works, alongside the delivery of sustained operational performance.

Board and committees

This year we were pleased to welcome Paul Massara who joined Sovereign as Chair in July 2020 and new Board member Pamela Leonce in February 2021, bringing the total number of Board members to 11 – seven women and four men.

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

Sovereign is currently working towards compliance with the NHF Code of Governance 2020, which the Board have agreed to adopt and will report against for the period ending 31 March 2022.

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, includes a comprehensive internal audit function and is supported by a comprehensive regulatory framework process. The Executive Board is responsible for the day-to-day implementation of Sovereign's strategy.

Transforming the way we work

The Board's focus in 2020-21 has been to oversee the continued transformation of the way Sovereign works, alongside the delivery of sustained operational performance. Activity has centred on the development and implementation of a range of foundational and executional strategies managed by the Executive-led Planning And Change Execution (PACE) group, and the delivery of efficiencies, whilst maintaining business as usual. The impact of Covid-19 throughout the year has presented economic and operational challenges to many, including housing associations, their residents and partners.

Below:
Enjoying play spaces at Newbury Racecourse.

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 continues to oversee the corporate plan 2019–2024, which is supported by a robust business plan and a challenging development strategy, all of which continue to evolve as they are implemented.

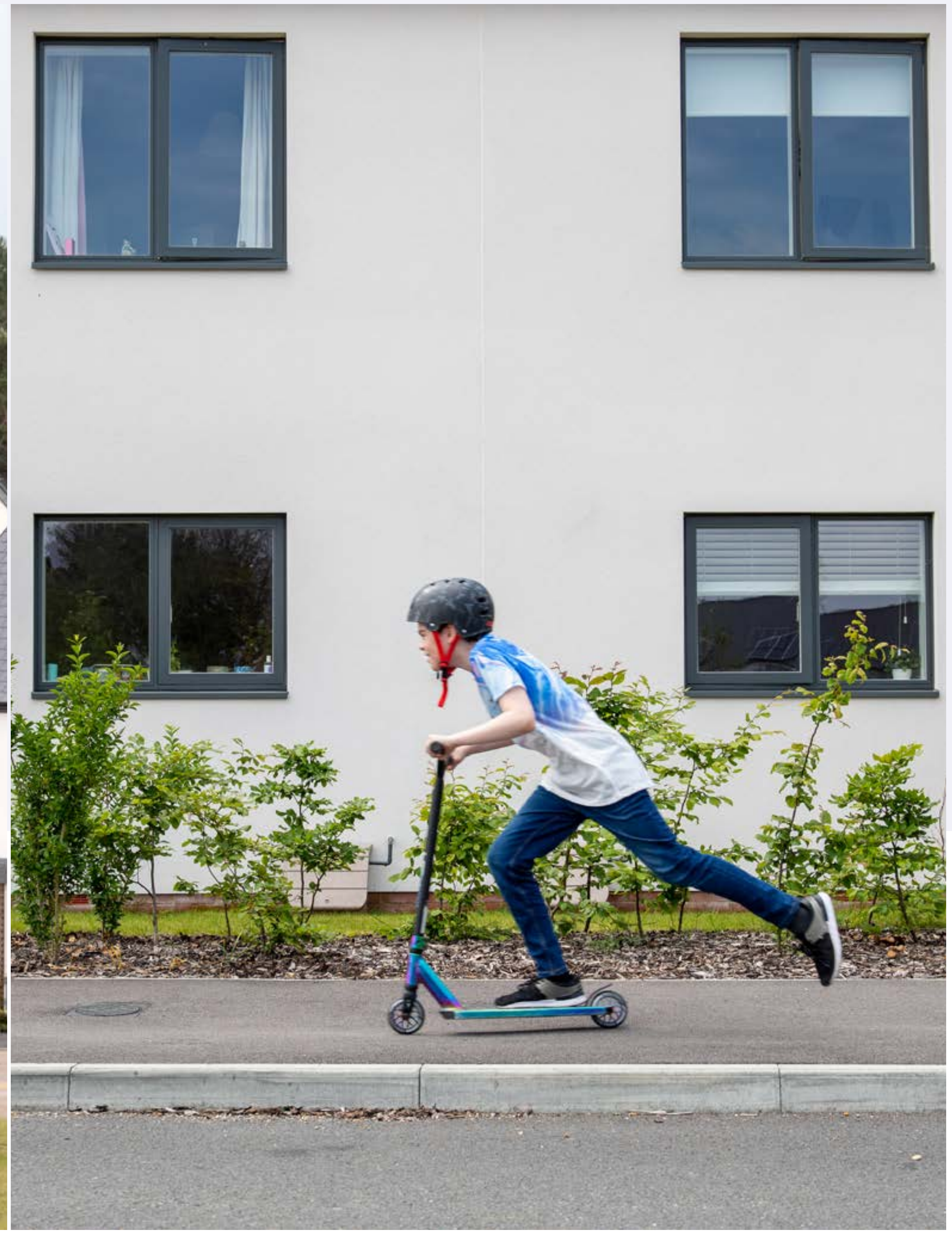
The Board undertakes annual performance reviews, both collectively and as individuals. In 2020-21, the Board and its Committees undertook an internal collective review, building on the recommendations introduced by the external review carried out in the previous year by independent experts. This was supported by a refreshed skills and competencies review during the year, through which the Board and Committees assessed their abilities to fulfil their roles and reviewed a collective training plan designed to support Board and Committees to refresh their skills and knowledge. In February 2021, Sovereign welcomed a new Board member with strong social housing experience to complement the Board's existing skills and strengthen the Board's links with the Resident and Board Partnership.

The Board also carried out a full review of the framework which governs Sovereign's delegations of authority from the Board to Committees to ensure it continues to be appropriate for effective decision-making and control. This resulted in a reorganisation of Sovereign's Committee structure, including the dissolution of the Property Services Committee, with responsibilities being absorbed into more appropriate decision making bodies, and the creation of a new, non-executive-led Major Projects Committee.

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.

"I want to support Sovereign to become even more responsive to people's individual needs, as well as bringing my insights on equality and diversity and how to grow future leaders within the organisation."

Pamela Leonce
Board member



Above and far right:
Family homes at
Victory Oak, Ringwood.

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 2021, where it was established that there was one departure from the NHF Code of Governance 2015, 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 composition of the Board of Sovereign Living Limited, 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 being a vehicle through which affordable home ownership is delivered on behalf of the parent. The standing orders and scheme of delegation evidence the limitations on decision-making of the subsidiary.

Sovereign is currently working towards compliance with the NHF Code of Governance 2020, which the Board have agreed to adopt.

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, demonstrating compliance with the regulatory framework, was presented to the Audit and Risk Committee in July 2021,.

Above:
Green space at Spring Acres, Bristol.

Far right:
Maintaining outside communal areas.

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 2021.

We review our performance with our shareholders each year at the Annual General Meeting. This year the meeting will be held at online at 4:00pm on Thursday 29 July 2021.

Regulatory performance

On 11 January 2021, the RSH 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.

In Quarter 4 of 2020-21, the RSH conducted its scheduled Sovereign's In Depth Assessment.

Health and safety

The health and safety of our colleagues and customers is very important to us, and our vision is everyone, safe and well, everywhere, everyday. This year, alongside regular safety campaigns and engagement programs, we have been laying the foundations for a new health and safety strategy, which will be implemented in 2021-22. This strategy will not only create a safer Sovereign for our colleagues, but will have a positive impact on the safety of our customers.

Our occupational safety performance has improved this year with a reduction in the number of employees being harmed at work. Lost Time Injury Frequency (LTIF) has decreased by 18%. In line with our aspiration that everyone who works for Sovereign returns home safe and well everyday, we continue to promote open reporting of incidents and near misses. Every incident is investigated, and the learnings are implemented by the relevant teams to prevent recurrence. Our focus is on establishing an environment in which everyone can make the right choices about their health and safety, and no-one is harmed.

The Covid-19 pandemic has been a significant We continue to promote open reporting, amongst both colleagues and customers. Every incident is investigated, and the learnings are implemented by the relevant teams to drive continuous improvement in safety management.

Our new health and safety strategy will not only create a safer Sovereign for our colleagues, but will have a positive impact on the safety of our customers.

The Covid-19 pandemic has been a significant challenge, and we have implemented procedures in line with government regulations and guidance to ensure the safety of our colleagues and customers, particularly those in vulnerable groups.

Appointment of the external auditor

It is Sovereign's policy to retender the external audit every seven years. The current external auditor, KPMG LLP, was successful in the competitive tender process in 2018. A resolution to reappoint KPMG as Sovereign's auditor will be proposed at the 2021 Annual General Meeting.

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.

Up until 31 March 2021, the Committee included two Non-Executive Board members and two independent members. Following a review of the committee structure and membership undertaken by the Board, the number of independent members was reduced to one from 1 April 2021. 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 a comprehensive review of Sovereign's key strategic risks. The Committee also approved the renewal of Sovereign's insurance programme, taking into account the increasing challenges in the market as a result of the impact of the Covid-19 pandemic.

Sovereign continued its co-sourced internal audit approach, led by the Audit and Risk Director, 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 2021-22.

A key focus of internal audit for 2020-21 remained health and safety – ensuring the well-being of Sovereign's residents and employees, particularly within the context of the pandemic 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 will continue to oversee Sovereign's response to Covid-19, through its evolving recovery phase from a risk and internal controls perspective as well as focussing on areas such as income and arrears management and information security. The Committee will also continue with its full and rolling annual workplan, which for 2021-22, 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.

The well-being of residents and employees, remained our key focus.

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.

During the year, the Committee included two Non-Executive Board members, an independent member and the Chief Financial Officer and is supported by independent treasury advisers. The Committee met five times during the year.

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. Early in the year, the Committee supported the Board by taking robust measures to protect Sovereign's financial position in advance of and in response to the economic impacts of the Covid-19 pandemic.

The Committee also carried out a comprehensive review of its golden rules to ensure their alignment with Sovereign's corporate strategy and risk control framework as well as making sure they continue to be as clear as possible and fit for purpose.

Regular further fundraising will be required to support Sovereign's strong development programme. 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 successful November 2019 and May 2020 bond issuances demonstrated considerable appetite for Sovereign's credit.

Looking ahead, it is anticipated that the pandemic will have a continued impact on the capital markets and the overall external environment is potentially more uncertain than at any time in Sovereign's history. Accordingly, the Treasury Committee will monitor this closely through market intelligence and via the consideration of the potential impact of external influences on Sovereign via the latest forecasts and a range of stress tests, as well as taking appropriate action where necessary.

Left:
Great views at Centenary Quay, Southampton.

An experienced and robust committee structure ensures the Board has the necessary insight, challenge and assurance to make the best decisions.

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 a new Board member and two new Committee members. The Committee includes two Non-Executive Board members together with two independent members. The two independent members recruited during the year provide a wealth of expertise and knowledge from outside the sector to complement the existing Committee skills. The Chief People Officer and the Director of Governance and Regulation support the Committee.

During the year, the Committee oversaw and provided guidance on Sovereign's approach to ensuring the health, safety and wellbeing of its people, particularly within the context of the challenges faced as a result of the pandemic. It also provided support, guidance and challenge in the final stages of implementing the 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 scrutinised the talent and succession strategy, which aims to deliver an increased pipeline of future talent to enable Sovereign to deliver its ambitions. It oversaw the development of a new Equality, Diversity and Inclusion Strategy, setting out a range of objectives to support Sovereign in building a diverse workforce that reflects our communities, to be recognised as a fair and inclusive employer and landlord and to be a force for change in EDI issues in the sector and beyond.

The Committee maintained oversight of the continued 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.

Above:
We're talking with our employees to decide how we will work together going forward.

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 oversee the continued development of talent and succession plans from Board and Committee members to senior leadership, ensuring that Sovereign's strategic leadership remains appropriately skilled. The succession plans also aim to ensure that the membership of Sovereign's Boards and Committees are appropriately diverse within the context of the communities Sovereign serves and in line with Sovereign's Equality, Diversity and Inclusion Strategy.

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

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.

Making a strategic move towards land-led development will produce a more viable model in the long term.

The Investment Committee

Sovereign's new development strategy was approved in 2019-20, making 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.

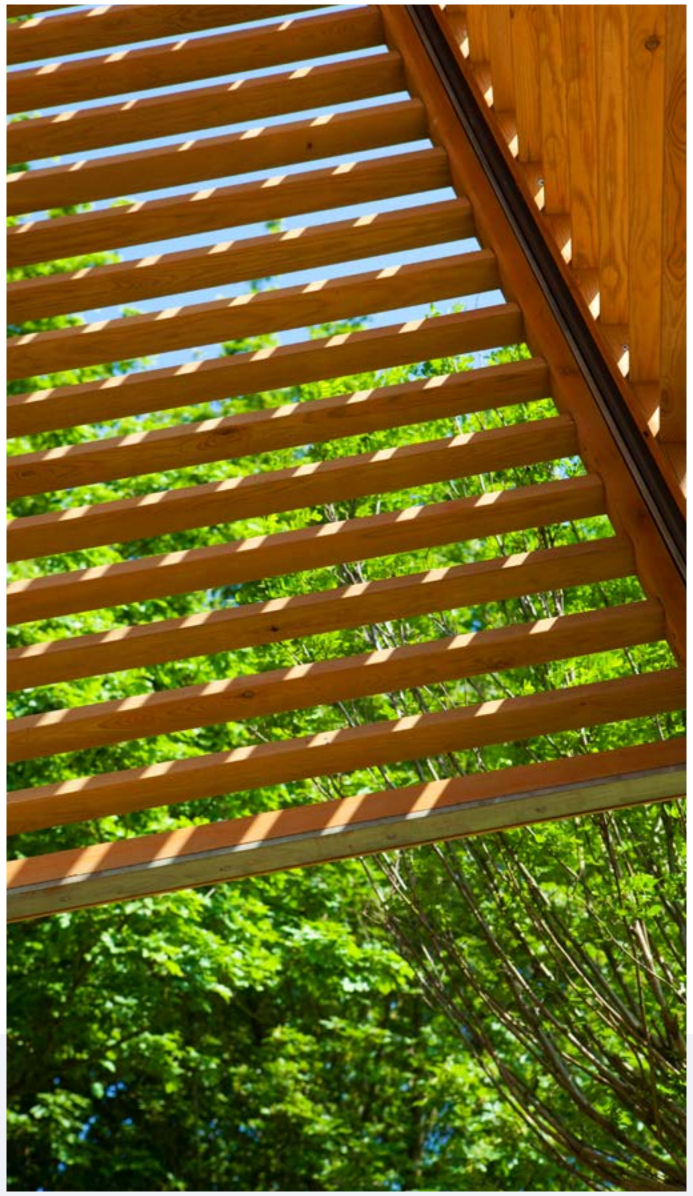
During the year, the Investment Committee has continued to monitor delivery of the new strategy, overseeing all new development, commercial and asset management schemes of all tenures including social and affordable rent, shared ownership, market rent or open market sale.

The Committee's remit included the scrutiny of 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 provided thorough scrutiny of the new Strategic Asset Management Strategy and the Homes and Place Standard prior to Board approval, monitored the performance of joint venture partnerships entered into by the Group, ensured that regular updates were supplied to the Board and that emerging risks were escalated as required in a timely manner whilst consistently challenging the various development opportunities which arose. The Committee's membership included three non-executive Board members, an independent Non-Executive member and five executives, with one holding the position of Chair.

Following a comprehensive review of Sovereign's Committee structure, from 1 April 2021, the responsibilities of the Committee were divided between an executive led Investment Committee and a non-executive led Major Projects Committee. The Investment Committee will continue to oversee the delivery of the development programme and the strategic asset management programme, whilst the Major Projects Committee will provide additional control through detailed scrutiny of exceptional projects and focussed performance monitoring.

In the year ahead, the Investment Committee will maintain a focus on ensuring continued recovery from the impact of the pandemic as well as embedding the new Homes and Place Standard and giving ongoing consideration 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.



We will maintain a focus on embedding the new Homes and Place Standard, as well as looking for new joint venture opportunities.

Left:
Encouraging green transport choices.

Top right:
Shutters conserving heat and filtering light at Hanham Hall, Bristol.

Above:
Natural materials creating character at Wapping Wharf, Bristol.

Property Services Committee

The purpose of the Property Services Committee (PSC) was to ensure that Sovereign 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 2021-2022.

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 Reporting of Injuries, Diseases and Dangerous Occurrances Regulations (RIDDORs) 2013, near miss reporting, lifts and any building safety concerns including sprinklers, other fire safety matters, and the general safety of taller buildings. It also maintained a focus on Sovereign's recovery from the impact of Covid-19 as it worked to address the backlog of routine and cyclical repairs, investment programmes and major works projects caused by the pandemic.

Following a comprehensive review of Sovereign's Committee structure during the year, the Board recognised that the remit of the Committee is largely operational and that its activities are duplicated within the role of the Executive Board and the Board itself. The Committee was therefore dissolved with effect from 31 December 2020. Performance relating to repairs and maintenance, health and safety and sustainability thereafter is scrutinised by the Executive Board and reported to the Board.

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.

Having restructured senior management roles during the year, the Executive Board includes five directors, in addition to the Chief Executive.

Mark Washer
Chief Executive Officer
Appointed June 2018

Tracey Barnes
Chief Financial Officer
Appointed October 2019

Nicole Sharp
Chief Operating Officer
Appointed April 2021

Tom Titherington
Chief Investment and Development Officer
Appointed January 2019

Sally Hyndman
Chief People Officer
Appointed January 2021

Kevin Ives
Chief Information Officer
Appointed August 2019

Risk context

Managing risk

Risk represents uncertainty and is inherent in any business. Our Board actively manages the risks faced by Sovereign through our enterprise risk management framework, which is continually being adapted to remain effective in the increasingly uncertain world around us.

Risk appetite

Knowing how much appetite we have for different risks is fundamental to effectively managing risk. We start with our risk universe, which is where we capture all the potential sources of risk to the organisation. The Board uses a widely recognised five-point scale to define how much risk it is willing to take.

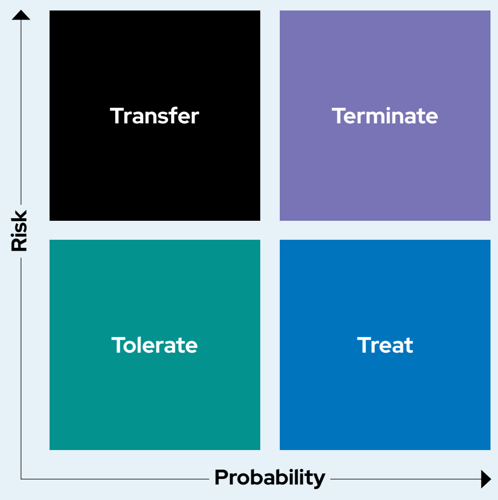
The five levels of risk appetite for each area are translated into examples of an approach that would be appropriate to take for that level of risk.

This approach empowers the whole organisation to make decisions confident that they are within the Board's risk appetite.

Our 'open' risk appetite for six of the ten areas of the risk universe means that the Board is generally willing to take a reasonable degree of risk in pursuit of our organisational goals. However, there are four areas where the Board is willing to take less risk, particularly health and safety. Our 'averse' risk appetite in this area means we invest heavily in controls to reduce that risk as close to zero as we can.

Our 'averse' risk appetite towards health and safety means we invest heavily in controls to reduce that risk as close to zero as we can.

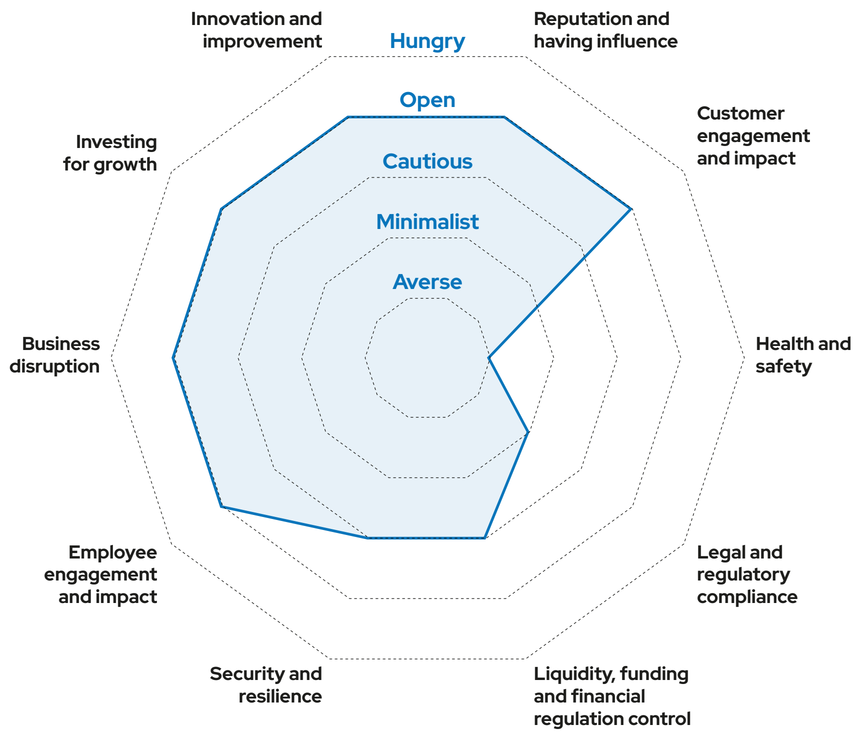
Risk model



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

Risk appetite



Identifying and mitigating risks

To identify risks, we take input from all parts of Sovereign, including our joint ventures and partnering activities, seeking to use the functional expertise of those who are closest to where the risk occurs. We also examine external sources to take a broad perspective, including the Regulator's sector risk profile, peers in the sector, and non-sector organisations who are considered leaders in managing risk. This process gives the Board assurance that we understand our risk profile and identify risks early as they emerge, giving us time to design and implement appropriate mitigations.

The Board regularly reviews our principal risks to ensure they continue to represent the most significant risks to Sovereign and to ensure they are being managed effectively. Having enhanced our approach to defining risk appetite during the year, the Board performed a comprehensive review of our principal risks, which are captured in the table on pages 84-85.

The Board has assured itself that there is an audit trail from the previous principal risks to the principal and sub-principal risks in the revised structure.

Our principal risks are each mapped to, and supported by, sub-principal risks that are managed at Directorate and Functional level throughout the organisation. This direct line of sight to the sub-principal risks, and the organisation's management of them, increases the Board's assurance over the principal risks being well managed.

Risk appetite again plays an important role in risk mitigation. Each risk is mapped to the risk universe to understand the appetite the Board has for that risk. The residual level of risk Sovereign is carrying, once existing controls are considered, is compared to the Board's risk appetite. Where the residual risk level is outside of risk appetite, steps are taken to bring it within appetite in a timely manner.

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:

Risk Description	• Inadequate management of **building safety**, leading to serious injury and/ or a breach of legislation. • Inadequate management of our operating activities, leading to serious injury and/or a breach of legislation.	• A lapse in, or breach of, **information security controls** interrupts our services or exposes personal and sensitive data, resulting in harm to our stakeholders, regulatory consequences and reputational damage. • **Unreliable or absent data** has an adverse impact on Sovereign's ability to make properly informed, consistent decisions or leads to a significant breach of regulations.	• Circumstances that render Sovereign unable to meet its **financial commitments** and unable to generate additional liquidity, resulting in a breach of debt covenants.	• Circumstances that dramatically impact the equilibrium of disposals, replacement of assets, and funding assumptions in our business plan, prevent us from **upgrading our whole portfolio** to meet our Homes and Place Standard.	• Cumulative **government policy** (rent-setting, changing standards, support for home ownership, planning) has significant impact on us financially, logistically, and reputationally and hinders delivery of our strategies.	• We may not have the right **organisational culture** to provide a framework that fully supports the delivery of core services and strategic change as intended. • Inadequate **talent management** results in a critical loss of institutional knowledge, disrupts services and undermines our ability to achieve our corporate ambitions and strategic intent. • Inconsistent **interpretation of our vision** creates misalignment that results in us not having, or deploying ineffectively, the appropriate capacity and capability to deliver that vision.	• Lack of technical or political clarity; customer resistance to initiatives such as regeneration; or the capabilities of the construction industry, hampers our achievement of **sustainability goals** through the application of our Homes and Place Standard.	• Insufficient understanding of our customers' behaviours, needs, and perceptions of Sovereign's services results in failure to meet both **customer and regulatory expectations.**
Risk Universe Area and Risk Appetite	**Health and Safety** Averse	**Security and Resilience** Cautious	**Liquidity, Funding and Financial Regulation and Control** Cautious	**Investing for Growth** Open	**Reputation and Having Influence** Open	**Employee Engagement and Impact** Open	**Innovation and Improvement** Open	**Customer Engagement and Impact** Open
Mitigation	• Building Safety Strategy and Property Compliance policy and supported processes and procedures • Health and Safety structured governance and oversight • Specialist Safety Services and Compliance Assurance Teams • Implementing findings of safety culture review to drive further improvements	• Data Governance Framework • Data Protection policy and procedures • Comprehensive Data Protection Training programme. • Technical Design Authority operating in line with IT Strategy and Policy • Use of technology platforms which promote configuration, instead of developing or purchasing bespoke solutions.	• Funding modelled within business planning activity including a range of stress test scenarios including reverse stress tests • Continual monitoring of cash, credit security and compliance with covenants • Financial golden rules	• Strategic Asset Management strategy • Portfolio-wide Asset Grading Model • Investment decision governance and oversight	• Active engagement to influence policy development • Ongoing analysis and multi layered reporting to understand impact of potential government policy on our activities	• Comprehensive approach to engaging people and cultural attributes woven into all activities • Frequent review of talent development, succession planning and building of leadership pipeline • Alignment of our strategies to our vision and programmes of work to each strategy	• Early engagement with developers and joint venture approach • Closely monitoring construction industry and emerging technologies • Proactive and ongoing customer engagement	• Active and ongoing engagement and consultation with our customers • Service performance and customer experience metrics; annual targets agreed with Resident and Board Partnership • Resident-led scrutiny

Above:
Construction at Crown Yard, Thatcham.

Our Board's strong mix of skills and expertise ensures we have appropriate resilience to face risks going forward.

Role of the Committees

The Board ensures it has a mix of skills and experience appropriate for the risks the organisation faces.

The Audit and Risk Committee (ARC) supports the Board through regular, detailed scrutiny and evaluation of our risk framework, individual risks, and what our sources of assurance (such as internal audit and compliance review findings) tell us about our management of risk. The ARC also scrutinises the Executive Board's report on risk, which is presented to the Board on a quarterly basis.

The Board's other sub-committees strengthen the framework through scrutinising and evaluating the risks that are within their areas of expertise. For example, the Treasury Committee regularly considers Sovereign's management of its principal risk that we may breach debt covenants if circumstances render the organisation unable to meet its financial commitments.

Resilience of Sovereign to risks it faces

As well as being assured that individual risks are appropriately mitigated, the Board is concerned with the ongoing viability of Sovereign in the event of unforeseen extreme circumstances, or where multiple principal risks coalesce. Our rigorous annual business plan process tests Sovereign's resilience through scrutinising the outcomes against our appetite and tolerance for risk and by stress-testing the plan in a variety of plausible but extraordinary circumstances.

During the year, our business continuity plans were rigorously tested in dealing with the Covid-19 pandemic.

Emerging risks

We use our risk foresight process to identify risks early as they emerge, giving us time to design and implement appropriate mitigations. The areas of emerging risk that we consider particularly relevant to Sovereign are:

i) the medium to long term implications of the Covid-19 pandemic on the UK's economy and property market; and
ii) the potential for the UK accelerating measures to address the climate crisis if other countries prioritise short term economic recovery over carbon reduction initiatives, driving a higher predicted global temperature rise.

Financial statements 2020-21

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 they ought to have taken in their duty as a director in order to make themselves 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 the responsibility of the Board which delegates detailed scrutiny and evaluation of these matters to ARC. 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 and its subsidiaries are 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) Code of Governance 2015. Sovereign continues to meet the principles and material obligations of the Code, with its only minor departure relating to provision B4, which is explained below.

Provision B4 of the Code and relates to the composition of the Sovereign Living Board, which has an executive majority. The composition of the Board of Sovereign Living Limited, 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 being a 'vehicle' through which affordable home ownership is delivered on behalf of the parent. The standing orders and scheme of delegation evidence the decision-making parameters of the subsidiary.

Sovereign is currently working towards compliance with the NHF Code of Governance 2020, which the Board have agreed to adopt.

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 money laundering 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 five 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; and the Investment and Major Project Committees, which reviews the viability of development schemes for the provision of new homes. Following a comprehensive review of the Board's committee structure, the responsibilities and activities of the Property Services Committee relating to the provision of repairs and maintenance services and building safety were reallocated to the Executive Board and the Health and Safety Leadership Group to allow for more detailed and frequent scrutiny with the Board maintaining overall responsibility in these areas. The Property Services Committee was subsequently dissolved.

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 Audit and Risk 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 Group 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 8 July 2021 and signed on its behalf by:

BY ORDER OF THE BOARD

Iain Mackrory-Jamieson
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 2021 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 2021 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 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's 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").

In our evaluation of the Board's conclusions, we considered the inherent risks to the group's business model and analysed how those risks might affect the group's and the association's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the Board's use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Board's assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the group's and the association's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the group or the association will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of the Board, the audit and risk committee, internal audit and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board, audit and risk committee, investment committee, remuneration committee, property services committee, treasury committee, resident and board committee and major projects committee minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.
- Obtaining a copy of the Group's fraud register.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the group to full scope component audit teams of relevant fraud risks identified at the Group level and request to full scope component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at group.

As required by auditing standards, and taking into account possible pressures to meet external stakeholder expectations and loan covenants, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that income from property sales and non-social housing income is recorded in the wrong period and the risk that Group management may be in a position to make inappropriate accounting entries, and the risk of bias in accounting estimates and judgements such as recoverability of stock and work in progress, valuation of post retirement benefit obligations, valuation of investment properties and valuation of derivative financial instrument.

We did not identify any additional fraud risks.

In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of some of the Group-wide fraud risk management controls

We also performed procedures including:

- Identifying journal entries and other adjustments to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included unusual or unexpected account combinations with revenue and unusual or unexpected account combinations with cash;
- Assessing significant accounting estimates for bias; and
- Inspecting transactions in the period prior to and following 31 March 2021 to verify revenue had been recognised in the correct accounting period.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related co-operative & community benefit society legislation), taxation legislation, pensions legislation and specific disclosures required by housing legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the need to include significant provisions. We identified the following areas as those most likely to have such an effect: GDPR, health and safety, employment law, housing regulator legislation, anti-bribery and money laundering recognising the nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Other information

The Association's Board is responsible for the other information, which comprises the information included in the Annual Report and Financial Statements other than the financial statements and our auditor's report thereon. 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 its 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 explained more fully in their statement set out on page 90, 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 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 2021

	Note	2021 £'000	2020 £'000
Turnover	3	**417,381**	411,204
Cost of sales	3	**(66,618)**	(68,598)
Operating expenditure	3	**(225,291)**	(216,133)
Sale of housing properties	3	**8,185**	10,748
Movement in fair value of investment properties	10	**1,957**	(1,365)
Operating surplus	3	**135,614**	135,856
Gain/(loss) on disposal of property, plant and equipment	7	**394**	(1,032)
Share of operating surplus in joint ventures	17	**1,421**	1,293
Interest receivable and similar income	8	**2,376**	2,377
Interest and financing costs	9	**(63,326)**	(57,400)
Movement in fair value of financial instruments	30	**1,511**	(1,571)
Impairment of loan receivable	6	**-**	(202)
Surplus before tax	6	**77,990**	79,321
Taxation	11	**-**	15
Surplus for the year		**77,990**	79,336
Actuarial (loss)/gain in respect of pension schemes	29	**(24,360)**	16,340
Changes in fair value of hedged financial instruments	30	**19,224**	(21,354)
Total comprehensive income for the year		**72,854**	74,322

All the amounts above relate to continuing activities.

The accompanying notes form part of the financial statements.

The financial statements were approved by the Board on 8 July 2021 and were signed on its behalf by:

Paul Massara
Chair

Mark Washer
Chief Executive

Iain Mackrory-Jamieson
Company Secretary

Association Statement of Total Comprehensive Income
For the year ended 31 March 2021

	Note	2021 £'000	2020 £'000
Turnover	3	**398,489**	398,094
Cost of sales	3	**(51,113)**	(60,992)
Operating expenditure	3	**(224,940)**	(212,691)
Sale of housing properties	3	**8,185**	10,748
Movement in fair value of investment properties	10	**15**	(1,689)
Operating surplus	3	**130,636**	133,470
Gift aid		**3,891**	5,818
Gain/(loss) on disposal of property, plant and equipment	7	**394**	(1,032)
Interest receivable	8	**3,703**	4,450
Interest and financing costs	9	**(64,585)**	(58,834)
Movement in fair value of financial instruments	30	**1,511**	(1,571)
Impairment of investment in subsidiary	6	**-**	(2,365)
Surplus before tax	6	**75,550**	79,936
Taxation	11	**-**	-
Surplus for the year		**75,550**	79,936
Actuarial (loss)/gain in respect of pension schemes	29	**(24,360)**	16,340
Changes in fair value of hedged financial instruments	30	**19,224**	(21,354)
Total comprehensive income for the year		**70,414**	74,922

All the amounts above relate to continuing activities.

The accompanying notes form part of the financial statements.

The financial statements were approved by the Board on 8 July 2021 and were signed on its behalf by:

Paul Massara
Chair

Mark Washer
Chief Executive

Iain Mackrory-Jamieson
Company Secretary

Consolidated Statement of Financial Position
As at 31 March 2021

	Note	2021 £'000	2020 £'000
Fixed assets			
Social housing properties	14	**4,027,428**	3,902,174
Other fixed assets	15	**35,594**	45,964
Investment properties	16	**170,435**	140,012
Investments in joint ventures	17	**2,035**	1,264
Investments - HomeBuy loans	18	**10,614**	10,969
Financial assets	19	**8,003**	11,360
		4,254,109	4,111,743
Current assets			
Stocks	20	**63,429**	68,584
Debtors	21	**52,048**	57,283
Cash and cash equivalents	22	**62,966**	72,217
		178,443	198,084
Creditors: amounts falling due within one year	23	**(171,172)**	(147,127)
Net current assets		**7,271**	50,957
Creditors: amounts falling due after more than one year	24	**(2,323,031)**	(2,317,378)
Provisions for liabilities			
- Pension	29	**(70,577)**	(52,821)
- Other	26	**(8,956)**	(6,539)
Total net assets		**1,858,816**	1,785,962
Capital and reserves			
Called up share capital	31	**-**	-
Income and expenditure reserve		**1,562,099**	1,498,583
Revaluation reserve		**343,299**	353,185
Hedging reserve		**(46,582)**	(65,806)
Total reserves		**1,858,816**	1,785,962

The accompanying notes form part of the financial statements.

The financial statements were approved by the Board on 8 July 2021 and were signed on its behalf by:

Paul Massara
Chair

Mark Washer
Chief Executive

Iain Mackrory-Jamieson
Company Secretary

Association Statement of Financial Position
As at 31 March 2021

	Note	2021 £'000	2020 £'000
Fixed assets			
Social housing properties	14	**4,028,465**	3,915,252
Other fixed assets	15	**35,521**	45,816
Investment properties	16	**130,319**	101,838
Investments - HomeBuy loans	18	**10,614**	10,969
Financial assets	19	**11,932**	15,289
		4,216,851	4,089,164
Current assets			
Stocks	20	**52,043**	58,294
Debtors	21	**111,015**	106,781
Cash and cash equivalents	22	**60,781**	69,686
		223,839	234,761
Creditors: amounts falling due within one year	23	**(173,548)**	(153,617)
Net current assets		**50,291**	81,144
Creditors: amounts falling due after more than one year	24	**(2,316,845)**	(2,310,697)
Provisions for liabilities			
- Pension	29	**(70,577)**	(52,821)
- Other	26	**(8,956)**	(6,440)
Total net assets		**1,870,764**	1,800,350
Capital and reserves			
Called up share capital	31	**-**	-
Income and expenditure reserve		**1,362,323**	1,301,247
Revaluation reserve		**555,023**	564,909
Hedging reserve		**(46,582)**	(65,806)
Total reserves		**1,870,764**	1,800,350

The accompanying notes form part of the financial statements.

The financial statements were approved by the Board on 8 July 2021 and were signed on its behalf by:

Paul Massara
Chair

Mark Washer
Chief Executive

Iain Mackrory-Jamieson
Company Secretary

Consolidated Statement of Changes in Reserves
As at 31 March 2021

	Income and expenditure reserve	Revaluation reserve	Hedging reserve	**2021 Total**	2020 Total
	£'000	£'000	£'000	**£'000**	£'000
As at 1 April 2020	1,498,583	353,185	(65,806)	**1,785,962**	1,711,640
Surplus from statement of comprehensive income	77,990	-	-	**77,990**	79,336
Transfer from revaluation reserve to income and expenditure reserve					
- on sale of revalued properties	489	(489)	-	**-**	-
- depreciation of revalued properties	4,516	(4,516)	-	**-**	-
- on transfer of commercial properties to investments	4,881	(4,881)	-	**-**	-
Actuarial (loss)/gain in respect of pension schemes	(24,360)	-	-	**(24,360)**	16,340
Movement in fair value of financial derivatives	-	-	19,224	**19,224**	(21,354)
As at 31 March 2021	1,562,099	343,299	(46,582)	**1,858,816**	1,785,962

Financial Statements

Association Statement of Changes in Reserves
As at 31 March 2021

	Income and expenditure reserve	Revaluation reserve	Hedging reserve	**2021 Total**	2020 Total
	£'000	£'000	£'000	**£'000**	£'000
As at 1 April 2020	1,301,247	564,909	(65,806)	**1,800,350**	1,725,428
Surplus from statement of comprehensive income	75,550	-	-	**75,550**	79,936
Transfer from revaluation reserve to income and expenditure reserve					
- on sale of revalued properties	489	(489)	-	**-**	-
- depreciation of revalued properties	4,516	(4,516)	-	**-**	-
- on transfer of commercial properties to investments	4,881	(4,881)	-	**-**	-
Actuarial (loss)/gain in respect of pension schemes	(24,360)	-	-	**(24,360)**	16,340
Movement in fair value of financial derivatives	-	-	19,224	**19,224**	(21,354)
As at 31 March 2021	1,362,323	555,023	(46,582)	**1,870,764**	1,800,350

Consolidated Statement of Cash Flows
As at 31 March 2021

	Note	2021 £'000	2020 £'000
Cash flow from operating activities			
Surplus for the year		**77,990**	79,321
Adjustments for non-cash items			
Depreciation of fixed assets		**45,997**	42,267
Decrease/(Increase) in stock		**5,155**	(12,650)
Decrease/(Increase) in trade and other debtors		**6,892**	(19,986)
Decrease in trade and other creditors		**(2,655)**	(7,308)
Increase in provisions		**2,417**	413
Pension costs less contributions payable		**(7,745)**	(7,283)
Carrying amount of tangible fixed asset disposals		**15,401**	14,850
Impairment	6	**1,208**	202
Fair value movements in investment properties	16	**(1,957)**	1,365
Share of operating surplus in associate		**(1,421)**	(1,293)
Adjustments for investing or financing activities:			
Proceeds from the sale of tangible fixed assets		**(26,936)**	(25,384)
Interest payable	9	**63,326**	57,400
Interest receivable	8	**(2,376)**	(2,377)
Cash from operations		**175,296**	119,537
Corporation tax		**-**	-
Net cash inflow from operating activities		**175,296**	119,537
Cash flow from investing activities			
Net return on investment in jointly controlled entities	17	**489**	2,665
Investment in jointly controlled entities	17	**-**	(833)
Purchase of tangible fixed assets		**(193,605)**	(294,410)
Proceeds from sale of tangible fixed assets		**26,936**	25,384
Grants received		**31,097**	47,415
Interest received		**733**	2,292
Net cash from investing activities		**(134,350)**	(217,487)
Cash flow from financing activities			
Interest paid		**(73,570)**	(61,914)
Interest element of finance lease rental payment		**(256)**	(256)
Movement in collateral deposits		**1,998**	(731)
New secured loans		**125,000**	244,848
Repayment of borrowings		**(103,112)**	(56,758)
Capital element of finance lease rental payments		**(257)**	(250)
Net cash used in financing activities		**(50,197)**	124,939
Net change in cash and cash equivalents		**(9,251)**	26,989
Cash and cash equivalents at beginning of the year	22	**72,217**	45,228
Cash and cash equivalents at end of the year	22, 35	**62,966**	72,217

Notes to the financial statements

For the year ended 31 March 2021

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 2021/22 performance, cash and committed facilities of £730m at 31 March 2021 comfortably cover the funding requirement for the 12 months following the signing date of these financial statements. 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 29.

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 29. 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
Pitched Roofs	56-60 years
Flat Roofs	25 years
Boilers	15 years
External Doors	30 years
Electrical Rewiring	40 years
Lifts	20 years
Mechanical Systems	20 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	**2021 Operating surplus £'000**	2020 Operating surplus £'000
Income and expenditure from social housing lettings:							
Housing accommodation		299,615	–	(201,187)	–	**98,428**	98,482
Shared ownership accommodation		25,777	–	(13,025)	–	**12,752**	9,980
	4	325,392	–	(214,212)	–	**111,180**	108,462
Other social housing income and expenditure:							
External income generated from development services		32	–	(22)	–	**10**	21
Community investment		–	–	(2,360)	–	**(2,360)**	(2,117)
Other		1,957	–	(1,301)	–	**656**	1,322
		1,989	–	(3,683)	–	**(1,694)**	(774)
Development for sale							
Shared ownership first tranche sales		61,030	(51,460)	–	–	**9,570**	14,414
		61,030	(51,460)	–	–	**9,570**	14,414
Total social housing activities		388,411	(51,460)	(217,895)	–	**119,056**	122,102
Non-social housing activities							
Market rented properties		7,964	–	(4,524)	–	**3,440**	2,356
Commercial properties		3,943	–	(1,597)	–	**2,346**	1,495
Outright sales		16,491	(15,158)	–	–	**1,333**	402
Other		572	–	(1,275)	–	**(703)**	118
		28,970	(15,158)	(7,396)	–	**6,416**	4,371
Other activities							
Housing assets disposals		–	–	–	8,185	**8,185**	10,748
Movement in fair value of investment properties		–	–	–	1,957	**1,957**	(1,365)
		–	–	–	10,142	**10,142**	9,383
Total		417,381	(66,618)	(225,291)	10,142	**135,614**	135,856

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

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	**2021 Operating surplus £'000**	2020 Operating surplus £'000
Income and expenditure from social housing lettings:							
Housing accommodation		299,591	-	(200,882)	-	**98,709**	98,724
Shared ownership accommodation		25,777	-	(13,025)	-	**12,752**	9,980
	4	325,368	-	(213,907)	-	**111,461**	108,704
Other social housing income and expenditure:							
Income from Group undertakings		195	-	-	-	**195**	256
External income generated from development services		32	-	(22)	-	**10**	21
Community investment		-	-	(2,360)	-	**(2,360)**	(2,117)
Other		1,926	-	(1,320)	-	**606**	949
		2,153	-	(3,702)	-	**(1,549)**	(891)
Development for sale							
Shared ownership first tranche sales		60,571	(51,113)	-	-	**9,458**	14,374
		60,571	(51,113)	-	-	9,458	14,374
Total social housing activities		388,092	(51,113)	(217,609)	-	**119,370**	122,187
Non-social housing activities							
Market rented properties		5,878	-	(4,424)	-	**1,454**	286
Commercial properties		3,942	-	(1,597)	-	**2,345**	1,495
Other		577	-	(1,309)	-	**(732)**	443
		10,397	-	(7,331)	-	**3,066**	2,224
Other activities							
Housing assets disposals		-	-	-	8,185	**8,185**	10,748
Movement in fair value of investment properties		-	-	-	15	**15**	(1,689)
		-	-	-	8,200	**8,200**	9,059
Total		398,489	(51,113)	(224,940)	8,200	**130,636**	133,470

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 £'000	Shared ownership £'000	Supported housing/ Housing for older people £'000	Keyworker £'000	Other £'000	**2021 Total £'000**	2020 Total £'000
Rent receivable net of identifiable service charges	260,495	22,291	16,993	6,642	291	**306,712**	294,139
Service charges	8,664	3,176	880	2,765	65	**15,550**	14,675
Supporting people block subsidy	-	-	417	-	-	**417**	483
Amortised government grants	1,991	310	376	36	-	**2,713**	2,613
Turnover from social housing lettings	271,150	25,777	18,666	9,443	356	**325,392**	311,910
Management	(55,064)	(8,332)	(3,894)	(2,151)	(214)	**(69,655)**	(73,650)
Service costs	(11,166)	(1,924)	(899)	(1,999)	(49)	**(16,037)**	(15,084)
Routine maintenance	(32,250)	-	(1,963)	(686)	(108)	**(35,007)**	(30,622)
Planned maintenance	(32,687)	-	(2,010)	(1,024)	(110)	**(35,831)**	(30,047)
Major repairs expenditure	(9,345)	-	(848)	(4,882)	(47)	**(15,122)**	(9,551)
Bad debts	(4)	(1)	-	-	-	**(5)**	(1,940)
Depreciation of housing property	(34,125)	(2,768)	(2,272)	(1,219)	(125)	**(40,509)**	(39,682)
Other costs	(1,871)	-	(110)	(59)	(6)	**(2,046)**	(2,872)
Operating costs on social housing activities	(176,512)	(13,025)	(11,996)	(12,020)	(659)	**(214,212)**	(203,448)
Operating surplus/(deficit) on social housing activities	94,638	12,752	6,670	(2,577)	(304)	**111,180**	108,462
Rent receivable is net of void losses of:	2,815	136	16	2,419	92	**5,478**	3,590

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	2021 Total	2020 Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Rent receivable net of identifiable service charges	260,474	22,291	16,993	6,642	288	**306,688**	294,117
Service charges	8,664	3,176	880	2,765	65	**15,550**	14,675
Supporting people block subsidy	-	-	417	-	-	**417**	483
Amortised government grants	1,991	310	376	36	-	**2,713**	2,613
Turnover from social housing lettings	271,129	25,777	18,666	9,443	353	**325,368**	311,888
Management	(54,838)	(8,332)	(3,894)	(2,151)	(214)	**(69,429)**	(73,678)
Service costs	(11,166)	(1,924)	(899)	(1,999)	(49)	**(16,037)**	(15,084)
Routine maintenance	(32,250)	-	(1,963)	(686)	(108)	**(35,007)**	(30,626)
Planned maintenance	(32,687)	-	(2,010)	(1,024)	(110)	**(35,831)**	(30,047)
Major repairs expenditure	(9,345)	-	(848)	(4,882)	(47)	**(15,122)**	(9,551)
Bad debts	(4)	(1)	-	-	-	**(5)**	(1,940)
Depreciation of housing property	(34,125)	(2,768)	(2,272)	(1,219)	(125)	**(40,509)**	(39,682)
Other costs	(1,792)	-	(110)	(59)	(6)	**(1,967)**	(2,576)
Operating costs on social housing activities	(176,207)	(13,025)	(11,996)	(12,020)	(659)	**(213,907)**	(203,184)
Operating surplus/(deficit) on social housing activities	94,922	12,752	6,670	(2,577)	(306)	**111,461**	108,704
Rent receivable is net of void losses of:	2,815	136	16	2,419	92	**5,478**	3,590

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.

5. Number of units in management

	Group		Association	
	2021 Units	2020 Units	**2021 Units**	2020 Units
Owned and managed:				
General needs	**38,872**	38,688	**38,872**	38,688
General needs - affordable	**5,497**	5,082	**5,497**	5,082
Shared ownership	**7,081**	6,700	**7,081**	6,700
Housing for older people	**2,266**	2,339	**2,266**	2,339
Housing for older people - affordable	**32**	32	**32**	32
Supported	**881**	871	**881**	871
Keyworker	**1,706**	1,707	**1,706**	1,707
Intermediate market rent	**367**	396	**367**	396
Other social	**301**	305	**298**	302
Non-social - market rent	**675**	737	**533**	595
Non-social - other	**103**	106	**103**	106
Managed not owned:				
Owned by an external company - social	**22**	22	**25**	25
Owned by an external company - non-social	**2,526**	2,506	**2,668**	2,648
Owned by an external company - keyworker	**26**	26	**26**	26
Total in management	**60,355**	59,517	**60,355**	59,517
Owned and not managed:				
Managed by third parties	**176**	157	**176**	157
Freehold/Long leasehold (incl. Right to Buy leasehold)	**7**	7	**7**	7
Total owned not managed	**183**	164	**183**	164
Total owned or managed	**60,538**	59,681	**60,538**	59,681

6. Surplus on ordinary activities before taxation

	Group		Association	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Surplus on ordinary activities before taxation is stated after charging:				
Depreciation and amortisation:				
- housing properties	**40,291**	37,476	**40,288**	37,472
- other owned assets	**5,706**	4,791	**5,470**	4,352
Rentals payable:				
- plant, vehicles and machinery	**4,585**	3,227	**4,585**	3,114
- other assets	**1,791**	1,657	**1,735**	1,657
- operating leases	**44**	39	**44**	39
Auditor's remuneration:				
- in their capacity as auditor	**188**	190	**149**	139
- in respect of other work	**7**	70	**7**	70
Other:				
- impairment of investment in subsidiary	**-**	-	**-**	2,365
- impairment of loan receivable	**-**	202	**-**	-

The impairment in of the loan in 2019/20 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 in 2019/20 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	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Proceeds from other fixed asset sales	**3,527**	-	**3,527**	-
Cost of sales	**(3,133)**	**(1,032)**	**(3,133)**	**(1,032)**
Net (deficit)/surplus	**394**	(1,032)	**394**	(1,032)

8. Interest receivable and similar income

	Group		Association	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Interest receivable on investments	**2,298**	2,117	**2,298**	1,915
Interest receivable on bank deposits	**78**	260	**76**	186
Interest receivable from Group undertakings	**-**	-	**1,329**	2,349
Interest receivable and similar income	**2,376**	2,377	**3,703**	4,450

9. Interest payable and financing costs

	Group		Association	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000
In respect of loans:				
Interest payable on loans and bank overdrafts	**(63,777)**	(60,864)	**(33,840)**	(37,026)
Interest payable on hedging arrangements	**(9,246)**	(7,490)	**(9,246)**	(7,490)
On hedging arrangements - non cash	**3,366**	3,495	**3,366**	3,495
Interest payable to Group undertakings	**-**	-	**(30,487)**	(24,348)
Interest payable on recycled capital grant and disposal proceeds funds	**(19)**	(167)	**(19)**	(167)
Interest payable on finance leases	**(256)**	(256)	**(256)**	(256)
Loan costs or other financing costs	**(893)**	-	**(893)**	-
Interest payable	**(70,825)**	(65,282)	**(71,375)**	(65,792)
Less interest capitalised	**8,640**	9,435	**7,931**	8,511
	(62,185)	(55,847)	**(63,444)**	(57,281)
Net interest payable on pension liabilities	**(1,141)**	(1,553)	**(1,141)**	(1,553)
Interest and financing costs	**(63,326)**	(57,400)	**(64,585)**	(58,834)

Interest is capitalised on active development schemes at 4% (2020: 4%).

As the sole purpose of the hedging arrangements is to reduce interest payable volatility 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	
		2021 £'000	2020 £'000	**2021 £'000**	2020 £'000
Fair value increase/(decrease) in investment properties	16	**1,957**	(1,365)	**15**	(1,689)
Fair value adjustments		**1,957**	(1,365)	**15**	(1,689)

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	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000
UK corporation tax				
Current tax on income for the period	**-**	-	**-**	-
Prior year released	**-**	(15)	**-**	-
Total current tax	**-**	(15)	**-**	-
Tax credit on surplus on ordinary activities	**-**	(15)	**-**	-

Factors affecting the tax charge for the current period

The current tax credit for the year is lower (2020: lower) than the standard rate of corporation tax in the UK of 19% (2020: 19%). The differences are explained below:

	Group		Association	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000
Current tax reconciliation				
Surplus on ordinary activities before tax	**77,990**	79,321	**75,550**	79,936
Surplus chargeable to corporation tax	**77,990**	79,321	**75,550**	79,936
Current tax at 19% (2020: 19%)	**14,818**	15,071	**14,355**	15,188
Effects of:				
Surplus not within the scope of taxation due to charitable status	**(14,818)**	(15,071)	**(14,355)**	(15,188)
Other timing differences	**-**	(15)	**-**	-
Total tax credit	**-**	(15)	**-**	-
Current tax (see above)	**-**	(15)	**-**	-
Tax credit for the year	**-**	(15)	**-**	-

A UK corporation rate of 19% (effective 1 April 2020) was substantively enacted on 17 March 2020. In the Budget on 3 March 2021, it was announced that the UK tax rate will increase to 25% from 1 April 2023. This will have a consequential effect on the company's future tax charge.

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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.

Annual rates of pay	2021 £	2020 £
Position held as at 31 March		
Chair	**35,000**	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:

Non-Executive Directors	2021 £	2020 £
Barbara Anderson	**18,000**	18,000
Lee Bambridge	**18,000**	18,000
Christopher Broe (resigned 15 February 2021)	**15,167**	10,750
Jennifer Dykes	**20,750**	13,000
Gordon Holdcroft (Chair) (resigned 31 July 2020)	**14,236**	32,000
Stuart Laird	**23,000**	23,000
Pamela Leonce (appointed 4 February 2021)	**1,933**	-
Paul Massara (Chair) (appointed 31/07/2020)	**23,603**	-
Claire O'Shaughnessy	**13,000**	13,000
Angela Williams	**18,000**	18,000
Jane Wynne (appointed 12 September 2019)	**13,000**	10,750
	178,689	156,500

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.

No expenses paid to Board members that are subject to income tax (2020: £5,086).

12. Board members and executive officers (continued)

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

	2021 £	2020 £
Gerard Boyle	-	7,500
Martin Lawton	**5,000**	5,000
David Todd	**5,000**	5,000
	10,000	**17,500**

Executive directors' emoluments

	2021 £'000	2020 £'000
Emoluments (including pension contributions and benefits in kind)	**1,769**	1,496
Total pension contributions to Executive Officers	**61**	47
Emoluments (excluding pension contributions and payments in lieu of pension contributions) include amounts paid to:		
The highest paid director	**313**	285

Pension contributions to the highest paid director were £nil (2020: £nil).

12. Board members and executive officers (continued)

The level of emoluments to members of the Executive Board during 2020/21 is shown below:

	Taxable pay	Pension contri-butions	In lieu of pension	Benefits in kind	Accrued PRP 2020/21	**2021** Total	2020 Total
	£	£	£	£	£	**£**	£
Executive Directors:							
Mark Washer	270,580	-	32,400	524	42,000	**345,504**	292,168
Tracey Barnes[1]	212,680	-	25,452	524	32,130	**270,786**	105,688
Members of the Executive Board:							
Keith Astill[2]	166,967	-	6,355	175	-	**173,497**	194,833
Steve Barford[3]	-	-	-	-	-	**-**	74,912
Heather Bowman[4]	128,561	-	14,070	350	-	**142,981**	217,768
Sally Hyndman[5]	41,170	-	4,923	-	-	**46,093**	-
Kevin Ives[6]	197,530	18,993	3,978	524	25,857	**246,882**	130,624
Nicole Sharp[7]	157,690	18,787	-	524	28,611	**205,612**	131,903
Tom Titherington[8]	194,060	23,218	-	-	34,333	**251,611**	198,700
	1,369,238	60,998	87,178	2,621	162,931	**1,682,966**	1,346,596

[1] Appointed 21 November 2019
[2] Resigned 31 July 2020 – aggregate compensation for loss of office amounted to £113,858 which is included in the above table
[3] Resigned 30 June 2019
[4] Resigned 26 October 2020 - aggregate payment of notice amounted to £10,985 which is included in the above table
[5] Appointed 18 January 2021
[6] Appointed 1 August 2019
[7] Appointed 30 June 2019
[8] Appointed 21 January 2019

Neil McCall was appointed on 2 November 2020 and resigned on 30 April 2021. The Association paid £86k for his services as Chief Housing Officer in the year on fixed term contract.

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 29. 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 measured against corporate key performance indicators and targets and a further 5% based on personal performance.

No pension contributions are accruing to former executives (2020: £nil).

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	**2021 Number**	2020 Number
>60 to 70	**66**	47
>70 to 80	**34**	34
>80 to 90	**20**	19
>90 to 100	**9**	8
>100 to 110	**2**	6
>110 to 120	**2**	6
>120 to 130	**5**	3
>130 to 140	**3**	1
>140 to 150	**5**	2
>150 to 160	**2**	3
>160 to 170	**1**	1
>170 to 180	**1**	1
>190 to 200	**1**	2
>200 to 210	**1**	-
>210 to 220	**-**	2
>240 to 250	**1**	-
>250 to 260	**1**	-
>270 to 280	**1**	-
>290 to 300	**-**	1
>340 to 350	**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	
	2021 FTE	2020 FTE	**2021 FTE**	2020 FTE
Expressed in full time equivalents (FTE):				
Central administrative services	**422**	397	**422**	397
Developing or selling housing stock	**67**	75	**67**	75
Managing or maintaining stock	**1,459**	1,458	**1,459**	1,458
Staff providing support to tenants	**48**	28	**48**	28
	1,996	1,958	**1,996**	1,958

	Group		Association	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000
Staff costs (for the above persons):				
Wages and salaries	**70,365**	67,743	**70,365**	67,743
Social security costs	**6,944**	6,678	**6,944**	6,678
Pension costs	**4,280**	3,849	**4,280**	3,849
	81,589	78,270	**81,589**	78,270

14. Social housing properties

	Completed		Under construction			
Group	Housing properties (rental) £'000	Shared ownership properties £'000	Housing properties £'000	Shared ownership properties £'000	**2021 Total £'000**	2020 Total £'000
Deemed cost						
At 1 April	3,514,880	461,005	220,541	111,602	**4,308,028**	4,036,875
Reclassification of schemes	-	-	(7,518)	7,518	**-**	-
Transfer to current assets	-	-	-	-	**-**	(561)
Schemes completed	110,968	83,310	(110,968)	(83,310)	**-**	-
Additions - new units	23,699	(10,637)	88,794	54,951	**156,807**	261,910
Additions - improvements to stock	12,999	-	-	-	**12,999**	26,750
Transfer from Investment Properties	-	-	7,791	-	**7,791**	-
Disposals	(4,782)	(8,901)	-	-	**(13,683)**	(16,946)
As at 31 March	3,657,764	524,777	198,640	90,761	**4,471,942**	4,308,028
Depreciation						
At 1 April	388,537	17,317	-	-	**405,854**	371,569
Charge for year	37,523	2,768	-	-	**40,291**	37,476
Transfer to current assets	-	-	-	-	**-**	(63)
On disposals	(1,155)	(476)	-	-	**(1,631)**	(3,128)
As at 31 March	424,905	19,609	-	-	**444,514**	405,854
Net book value at 31 March 2021	3,232,859	505,168	198,640	90,761	**4,027,428**	
Net book value at 31 March 2020	3,126,343	443,688	220,541	111,602	**3,902,174**	

14. Social housing properties (continued)

Group	Completed Housing properties (rental) £'000	Completed Shared ownership properties £'000	Under construction Housing properties £'000	Under construction Shared ownership properties £'000	**2021 Total £'000**	2020 Total £'000
Cost or valuation at 31 March is represented by:						
Gross cost	3,293,143	501,646	198,640	90,761	**4,084,190**	3,648,212
Historic cost depreciation	(382,386)	(17,675)	–	–	**(400,061)**	(336,118)
	2,910,757	483,971	198,640	90,761	**3,684,129**	3,312,094
Revaluation reserve	322,102	21,197	–	–	**343,299**	353,212
	3,232,859	505,168	198,640	90,761	**4,027,428**	3,665,306
Existing use value and properties under construction	3,573,323	532,547	198,640	90,761	**4,395,271**	3,762,328

Additions to housing properties under construction during the year include capitalised interest of £8,641k (2020: £9,435k) and major repairs capitalised of £12,999k (2020: £26,750k). Interest is capitalised on development schemes as set out in the accounting policy in note 2(p).

During the year, no properties were sold to other housing associations (2020: £58k). No properties were purchased from other housing associations (2020: £nil)

Following purchases of housing properties from other housing associations in previous years, the Association has a contingent liability of £164.4m (2020: £164.7m) 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, £85,959k (2020: £70,221k) was spent on routine, planned and major repairs.

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14. Social housing properties (continued)

Association	Completed Housing properties (rental) £'000	Completed Shared ownership properties £'000	Under construction Housing properties £'000	Under construction Shared ownership properties £'000	**2021 Total £'000**	2020 Total £'000
Deemed cost						
At 1 April	3,537,670	461,005	211,675	110,727	**4,321,077**	4,046,949
Reclassification of schemes	–	–	(7,518)	7,518	**-**	–
Transfer to current assets	–	–	–	–	**-**	(561)
Schemes completed	110,968	83,310	(110,968)	(83,310)	**-**	–
Additions - new units	24,646	(10,637)	76,241	54,513	**144,763**	264,885
Additions - improvements to stock	12,999	–	–	–	**12,999**	26,750
Transfer from Investment Properties	–	–	7,791	–	**7,791**	–
Disposals	(4,782)	(8,901)	–	–	**(13,683)**	(16,946)
As at 31 March	3,681,501	524,777	177,221	89,448	**4,472,947**	4,321,077
Depreciation						
At 1 April	388,508	17,317	–	–	**405,825**	371,544
Charge for year	37,520	2,768	–	–	**40,288**	37,472
Transfer to current assets	–	–	–	–	**-**	(63)
On disposals	(1,155)	(476)	–	–	**(1,631)**	(3,128)
As at 31 March	424,873	19,609	–	–	**444,482**	405,825
Net book value at 31 March 2021	3,256,628	505,168	177,221	89,448	**4,028,465**	
Net book value at 31 March 2020	3,149,162	443,688	211,675	110,727	**3,915,252**	

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14. Social housing properties (continued)

Association	Completed		Under construction			
	Housing properties (rental)	Shared ownership properties	Housing properties	Shared ownership properties	**2021 Total**	2020 Total
	£'000	£'000	£'000	£'000	**£'000**	£'000
Cost or valuation at 31 March is represented by:						
Gross cost	3,122,532	501,646	177,221	89,448	**3,890,847**	3,738,469
Historic cost depreciation	(399,730)	(17,675)	-	-	**(417,405)**	(383,245)
	2,722,802	483,971	177,221	89,448	**3,473,442**	3,355,224
Revaluation reserve	533,826	21,197	-	-	**555,023**	560,027
	3,256,628	505,168	177,221	89,448	**4,028,465**	3,915,251
Existing use value and properties under construction	3,573,044	532,547	177,221	89,448	**4,372,260**	4,154,063

Total grant liability included in creditors, reserves and contingent liabilities is £1,065.3m (2020: £1,033.2m).

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	**2021 Total**	2020 Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	**£'000**	£'000
Cost or valuation										
At 1 April	7,395	19,643	920	8,278	11,209	47,976	426	1,436	**97,283**	88,054
Additions	-	37	3,517	1,350	130	1,871	7	-	**6,912**	10,392
Disposals	-	(4,426)	-	(819)	-	(1)	-	(14)	**(5,260)**	(1,163)
Impairment	-	(1,208)	-	-	-	-	-	-	**(1,208)**	-
Transfer to investment properties	(7,395)	-	-	-	-	-	-	-	**(7,395)**	-
As at 31 March	-	14,046	4,437	8,809	11,339	49,846	433	1,422	**90,332**	97,283
Depreciation										
At 1 April	-	6,117	409	8,032	8,356	26,821	320	1,264	**51,319**	46,807
Charge for year	-	362	263	172	437	4,202	22	87	**5,545**	4,643
On disposals	-	(1,363)	-	(748)	-	(1)	-	(14)	**(2,126)**	(131)
As at 31 March	-	5,116	672	7,456	8,793	31,022	342	1,337	**54,738**	51,319
Net book value at 31 March 2021	-	8,930	3,765	1,353	2,546	18,824	91	85	**35,594**	
Net book value at 31 March 2020	7,395	13,526	511	246	2,853	21,155	106	172	**45,964**	

Freehold shops are held at valuation and had a historic cost of £2,514k at 31 March 2020. These have been reclassified as investment properties in 2020-21. All other fixed assets included in this note are held at historic cost.

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	**2021 Total**	2020 Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	**£'000**	£'000
Cost or valuation										
At 1 April	7,395	19,643	920	7,581	11,209	47,504	106	620	**94,978**	85,487
Additions	–	37	3,517	1,350	130	1,871	7	–	**6,912**	10,654
Disposals	–	(4,426)	–	(819)	–	(1)	–	(14)	**(5,260)**	(1,163)
Impairment	–	(1,208)		–	–	–	–	–	**(1,208)**	–
Transfer to investment properties	(7,395)	–	–	–	–	–	–	–	**(7,395)**	–
As at 31 March	–	14,046	4,437	8,112	11,339	49,374	113	606	**95,422**	94,978
Depreciation										
At 1 April	–	6,117	409	7,335	8,356	26,349	–	596	**49,162**	44,941
Charge for year	–	362	263	172	437	4,202	22	12	**5,470**	4,352
On disposals	–	(1,363)	–	(748)	–	(1)	–	(14)	**(2,126)**	(131)
Revaluation										
As at 31 March	–	5,116	672	6,759	8,793	30,550	22	594	**52,506**	49,162
Net book value at 31 March 2021	–	8,930	3,765	1,353	2,546	18,824	91	12	**35,521**	
Net book value at 31 March 2020	7,395	13,526	511	246	2,853	21,155	106	24	**45,816**	

Freehold shops are held at valuation and had a historic cost of £2,514k at 31 March 2020. These have been reclassified as investment properties in 2020-21. All other fixed assets included in this note are held at historic cost.

16. Investment properties

	Group		Association	
Valuation	**2021 £'000**	2020 £'000	**2021 £'000**	2020 £'000
At 1 April	**140,012**	134,338	**101,838**	96,383
Additions new units	**27,634**	3,964	**27,634**	4,069
Transfer of units under construction to Housing Properties	**(7,791)**	–	**(7,791)**	–
Transfer from other fixed assets	**7,395**	–	**7,395**	–
Improvements to existing units	**1,443**	3,075	**1,443**	3,075
Disposals	**(215)**	–	**(215)**	–
Fair value (decrease)/increase	**1,957**	(1,365)	**15**	(1,689)
At 31 March	**170,435**	140,012	**130,319**	101,838
Historic cost net book value	**147,144**	126,200	**115,584**	94,487

Market rent Investment properties, which primarily comprise market rent properties, were professionally valued by Jones Lang LaSalle at open market value as at 31 March 2021. The valuation was undertaken in accordance with the RICS Appraisal and Valuation Standards. See also note 37 for estimates and judgements used by the valuer.

Freehold shops were professionally valued by Savills on the basis of open market value as at 31 March 2021 and in accordance with the RICS Appraisal and Valuation Standards. The valuer is neither an employee nor an officer of the Association. See also note 37 for estimates and judgements used by the valuer.

17. Investments in joint ventures

	David Wilson £'000	Linden Homes £'000	Kier £'000	Crest £'000	**Total £'000**
Investment					
At 1 April 2020	-	-	-	685	**685**
Amortisation	-	-	-	(161)	**(161)**
At 1 April 2020 & 31 March 2021	-	-	-	524	**524**
Share of profits					
At 1 April 2020	-	287	292	-	**579**
Profit for the year	623	584	215	-	**1,422**
Dividend distribution	(10)	-	(480)	-	**(490)**
At 31 March 2021	613	871	27	-	**1,511**
Net book value at 31 March 2021	613	871	27	524	**2,035**
Net book value at 31 March 2020	-	287	292	685	**1,264**

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.

18. Investments - HomeBuy loans

	Group		Association	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000
At 1 April	**10,969**	11,739	**10,969**	11,739
Loans repaid	**(355)**	(770)	**(355)**	(770)
At 31 March	**10,614**	10,969	**10,614**	10,969

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 349 loans outstanding (2020: 361).

19. Financial Assets

	Group		Association	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000
Cost or valuation				
Bonds	**-**	634	**-**	634
Debt service reserve	**3,812**	3,830	**3,812**	3,830
Collateral deposits	**641**	1,987	**641**	1,987
Assets measured at fair value through the income statement (derivatives)	**3,550**	4,909	**3,550**	4,909
Shares in subsidiary undertakings	**-**	-	**3,929**	3,929
	8,003	11,360	**11,932**	15,289

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.

A list of subsidiary undertakings is included in note 36.

20. Stock

	Group		Association	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000
Properties under construction	**53,916**	61,306	**44,058**	51,016
Completed properties	**6,304**	4,505	**4,776**	4,505
Consumable stock	**3,209**	2,773	**3,209**	2,773
	63,429	68,584	**52,043**	58,294

21. Debtors

	Group		Association	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000
Rental arrears				
Gross	**11,765**	12,572	**11,692**	12,553
Discounted repayment schedules	**(690)**	(690)	**(690)**	(690)
Less bad debt provision	**(7,025)**	(8,558)	**(6,989)**	(8,544)
Net rental income due	**4,050**	3,324	**4,013**	3,319
Social Housing Grant receivable	**-**	70	**-**	70
Prepayments and accrued income	**5,278**	8,533	**5,539**	7,356
Due from other Group undertakings	**-**	-	**58,822**	50,595
Other loans	**39,466**	43,892	**39,453**	43,866
Other debtors	**3,254**	1,464	**3,188**	1,575
	52,048	57,283	**111,015**	106,781
Amounts falling due within one year:	**43,121**	45,297	**53,154**	57,499
Amounts falling due after more than one year	**8,927**	11,986	**57,861**	49,282
	52,048	57,283	**111,015**	106,781

Loans from the Association to other members of the Group are charged at a market rate of interest of 2.1% to 6% (2020: 2.1% 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 £22.5m (2020: £20.2m), Sovereign BDW (Hutton Close) LLP of £1.8m (2020: £4.1m), Sovereign Kier LLP of £nil (2020: £0.3m due to) and Linden Sovereign Brockworth LLP of £6.5m (2020: £7.8m). Other loans also include an amount due from Linden Limited of £8.4m (2020: £11.2m).

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22. Cash and cash equivalents

	Group		Association	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000
Cash and cash equivalents	**62,966**	72,217	**60,781**	69,686
	62,966	72,217	**60,781**	69,686

23. Creditors – amounts falling due within one year

		Group		Association	
	Note	**2021 £'000**	2020 £'000	**2021 £'000**	2020 £'000
Housing loans	25	**26,779**	27,816	**26,286**	27,273
Trade creditors		**17,312**	16,463	**14,930**	13,141
Social housing grant		**41,532**	19,923	**41,532**	19,923
Social housing grant - properties	27	**2,855**	2,782	**2,855**	2,782
Due to Group undertakings		**-**	-	**28,145**	24,933
Other loans		**-**	222	**-**	179
Taxation and social security		**1,968**	1,848	**1,968**	1,848
Recycled capital grant fund	28	**18,211**	18,671	**18,211**	18,671
Rents received in advance		**10,066**	10,066	**10,046**	10,046
Other creditors		**5,662**	6,407	**6,243**	6,818
Accruals and deferred income		**46,787**	42,929	**23,332**	28,003
		171,172	147,127	**173,548**	153,617

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

	Note	Group 2021 £'000	Group 2020 £'000	Association 2021 £'000	Association 2020 £'000
Housing loans	25	**1,888,933**	1,866,552	**1,082,747**	1,191,950
Finance lease		**2,721**	2,722	**2,721**	2,722
Derivative financial instruments		**87,371**	112,831	**87,371**	112,831
Social housing grant - properties	27	**331,018**	323,682	**331,018**	323,682
Deferred income		**10,614**	10,969	**10,614**	10,969
Recycled capital grant fund	28	**1,810**	68	**1,810**	68
Other creditors		**564**	554	**564**	554
Long term Group loans	25	**-**	-	**800,000**	667,921
		2,323,031	2,317,378	**2,316,845**	2,310,697

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 2021					
Amounts due to 2009 bond investors	-	9,986	39,942	309,804	**359,732**
Amounts due to 2012 bond investors	-	11,920	47,680	458,600	**518,200**
Amounts due to Affordable Housing Finance	-	2,748	10,993	143,096	**156,837**
Amounts due to 2019 bond investors	-	8,906	35,625	579,844	**624,375**
	-	33,560	134,240	1,491,344	**1,659,144**

25. Housing loans

	Note	Group 2021 £'000	Group 2020 £'000	Association 2021 £'000	Association 2020 £'000
Repayable other than by instalments in more than five years	24	**965,406**	840,405	**965,406**	833,325
Repayable by instalments within one year	23	**26,779**	27,816	**26,286**	27,273
Repayable by instalments in more than one but less than two years	24	**27,032**	29,406	**26,559**	28,912
Repayable by instalments between two and five years	24	**115,698**	159,915	**114,396**	158,559
Repayable by instalments in more than five years	24	**780,797**	836,826	**776,386**	839,075
		1,915,712	1,894,368	**1,909,033**	1,887,144

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 0.25% to 15.88% per annum (2020: 0.46% to 15.90%). The average rate achieved over the year was 3.8% (2020: 3.8%). 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 2021 were £667m (2020: £585m).

26. Provisions

	Group Property £'000	Group Other £'000	Group **Total £'000**	Association Property £'000	Association Other £'000	Association **Total £'000**
At 1 April 2020	1,910	4,629	**6,539**	1,811	4,629	**6,440**
Arising during the year	6,762	-	**6,762**	6,762	-	**6,762**
Utilised during the year	(682)	-	**(682)**	(682)	-	**(682)**
Unused reversed during the year	(685)	(2,978)	**(3,663)**	(586)	(2,978)	**(3,564)**
At 31 March 2021	7,305	1,651	**8,956**	7,305	1,651	**8,956**
Current	7,305	1,651	**8,956**	7,305	1,651	**8,956**
At 31 March 2021	7,305	1,651	**8,956**	7,305	1,651	**8,956**

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, dilapidations on the exit of leases and remedial works to make good. Cost of work is estimated and is expected to be incurred within the next two years.

Other provisions relate to probable future outflows following changes in the interpretation of specific services provided historically. There is uncertainty in the timing of resulting payments.

27. Grant

	Note	Group 2021 £'000	Group 2020 £'000	Association 2021 £'000	Association 2020 £'000
At 1 April		**346,387**	292,632	**346,387**	292,344
Grants received during the year		**31,097**	48,234	**31,097**	48,235
Grants recycled from the recycled capital grant fund		**1,694**	9,142	**1,694**	9,047
Grant re staircasing sales		**(492)**	(872)	**(492)**	(872)
Grant re other property		**(568)**	(136)	**(568)**	(136)
Grant amortisation		**(2,713)**	(2,613)	**(2,713)**	(2,613)
Transfer from subsidiary		**-**	-	**-**	383
At 31 March	23, 24	**375,405**	346,387	**375,405**	346,387

28. Recycled Capital Grant Fund and Disposal Proceeds Fund

	Note	Group 2021 £'000	Group 2020 £'000	Association 2021 £'000	Association 2020 £'000
Recycled Capital Grant Fund					
At 1 April		**18,739**	24,771	**18,739**	24,771
Grants recycled		**2,956**	2,943	**2,956**	2,943
Interest accrued		**19**	167	**19**	167
New build		**(1,694)**	(9,142)	**(1,694)**	(9,142)
At 31 March	23, 24	**20,020**	18,739	**20,020**	18,739

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 2021 will not be recalled.

29. 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 by Scottish Widows.

Defined benefit pension plans assets and liabilities

	SPP £'000	LGPS £'000	2021 Total £'000	2020 Total £'000
Assets and liabilities				
Present value of funded obligation	(193,424)	(82,223)	**(275,647)**	(224,784)
Fair value of scheme assets (bid value)	154,553	50,600	**205,153**	172,051
Net liability	(38,871)	(31,623)	**(70,494)**	(52,733)
Present value of unfunded obligation	-	(83)	**(83)**	(88)
Net liability (including unfunded obligations)	(38,871)	(31,706)	**(70,577)**	(52,821)

Defined benefit pension plans - amounts charged to the income statement

	SPP £'000	LGPS £'000	2021 Total £'000	2020 Total £'000
Charged to operating costs				
Current service cost	-	630	**630**	805
Past service cost	-	-	**-**	155
Administration costs	141	18	**159**	138
Total charged to operating costs	141	648	**789**	1,098
(Credit)/charge to other finance costs				
Expected return on pension fund assets	(3,076)	(979)	**(4,055)**	**(3,952)**
Interest on pension scheme liabilities	3,602	1,594	**5,196**	**5,505**
Net charge to other finance costs	526	615	**1,141**	**1,553**

29. Pension arrangements (continued)

Defined benefit pension plans - amounts charged to other comprehensive income

	SPP £'000	LGPS £'000	**2021 Total £'000**	2020 Total £'000
Defined benefit costs recognised in other comprehensive income				
Return on plan assets (less interest income)	19,139	7,804	**26,943**	(9,359)
Experience gains arising on plan liabilities	8,455	834	**9,289**	4,427
Effects of changes in the demographic and financial assumptions underlying the present value of the defined benefit obligation - (loss)/gain	(46,887)	(13,705)	**(60,592)**	21,639
Other actuarial losses	-	-	**-**	(367)
Total amount recognised in other comprehensive income	(19,293)	(5,067)	**(24,360)**	16,340

(a) Sovereign Pension Plan (SPP)

On 1 October 2019, Sovereign enacted a 'bulk transfer' of all pension assets and liabilities away from the defined benefit scheme held within the Social Housing Pensions Scheme (SHPS), a multi-employer pension fund, to a new defined benefit scheme, the Sovereign Pension Plan (SPP). This scheme is closed to new members.

It is believed that the new SPP investment strategy will be beneficial to Sovereign in future years.

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.

An actuarial valuation is currently being carried out at 30 September 2020 and preliminary results of this have been updated to 31 March 2021 by a qualified actuary, independent of Sovereign.

The net defined benefit liability to be recognised is £38.871m.

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	**2021 £'000**	2020 £'000
Present value of defined benefit obligation	**(193,424)**	(155,105)
Fair value of plan assets	**154,553**	129,444
Deficit in plan	**(38,871)**	(25,661)
Unrecognised surplus	**-**	-
Defined benefit liability to be recognised	**(38,871)**	(25,661)

29. Pension arrangements (continued)

The fair value of the plan assets and the return on those assets was as follows:

	2021 £'000	**2020 £'000**
Asset category		
Equity	**57,802**	27,564
Bonds	**52,974**	40,036
Property	**2,159**	2,157
Cash	**3,645**	35,381
Other	**37,973**	24,306
Total	**154,553**	129,444

The actual return on plan assets was £22,215k (2020: £18,173k).

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	**2021 £'000**	2020 £'000
Defined benefit obligation at the beginning of the period	**155,105**	173,924
Expenses	**-**	118
Interest expense	**3,602**	3,696
Actuarial losses/(gains)	**38,432**	(18,556)
Benefits paid and expenses	**(3,715)**	(4,077)
Defined benefit obligation at the end of the period	**193,424**	155,105

Asset reconciliation	**2021 £'000**	2020 £'000
Fair value of scheme assets at the beginning of the period	**129,444**	129,291
Expenses	**(141)**	-
Interest income	**3,076**	2,846
Experience on plan assets (less interest income) - gain/(loss)	**19,139**	(5,179)
Contributions by employer	**6,750**	6,563
Benefits paid and expenses	**(3,715)**	(4,077)
Fair value of scheme assets at the end of the period	**154,553**	129,444

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.

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29. Pension arrangements (continued)

The following table sets out the assumptions used to arrive at the pension asset and liability for 31 March 2021 and 31 March 2020 (using market conditions as at the respective date).

SPP defined benefit	2021	2020
Major assumptions	%	%
Price increases RPI	3.25	2.60
Price increases CPI	2.95	1.60
Discount rate	2.20	2.35
Salary increase	3.25	3.60
Allowance for commutation of pension for cash at retirement	75	75

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

	2021 Years	2020 Years
Retiring today		
Males	22.1	22.0
Females	24.5	23.7
Retiring in 20 years		
Males	23.7	23.3
Females	26.0	25.0

At 31 March 2021, the methodology for calculating the discount rate has changed. This is due to change in the actuary during the year. The discount rate assumption has been derived using the UK Mercer yield curve, as opposed to the Merrill Lynch AA corporate bond yield curve from the prior year end. The impact of change in methodology is £2.5m decrease in liabilities at year end.

Sovereign has updated its approach to setting RPI and CPI inflation assumptions in light of the RPI reform proposals published on the 4th September 2019 by the UK Chancellor and UK Statistics Authority. The RPI/CPI wedge/(long term gap) has been reduced by 70 basis points (from 1% in FY 2020 to 0.30% in FY 2021) to reflect increased clarity on the future of the RPI index. The impact of this change in assumptions has increased the defined benefit obligations by approximately £16m

It has been brought to the attention of the Trustee that changes to benefits in the past which may not have been execute in accordance with the Scheme's documentation. The Trustee will be seeking court directions on how to interpret the rules. An estimate of the potential increase in liabilities at 3o September 2020 (the date of the triennial valuation) if the Trustee is required to make changes to the scheme is £0.13m.

The mortality rate is based on publicly available mortality tables for the specific country. COVID-19 has caused a short-term increase in deaths in the UK but the excess deaths to date have not generally had a material impact on UK pension scheme liabilities. The future impact of COVID-19 on long term mortality improvements is currently uncertain with potential adverse implications of delayed medical interventions and long COVID along with potential positive implications if the surviving

29. Pension arrangements (continued)

population is less frail or the pandemic causes improved healthcare initiatives and lifestyle changes. Overall, the Group believes currently there is insufficient evidence to require an explicit adjustment to the mortality assumption for COVID-19.

An allowance of 0.05% is included in the liabilities to allow for the expected impact of Guaranteed Minimum Pensions equalisation.

The approximate effects of movements in the main assumptions on the value of liabilities are shown in the table below:

Movement in assumptions	
Discount rate + / - 0.1%	- / + 2%
Inflation assumptions + / - 0.1%	- / + 2% (of inflation linked liabilities)
Life expectancy + / - 1 year	- / + 3-5%

Contributions to be made into the SPP for 2021-22 will be £372k.

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

	2021 £'000	2020 £'000
Defined benefit costs recognised in other comprehensive income		
Return on plan assets (less interest income)	19,139	(5,179)
Experience gains arising on plan liabilities	8,455	2,641
Effects of changes in the demographic and financial assumptions underlying the present value of the defined benefit obligation - (loss)/gain	(46,887)	15,915
Total (loss)/gain recognised in other comprehensive income	**(19,293)**	13,377

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

	2021 £'000	2020 £'000
Charged to operating costs		
Administration costs	141	118
Total charged to operating costs	**141**	118
(Credit)/charge to other finance costs		
Expected return on pension fund assets	(3,076)	(2,846)
Interest on pension scheme liabilities	3,602	3,696
Net charge to other finance costs	**526**	850

29. Pension arrangements (continued)

SHPS defined contributions

The Association has made no paid employer's contributions in the year (2020: £3,498k). The scheme has been replaced by a Scottish Widows administered scheme.

(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 2021 by a qualified independent actuary.

Future pension increases have been assumed to be at CPI.

It was agreed that an employer contribution rate of 25.4% of pensionable pay would apply in the year ended 31 March 2021 (2020: 24.7%). An additional allowance is payable each year in respect of past service deficits. The allowance for the year ended 31 March 2021 was £473k (2020: £465k).

(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 2021 by a qualified independent actuary.

Future pension increases have been assumed to be at CPI.

It was agreed that an employer contribution rate of 18.1% of pensionable pay would apply in the year ended 31 March 2021 (2020: 16.3%). Past service deficit payments of £160k were made during the year (2020: £154k).

(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 2021 by a qualified independent actuary.

An employer contribution rate of 36.9% of pensionable pay applied for the year ended 31 March 2021 (2020: 30.4%). An additional allowance is payable each year in respect of past service deficits. The allowance for the year ended 31 March 2021 was £319k (2020: £367k).

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 2021 by a qualified independent actuary.

An employer contribution rate of 18.4% of pensionable pay applied for the year ended 31 March 2021 (2020: 17.3%). Past service deficit payments of £243k were made during the year (2020: £252k).

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 2021 by a qualified independent actuary.

An employer contribution rate of 29.7% of pensionable pay applied for the year ended 31 March 2021 (2020: 26.9%). An additional allowance is payable each year in respect of past service deficits. The allowance for the year ended 31 March 2021 was £198k (2020: £139k).

Future pension increases have been assumed to be at CPI.

29. 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	2021 % per annum					2020 % per annum				
Major assumptions	**Berks**	**Dorset**	**Hants**	**Dorset**	**I.O.W.**	Berks	Dorset	Hants	Dorset	I.O.W.
Price increases RPI	3.4	3.3	-	3.3	-	2.9	2.8	-	2.8	-
Price increases CPI	2.9	2.9	2.7	2.9	2.9	2.0	1.9	2.1	2.0	1.9
Pension increases	2.9	2.9	2.7	2.9	2.9	2.0	1.9	2.1	2.0	1.9
Pension accounts revaluation rate	-	-	2.7	-	-	-	-	2.1	-	-
Discount rate	1.9	2.0	2.1	2.0	2.0	2.3	2.4	2.3	2.4	2.3
Salary increase	3.9	3.9	3.7	3.9	3.7	3.0	2.9	3.1	3.0	2.7
Return assumptions										
Asset portfolio	1.9	2.0	2.1	2.0	2.0	2.3	2.4	2.3	2.4	2.3

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	21.2	23.1	23.1	23.1	21.9
Females	23.9	24.6	25.5	24.6	24.2
Retiring in 20 years					
Males	22.5	24.4	24.8	24.4	22.9
Females	25.4	26.0	27.3	26.0	25.9

29. Pension arrangements (continued)

(h) Historic data

Berkshire	2021 £'000	2020 £'000	2019 £'000	2018 £'000	2017 £'000
Assets and liabilities value as at:					
Present value of funded obligation	**(16,349)**	(15,336)	(17,944)	(18,503)	(19,274)
Fair value of scheme assets (bid value)	**8,488**	8,176	9,152	8,814	8,810
Net liability	**(7,861)**	(7,160)	(8,792)	(9,689)	(10,464)
Experience adjustments					
Experience adjustments on scheme assets	**-**	-		-	-
Experience adjustments on scheme liabilities	**-**	-		-	(73)

Dorset (legacy Sovereign Housing Association Limited)	2021 £'000	2020 £'000	2019 £'000	2018 £'000	2017 £'000
Assets and liabilities value as at:					
Present value of funded obligation	**(11,774)**	(9,873)	(10,819)	(10,948)	(11,217)
Fair value of scheme assets (bid value)	**5,717**	4,744	5,439	5,329	5,357
Net liability	**(6,057)**	(5,129)	(5,380)	(5,619)	(5,860)
Present value of unfunded obligation	**(21)**	(22)	(23)	(25)	(27)
Net liability (including unfunded obligations)	**(6,078)**	(5,151)	(5,403)	(5,644)	(5,887)
Experience adjustments					
Experience adjustments on scheme assets	**-**	-		-	-
Experience adjustments on scheme liabilities	**-**	-		-	(228)

29. Pension arrangements (continued)

Hampshire	2021 £'000	2020 £'000	2019 £'000	2018 £'000	2017 £'000
Assets and liabilities value as at:					
Present value of funded obligation	**(9,798)**	(8,887)	(8,890)	(8,880)	(8,910)
Fair value of scheme assets (bid value)	**9,005**	7,164	7,330	6,600	6,370
Net liability	**(793)**	(1,723)	(1,560)	(2,280)	(2,540)
Experience adjustments					
Experience adjustments on scheme assets	**-**	-		-	-
Experience adjustments on scheme liabilities	**-**	-		-	-

Dorset (legacy Spectrum Housing Group Limited)	2021 £'000	2020 £'000	2019 £'000	2018 £'000	2017 £'000
Assets and liabilities value as at:					
Present value of funded obligation	**(27,280)**	(22,575)	(24,562)	(24,841)	(25,640)
Fair value of scheme assets (bid value)	**14,809**	12,165	13,893	13,521	13,401
Net liability	**(12,471)**	(10,410)	(10,669)	(11,320)	(12,239)
Present value of unfunded obligation	**(62)**	(66)	(70)	(74)	(78)
Net liability (including unfunded obligations)	**(12,533)**	(10,476)	(10,739)	(11,394)	(12,317)
Experience adjustments					
Experience adjustments on scheme assets	**-**	-		-	-
Experience adjustments on scheme liabilities	**-**	-		-	-

Isle of Wight	2021 £'000	2020 £'000	2019 £'000	2018 £'000	2017 £'000
Assets and liabilities value as at:					
Present value of funded obligation	**(17,022)**	(13,008)	(14,759)	(13,041)	(12,734)
Fair value of scheme assets (bid value)	**12,581**	10,358	10,995	9,918	9,599
Net liability	**(4,441)**	(2,650)	(3,764)	(3,123)	(3,135)
Experience adjustments					
Experience adjustments on scheme assets	**-**	-		-	-
Experience adjustments on scheme liabilities	**-**	-		-	-

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29. Pension arrangements (continued)

Consolidated (Group and Association) Local Government Pension Schemes	2021 £'000	2020 £'000	2019 £'000	2018 £'000	2017 £'000
Assets and liabilities value as at:					
Present value of funded obligation	**(82,223)**	(69,679)	(76,974)	(102,631)	(104,596)
Fair value of scheme assets (bid value)	**50,600**	42,607	46,809	71,370	70,554
Net liability	**(31,623)**	(27,072)	(30,165)	(31,261)	(34,042)
Present value of unfunded obligation	**(83)**	(88)	(93)	(99)	(105)
LGPS net liability (including unfunded obligations)	**(31,706)**	(27,160)	(30,258)	(31,360)	(34,147)

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

	2021 £'000	2020 £'000
Charged to operating costs		
Current service cost	**630**	805
Past service cost	**-**	155
Administration costs	**18**	20
Total charged to operating costs	**648**	980
(Credit)/charge to other finance costs		
Expected return on pension fund assets	**(979)**	(1,106)
Interest on pension scheme liabilities	**1,594**	1,809
Net charge to other finance costs	**615**	703

29. Pension arrangements (continued)

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

	2021 £'000	2020 £'000
Defined benefit costs recognised in other comprehensive income		
Return on plan assets (less interest income)	**7,804**	(4,180)
Experience gains arising on plan liabilities	**834**	1,786
Effects of changes in the demographic and financial assumptions underlying the present value of the defined benefit obligation - (loss)/gain	**(13,705)**	5,724
Other actuarial losses	**-**	(367)
Total gain recognised in other comprehensive income	**(5,067)**	2,963

(k) Asset and liability obligation reconciliations - LGPS

Benefit obligation	2021 £'000	2020 £'000
Defined benefit obligation at the beginning of the year	**69,767**	77,067
Service cost	**630**	805
Interest cost	**1,594**	1,809
Change in financial assumptions	**14,020**	(4,874)
Change in demographic assumptions	**(315)**	(850)
Experience gains	**(834)**	(1,786)
Estimated benefits paid (net of transfers in)	**(2,689)**	(2,694)
Past service cost	**-**	155
Contributions by scheme participants	**138**	140
Unfunded pension payments	**(5)**	(5)
Defined benefit obligation at the end of the year	**82,306**	69,767

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29. Pension arrangements (continued)

Asset reconciliation	2021 £'000	2020 £'000
Fair value of scheme assets at the beginning of the year	42,607	46,809
Interest on assets	979	1,106
Return on assets less interest	7,804	(4,180)
Other actuarial gains	-	(367)
Administration expenses	(18)	(20)
Contributions by employer	1,784	1,818
Contributions by scheme participants	138	140
Estimated benefits paid (net of transfers in)	(2,694)	(2,699)
Fair value of scheme assets at the end of the year	**50,600**	42,607

(l) Guaranteed minimum pensions

On 23 March 2021, the Government published the outcome to its Guaranteed Minimum Pension Indexation consultation, concluding that all public service pension schemes, including the LGPS, will be directed to provide full indexation to members with a GMP reaching State Pension Age (SPA) beyond 5 April 2021. This is a permanent extension of the existing 'interim solution' that has applied to members with a GMP reaching SPA on or after 6 April 2016. The valuation assumption in these financial statements is consistent with the consultation outcome.

30. Financial instruments

(a) Carrying amount of financial instruments

The carrying amount of the financial assets and liabilities includes:

	2021 £'000	2020 £'000
Assets measured at amortised cost	4,453	6,451
Liabilities measured at fair value through income statement (derivatives)	(87,371)	(112,831)
Assets measured at fair value through income statement (derivatives)	3,550	4,909
Liabilities measured at amortised cost (housing loans)	(1,915,712)	(1,894,368)
	(1,995,080)	(1,995,839)

30. 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:

	2021						2020					
	Carrying amount £'000	Expected cash flows £'000	1 year or less £'000	1 to <2 years £'000	2 to <5 years £'000	5 years and over £'000	Carrying amount £'000	Expected cash flows £'000	1 year or less £'000	1 to <2 years £'000	2 to <5 years £'000	5 years and over £'000
Interest rate swaps												
Liabilities	83,444	101,671	9,283	9,130	21,929	61,330	108,164	115,510	8,557	8,723	23,277	74,953
	83,444	**101,671**	**9,283**	**9,130**	**21,929**	**61,330**	108,164	115,510	8,557	8,723	23,277	74,953

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)	2021 £'000	2020 £'000
Recognised through other comprehensive income	19,224	(21,354)
Recognised through the income statement	1,511	(1,571)
Decrease/(increase) in fair value	**20,735**	(22,925)

(d) Fair values

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

	2021 £'000	2020 £'000
Derivatives measured at fair value through income statement	83,821	107,922
	83,821	107,922

31. 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.

	2021 £	2020 £
Allotted issued and fully paid		
At 1 April	113	118
Issued in the year	2	2
Cancelled during the year	(7)	(7)
At 31 March	108	113

32. 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.

33. Capital commitments

	Group		Association	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	416,901	522,298	353,990	498,143
Capital expenditure that has been authorised by the Executive Board but has not yet been contracted for	509,450	173,464	441,668	173,464

At 31 March 2021, the Group had cash and short term deposits of £63.0m (2020: £72.2m) and a further £667m of undrawn committed funding (2020: £585m), of which £655m was immediately available (2020: £464m). These funds, along with cash generated from operating activities are expected to fund the above capital expenditure.

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34. 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	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Land and buildings				
- within one year	1,590	1,634	1,557	1,557
- between two and five years	6,054	6,146	5,919	6,011
- in over five years	16,888	18,387	16,753	18,218
Temporary social housing initiatives				
- within one year	44	39	44	39
- between two and five years	6	39	6	39
- in over five years	-	-	-	-
Other				
- within one year	708	1,366	695	1,352
- between two and five years	121	623	114	617
- in over five years	-	-	-	-
	25,411	28,234	25,088	27,833

35. Group analysis of change in net debt

	As at 1 April 2020	Cashflows	Other changes	As at 31 March 2021
Cash at bank and in hand	72,217	(9,251)	-	62,966
Debt due within one year	(27,816)	1,037	-	(26,779)
Debt due within more than one year	(1,979,383)	(22,381)	25,460	(1,976,304)
	(1,934,982)	(30,595)	25,460	(1,940,117)

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36. 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 £1 of the £50,000 share capital of Sovereign Housing Capital plc, with the remaining held by Sovereign Advances Limited.

36. 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 2021 is £8.4m (2020: £11.2m).

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 transaction with NBS:

- Sale of an office building to NBS in June 2020 for £3.5m

The transaction was 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

Please refer to the pension note 29, 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:

	2021 £'000	2020 £'000
Payment of interest at commercial rates	**30,487**	24,348
Purchase of design and build services at cost plus commercial mark-up	**93,384**	140,570
Repairs and maintenance service at costs agreed during competitive tender	**-**	1,078
Management charges on a cost sharing basis (income)	**(154)**	(215)
	123,717	165,781

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.

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37. 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 2021 with a valuation date of 31 March 2021. In applying the Royal Institute of Chartered Surveyors (RICS) Valuation Global Standards 2017 ('Red Book'), The values in the report have been used to inform the measurement of property assets at valuation in these financial statements.

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 to be 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 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.

37. 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 27 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 29 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.