

SANCTUARY SCOTLAND HOUSING ASSOCIATION LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2011

Scottish Registered Charity:	SC024549
The Scottish Housing Regulator:	HEP302
Industrial and Provident Society Number:	2508RS

Sanctuary Scotland Housing Association Limited

Annual Report and Financial Statements for the Year Ended 31 March 2011

Contents	Page
Committee of Management and Advisors	2
The Committee of Management's Report	3 - 10
Independent Auditors' Report to the Members of Sanctuary Scotland Housing Association Limited	11
Income and Expenditure Account	12
Balance Sheet	13
Notes to the Financial Statements	14 - 25

Sanctuary Scotland Housing Association Limited

Committee of Management and Advisors

Members of the Committee of Management

Professor K Gibb (Chairperson)
Mr J Holcombe (Vice-Chairperson)
Mr I Blackwood
Mr G Matthew
Mrs M Miller
Mrs E Noad
Mr J Payne
Mrs P Higgins (Community Member)
Mrs M Phee (Resigned July 2010)
Mrs F Black (Community Member, Resigned March 2011)
Mrs S Moradi (Co-opted member May 2010 to August 2010, elected Community Member August 2010)
Mrs C Vine (Co-opted member, May 2010 to December 2010, appointed December 2010)

Corporate members

Sanctuary Housing Association
Spiral (Number 2) Housing Association Limited

Secretary

Craig Moule

Independent Registered Auditors

PricewaterhouseCoopers LLP
Cornwall Court
19 Cornwall Street
Birmingham
B3 2DT

Bankers

Bank of Scotland
PO 17325
Edinburgh
EH11 1YH

Legal Advisors

TC Young
7 West George Street
Glasgow
G2 1AB

Registered Address

Sanctuary House
7 Freeland Drive
Glasgow
G53 6PG

Scottish Registered Charity Number

SC024549

Sanctuary Scotland Housing Association Limited

The Committee of Management's Report

The Committee of Management (the "Committee") presents its Annual Report and the audited financial statements for the year ended 31 March 2011.

Principal activity

Sanctuary Scotland Housing Association Limited (the "Association") was registered under the Industrial and Provident Societies Act 1965 for the purpose of developing, managing and maintaining housing for people in housing need.

The Association is registered with The Scottish Housing Regulator.

The Association's ultimate parent undertaking is Sanctuary Housing Association and forms part of the Sanctuary Group of entities (the "Group").

The Association is registered under the Industrial and Provident Societies Act 1965, number 2508RS and is a Scottish Registered Charity number SC024549.

Review of business activities

The Association has the following strategic aims:

- To provide good quality affordable housing both for rent and for sale for those less able to compete in their sections of the housing market.
- To provide housing and associated services for those with more specific housing requirements, such as older people and those with long-term disabilities.
- To provide value for money services and advice to individuals and organisations working to provide social housing.
- To ensure that any investment made by the Association in Scotland provides sustainable benefits for local communities.

The table below highlights the performance by income stream:

	Turnover		Operating surplus	
	2011 £000	2010 £000	2011 £000	2010 £000
General Needs	7,762	7,039	2,600	2,930
Sheltered & Supported Housing	711	676	432	362
Other Activities	2,402	150	144	72
Totals	10,875	7,865	3,176	3,364

Included within Turnover for Other Activities are outright sales of first tranche development properties. Refer to notes 1 and 3b for further details.

Some revenues and costs within the 2010 comparative have been reclassified to align to the activities of the Association.

Sanctuary Scotland Housing Association Limited

The Committee of Management's Report continued

The Executive Team and the Committee of Management use a number of key indicators to monitor the outcome of the Association's objectives. A selection of these indicators and results for the year, are as follows:

Indicator	Actual for Year 2011	Actual for Year 2010
Current tenant arrears as a % of gross annual rent	3.98%	3.61%
Void loss as a % of gross annual rent	0.14%	0.30%

Accommodation in management

	2011	2010
Social housing accommodation:		
General needs housing	2,253	2,183
Sheltered & supported housing accommodation	114	112
Total stock available for letting	2,367	2,295
Not available for letting	208	87
Total units in management	2,575	2,382

At the balance sheet date, an additional 208 properties at Anderston in Glasgow were being held as vacant pending phased demolition as part of the major regeneration project in that area. These properties are held as assets under construction.

The Association had a further 230 units on site and another 307 units committed for development.

24 (2010: 24) units owned by the Association were being managed by a third party, external to the Group, at the Balance Sheet date. No Supported Housing Management Grant was payable during the year in respect of these properties. These units of accommodation are managed on behalf of the Association by Margaret Blackwood Housing Association in Edinburgh.

55 (2010: 58) units owned by the Association were being managed by Cumbernauld Housing Partnership Limited, a Group company, at the Balance Sheet date.

Housing Issues

The Association has maintained its high level of performance in a range of key indicators, and improved performance in areas such as the average time taken to re-let vacant properties to 8 days (2010: 15 days). The level of rent arrears for current tenants at the year end decreased slightly to 3.11% (2010: 3.59%) of the annual rental amount. This decrease was complemented by a reduction in the level of former tenant rent arrears to 0.7% (2010: 1.07%). The improvements made in reducing the average time taken to re-let vacant properties resulted in the level of rent loss due to empty social rented houses decreasing to 0.14% (2010: 0.3%).

Community issues

A number of local community events and activities were supported during the year by the Association, which provided direct funding for a wide range of such events. These small events can make a very real difference to the quality of life in the estates and communities which the Association serves.

Sanctuary Scotland Housing Association Limited

The Committee of Management's Report continued

Given the changes to the welfare benefits system which have recently been implemented, and those proposed for future, the service provided by the Association's Welfare Rights Officer has become increasingly important. During the year, this officer secured over £570,000 in backdated or additional benefits for tenants. The cumulative amount of money raised by this service will exceed £1 million during 2011/12, clear evidence that the benefits of the advice and support being provided by this specialist officer are being realised by a number of the Association's tenants.

Partnership working with the Association's main contractors and sub contractors involved in delivering new build development projects has resulted in apprenticeship opportunities being made available for a number of young people pursuing careers in the construction industry. At Anderston Phase 1, ten apprenticeship places were available and a further ten were available on the site at Beechwood Court in Cumbernauld.

Property Maintenance

The Association's experienced Property Services team has again successfully delivered a wide range of projects and services. Active management of the Association's contractors has again resulted in excellent levels of performance being achieved, with over 99.5% of all repairs carried out being completed on time. This was despite an increase in the number of repairs carried out, the severe weather experienced over the winter months contributing to this increase.

The largest improvement contract undertaken by the Association during the year was the external refurbishment works on a number of flatted blocks of properties at Ardler which transferred to the Association under the stock transfer in 2001. Further phases of this work will be carried out during 2011/12 and 2012/13 to all remaining properties owned by the Association at Dalmahoy Drive in Ardler to both enhance their appearance and improve their thermal efficiency.

Given the age profile and condition of the Association's stock, only the properties at Dalmahoy Drive, referred to above, require improvement to meet the requirements of the Scottish Housing Quality Standard and the programme which has been put in place will ensure that necessary works are carried out to these properties well in advance of the 2015 deadline. The Association reviewed its progress towards compliance with the SHQS during 2011/12. This review confirmed that the Association is on course to achieve full compliance by the required deadline.

Support Services

The Sheltered Housing Support Service provided by the Association at its two sheltered housing developments in Dundee receives funding under the Supporting People Programme from Dundee City Council. This funding has again been confirmed for 2011/12, albeit the amount of funding has again been frozen.

The service was inspected by the Scottish Care Commission in February/March 2010. The final inspection report was very positive, with grades of "Very Good" being awarded for all aspects of the service being provided. The report contained no specific recommendations or requirements for improvement of the service provided. A new body – Social Care and Social Work Improvement Scotland – took over the functions of the Care Commission from 1 April 2011 and the Association will undertake work as necessary to ensure that the requirements and expectations of this new regulator are met.

Risk Management Policy

The Association maintains a detailed Risk Matrix which is monitored and updated on a regular basis. The Risk Matrix identifies risks which the Association might face, the likelihood of such risks occurring and their impact on the Association if they do occur. The Matrix also identifies action taken by the Association to mitigate against such risks occurring or to minimise their impact. The Risk Matrix is utilised by both the Committee of Management and the Executive Team to ensure that the Association minimises, and controls as far as possible, the level of risk to which it is exposed.

Sanctuary Scotland Housing Association Limited

The Committee of Management's Report continued

Corporate Governance

The Association has a Committee of Management who are members of the Association. Persons are admitted into membership of the Association in one of two categories – National Membership or Community Membership. National Members of the Committee are appointed by the parent undertaking and Community Members of the Committee are elected by the community membership, which comprises tenants of the Association or residents in its estates. At present there are ten National Members on the Committee and two Community Members.

Two new Members of the Management Committee (one National Member and one Community Member), who had previously been co-opted, were formally elected to serve on the Committee during the year. Sadly, two Community Members of the Committee resigned from membership during the year.

The Committee again completed a process of self-appraisal and development during the year, the outcome of which was considered by the Committee in April 2011. This process will inform future training provision for Committee Members and the desired skills/experience mix of any new Committee Members to be recruited as vacancies for National Members arise.

Professor Kenneth Gibb was re-elected as Chairperson of the Association in August 2010 for his fifth and final year in office. John Holcombe was re-elected as Vice-Chairperson of the Association, also in August 2010. John Holcombe chairs the Association's Policy and Performance Sub Committee.

Changes to the Association's Rules to allow access to private funding via a new treasury vehicle established by Sanctuary Group were approved at a Special General Meeting held in August 2010 and subsequently received all necessary regulatory approvals. The opportunity was also taken to update the Association's Rules to the latest version of the model Rules for charitable housing associations in Scotland.

Statement of the Committee of Management's responsibilities

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

The Industrial and Provident Societies Acts 1965 to 2002 and Housing Association Law for Registered Providers (formerly Registered Social Landlords) require the Committee to prepare financial statements for each financial year. The Committee have prepared the financial statements in accordance with applicable law. The Committee must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Association and of the surplus of the Association for that period.

In preparing these financial statements, the Committee is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Association will continue in business.

The Committee is responsible for keeping adequate accounting records that are sufficient to show and explain the Association's transactions and disclose with reasonable accuracy at any time the financial position of the Association and enable them to ensure that the financial statements comply with the Industrial and Provident Societies Acts 1965 to 2002.

Sanctuary Scotland Housing Association Limited

The Committee of Management's Report continued

Statement of the Committee of Management's responsibilities continued

The Committee is also responsible for safeguarding the assets of the Association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In the case of each Committee Member in office at the date the Committee of Management's Report is approved, that:

- (a) so far as the Member is aware, there is no relevant audit information of which the Association's auditors are unaware; and
- (b) he / she has taken all the steps that he / she ought to have taken as a Member in order to make himself / herself aware of any relevant audit information and to establish that the Association's auditors are aware of that information.

Statement of Internal Control

The Committee of Management is ultimately responsible for ensuring that the Association maintains a system of internal control that is appropriate to the various business environments in which it operates. Internal control systems are designed to meet the particular needs of the Association and the risks to which it is exposed. The controls by their nature can provide reasonable but not absolute assurance against material misstatement or loss.

Key procedures are in place to provide internal control and there are clear lines of responsibility for the establishment and maintenance of the procedures through the designated senior executives. These controls are designed to give reasonable assurance with respect to:

- The reliability of financial information used within the Association or for publication;
- The maintenance of proper accounting records;
- The safeguarding of assets against unauthorised use or disposition; and
- Compliance with legislation and regulation.

Major business risks are identified through a system of continuous monitoring. The financial control framework includes the following key features:

- The Committee being directly responsible for strategic risk management;
- The adoption of formal policies and procedures including documentation of key systems and rules relating to a delegation of authorities which allows the monitoring of controls and restricts the unauthorised use of the Association's assets;
- Experienced and suitably qualified staff to take responsibility for important business functions. Annual appraisal procedures have been established to maintain standards of performance;
- Executives to monitor the key business risks and financial objectives allowing the Association to progress towards its financial plans set for the year and the medium term. Regular management accounts are prepared promptly providing relevant, reliable and up-to-date financial and other information including significant variances from budgets and forecasts which are investigated as necessary;
- All significant new initiatives, major commitments and investment projects are subject to formal authorisation procedures; and

Sanctuary Scotland Housing Association Limited

The Committee of Management's Report continued

Statement of Internal Control continued

- The Sanctuary Group Audit Committee reviews reports from management and from the Group Head of Internal Audit to provide reasonable assurance that control procedures are in place and are being followed. The Group Audit Committee receives an annual report on internal controls from the Group Executive. The Group Audit Committee make regular reports to the Group Board and relevant points are fed to the Committee of Sanctuary Scotland Housing Association Limited.

The Association follows formal procedures for ensuring appropriate actions are taken to correct weaknesses identified from the above reports.

The Group Audit Committee has also met Internal Audit and PricewaterhouseCoopers LLP, the statutory auditors, to discuss their work throughout the year.

On behalf of the Committee of Management, the Sanctuary Group Audit Committee has reviewed the effectiveness of the system of internal control in existence in the Association for the year ended 31 March 2011 and is not aware of any material changes at the date of signing of the financial statements.

Future developments and corporate issues

The year to 31 March 2011 saw a continued high level of development activity with a total of 232 new homes (2010: 233) for social rent or affordable home ownership (through the shared equity model) being completed on projects at Linwood in Renfrewshire, and at Anderston, Priesthill and Yorkhill in Glasgow. The first phase (104 properties) of the large-scale regeneration project at Anderston was completed during the year, welcome progress given the delays experienced with this project in previous years.

The Association continues to support other Government initiatives to meet housing need, such as the Mortgage to Rent scheme. Activity under this scheme has, however, reduced over recent years as a result of changes to the funding structure and criteria for this scheme. Two properties were acquired under this scheme in the year.

As a result of previous site acquisitions, and positive relationships with local authority partners and grant providers, the Association has a strong forward programme of development projects. A total of 230 (2010: 226) new homes were started during the year. Projects in areas such as Anniesland in Glasgow, Abercorn Street and Shortroods in Paisley, and Fleming Road and Beechwood Court in Cumbernauld will all see the completion of new homes during 2011/12, along with the final completions at Linwood. The second phase of 72 new homes at Anderston is also scheduled to commence in the autumn of 2011. Demolition of existing properties in the Anderston Phase 2 area is already well underway.

The Scottish Government's funding framework for new social rented housing development has been changed significantly for 2011/12, with significant reductions in both the overall level of public funding and the amount of funding support for each new unit along with the introduction of a challenge funding/competitive methodology for project submission and approval. Despite this increasing pressure, however, the Association has been able to identify projects which are viable within the new funding framework. Success in the competitive bidding process will entail a higher average level of private borrowing by the Association for each new home developed.

Sanctuary Scotland Housing Association Limited

The Committee of Management's Report continued

Future developments and corporate issues continued

The Association's subsidiary, Access Apna Ghar Housing Association Limited, continued to receive support from both the Association and the parent undertaking for its activities. Given the current financial pressures on the affordable housing budget, Access Apna Ghar has decided not to pursue its aim of securing registration as Scotland's first specialist housing association for people from black and minority ethnic communities for the foreseeable future. Alternative roles and projects which would be of benefit to Scotland's BME communities are, however, being explored by Access Apna Ghar. A specialist Housing Officer was employed by the Association during the year to provide enhanced housing management and support services to Access Apna Ghar's clients and this service will be further developed during 2011/12.

Working with its sibling organisation, Sanctuary Cumbernauld, and with support from Sanctuary Group, a further two key appointments were made during 2011/12. The first post, that of Public Relations Officer, will provide support to both organisations in enhancing their profiles and reputations. The second post – Service Improvement and Policy Officer – will support staff to further improve the quality of services provided and the levels of performance achieved.

The Housing (Scotland) Act 2010 heralds the progress of a number of issues which will impact on the Association's work during 2011/12. A new Scottish Housing Regulator will be established to oversee an amended regulatory framework and the Scottish Social Housing Charter will be developed to set out the outcomes which landlords such as the Association will be expected to achieve for their tenants and other customers. The Association will be required to develop processes, many of them working closely with tenants, to ensure that the expectations of these new elements of the regulatory framework are complied with.

Financial risk management

The Association's operations expose it to a variety of financial risks that include the effects of cash flow risk, liquidity risk, price risk and interest rate risk. The Association has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Association by monitoring levels of debt finance and related finance costs.

Cash flow risk

At 31 March 2011, 93.7% of the Association's debt was on fixed rate terms (2010: 71.0%). Further to this the Association seeks to minimise the risk of uncertain funding in its operations by borrowing within a spread of maturity periods. At the year end, 6.43% (2010: 41%) of debt was payable within one year. The Association does not use derivative financial instruments to manage interest rate costs.

Liquidity risk

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

Interest rate risk

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

Results

The financial affairs of the Association remained satisfactory and a surplus for the year was achieved of £546,000 (2010: £735,000).

Sanctuary Scotland Housing Association Limited

The Committee of Management's Report continued

Results continued

The Association has £1,697,000 (2010: £1,151,000) of revenue reserves and support via £8,117,000 (2010: £42,252,000) of loan funding from the Association's parent undertaking, Sanctuary Housing Association and £75,000,000 (2010: £nil) from Sanctuary Treasury Limited.

Committee Members

The Committee Members who served during the year are listed on page 2.

Members of the Committee of Management are required to hold one share in the Association during their time in office which is cancelled or transferred on their resignation from the Committee. Members of the Committee of Management who are also tenants have tenancies on normal commercial terms and cannot use their position to gain advantage in relation to tenancy agreements.

Political and charitable donations

The Association made no donations to political or charitable organisations.

Health and safety

The Committee is aware of its responsibilities on all matters relating to health and safety. The Association's risk appraisal and management processes aim to address all health and safety matters in relation to property, tenants and staff.


Going Concern

The Committee of Management confirms it has a reasonable expectation that the Association has adequate resources to continue in operational existence for the foreseeable future. Accordingly, it continues to adopt the going concern basis in preparing the Association's financial statements.

Auditors

PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

By order of the Committee of Management.



Craig Moule
Secretary
9 August 2011

Independent Auditors' Report to the Members of Sanctuary Scotland Housing Association Limited

We have audited the financial statements of Sanctuary Scotland Housing Association Limited for the year ended 31 March 2011 which comprise the Income and Expenditure Account, the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of the Committee of Management and auditors

As explained more fully in the Statement of the Committee of Management's Responsibilities, the Committee of Management is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (ISAs) (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the association's members as a body in accordance with Schedule 7 paragraph 13 of the Housing (Scotland) Act 2001, The Registered Social Landlords Accounting Requirements (Scotland) Order 2007, The Charities and Trustee Investment (Scotland) Act 2005, Section 9 (1) of the Friendly and Industrial and Provident Societies Act 1968 and regulation 10 of the Charities Accounts (Scotland) Regulations 2006 (as amended) and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Association's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Committee of Management; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Association's affairs as at 31 March 2011 and its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002, the Housing (Scotland) Act 2001, the Registered Social Landlords Accounting Requirements (Scotland) Order 2007 and regulation 14 of the Charities Accounts (Scotland) Regulations 2006 (as amended).

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Industrial and Provident Societies Acts 1965 to 2002 require us to report to you if, in our opinion:

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

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Birmingham

Date: *19 August 2011*

Sanctuary Scotland Housing Association Limited

Income and Expenditure Account for the Year Ended 31 March 2011

	Notes	2011 £'000	2010 £'000
Turnover	2	10,875	7,865
Cost of Sales	2	(2,193)	-
Operating costs	2	(5,506)	(4,501)
Operating surplus	2,4	3,176	3,364
Surplus on sale of fixed assets	4	60	-
Interest payable and similar charges	7	(2,690)	(2,629)
Surplus for the year	16	546	735

The above results relate wholly to continuing activities.

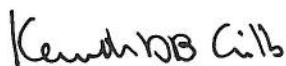
There are no material differences between the surplus on ordinary activities for the years stated above and their historical cost equivalents.

The Association has no recognised surpluses and deficits other than those included in the Income and Expenditure Account above and therefore no separate Statement of Total Recognised Surpluses and Deficits has been presented.

Balance Sheet as at 31 March 2011

	Notes	2011 £'000	2010 £'000
Fixed Assets			
Properties – depreciated cost	8	208,776	180,664
Less: HAG and other public grants	8	(110,730)	(98,699)
		<u>98,046</u>	<u>81,965</u>
Other operating assets	9	159	165
		<u>98,205</u>	<u>82,130</u>
Current Assets			
Debtors due within one year	11	1,868	1,249
Assets held for sale	12	1,031	971
Cash at bank and in hand		732	-
Investments	10	-	-
Investments in subsidiaries	18	-	-
		<u>3,631</u>	<u>2,220</u>
Creditors: Amounts falling due within one year	13	(11,343)	(35,582)
Net Current Liabilities		<u>(7,712)</u>	<u>(33,362)</u>
Total Assets Less Current Liabilities		90,493	48,768
Creditors: Amounts falling due after more than one year	14	(86,865)	(45,659)
Net Assets		<u><u>3,628</u></u>	<u><u>3,109</u></u>
Capital And Reserves			
Share capital	15	-	-
Negative Goodwill	16	1,931	1,958
Revenue reserve	16	1,697	1,151
Total Funds		<u><u>3,628</u></u>	<u><u>3,109</u></u>

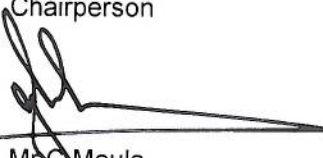
Approved by the Committee of Management on 9 August 2011 and signed on its behalf by:



Professor K Gibb
 Chairperson



Mr J Holcombe
 Vice-Chairperson


 Mr C Moule
 Secretary

The notes on pages 14 to 25 form part of these financial statements.

Notes to the Financial Statements for the Year Ended 31 March 2011**1. Principal Accounting Policies****Basis of accounting**

The Association's financial statements have been prepared on the historical cost basis in accordance with applicable Financial Reporting Standards ("FRS") in the United Kingdom, Industrial and Provident Societies Act 1965 to 2002 and the Statement of Recommended Practice for Registered Social Landlords issued in March 1999 and updated in 2005 and 2008 (the "SORP"). The financial statements also comply with The Registered Social Landlords Accounting Requirements (Scotland) Order 2007, The Charities and Trustee Investment (Scotland) Act 2005, the Housing (Scotland) Act 2001 and the Charity Accounts (Scotland) Regulations 2006. A summary of the principal accounting policies is set out below.

Consolidation, Cash Flow statement and related party transactions

The Association is a wholly owned subsidiary of Sanctuary Housing Association and is included in the consolidated financial statements of the Group, which are publicly available. Consequently the Association has taken advantage of the exemption from preparing consolidated accounts under the terms of FRS 2 and a Cash Flow Statement under the terms of FRS 1 (Revised 1996). The Association is also exempt under the terms of FRS8 from disclosing related party transactions with entities that are part of the Group.

Turnover

Turnover represents rental and service charge income receivable, net of void losses, income from developments for resale (including first tranche shared ownership sales) and management fees receivable (net of VAT).

Where the Association uses managing agents to run supported housing but overall control and risk of financial loss is retained, the income from the supported housing is included in turnover.

VAT

The majority of the Association's turnover is exempt from VAT. However, certain activities are subject to VAT and give rise to a small amount of VAT recovery. Where appropriate, costs are stated including irrecoverable VAT.

Corporation tax

The Association is recognised by Her Majesty's Revenue and Customs as an exempt Scottish Registered Charity for tax purposes. The Association is therefore not liable to Corporation Tax on surpluses.

Service charges

Service charges are calculated annually with reference to associated costs incurred in the previous 12 month period. Tenants are consulted if there are to be any changes to the services provided. Home ownership service charges are variable, therefore any shortfall or overspend by the end of the year is recovered or refunded by adjustment to the following year's service charge. All other service charges are fixed, therefore there are no adjustments in the following period.

Sanctuary Scotland Housing Association Limited

Notes to the Financial Statements for the Year Ended 31 March 2011 continued

1. Principal Accounting Policies continued

Tangible fixed assets and depreciation

Properties

Properties are stated at cost less accumulated depreciation. The cost of such properties includes the following:

- a) Cost of acquiring land and buildings;
- b) Construction costs including internal equipment and fitting;
- c) Directly attributable development administration costs;
- d) Cost of capital employed during the development period;
- e) Expenditure incurred in respect of improvements and extensions to existing properties; and
- f) Construction costs incurred but not yet certified at the Balance Sheet date.

Freehold land is not depreciated. Depreciation is charged so as to write down the cost, net of Housing Association Grant (HAG), of freehold housing properties (including components therein), to their estimated residual value on a straight line basis over their expected useful economic lives of 70 years. Properties held on long term leases are depreciated over their useful economic lives or the life of the lease if shorter. On reinvestment expenditure depreciation is charged so as to write down the cost to their estimated residual value on a straight line basis over their expected useful economic lives of 15 years.

In accordance with the SORP and FRS11, an impairment review is carried out annually for all assets with a remaining economic life greater than 50 years. Provisions are made to write down the carrying value of assets where it is considered that properties have suffered a diminution in value.

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

Other operating assets

Other operating assets are stated at cost less depreciation, which is charged on a straight line basis to write-off assets over their expected economic useful lives as follows:

Freehold land and buildings	10-40 years
Leasehold land and buildings	Over the period of the lease
Improvements to freehold properties	15 years
Furniture and equipment	4-10 years
Motor vehicles	4-5 years

Transfers of fixed assets

Transfers of fixed assets to or from other Group entities are made at net book value. For housing assets this is net of grants in relation to the transferred assets.

Works to existing housing property

Expenditure on housing properties which is either capable of generating increased future rents, extends their useful lives, or significantly reduces future maintenance costs, is capitalised. All other expenditure incurred in respect of general repairs to the Association's housing stock is charged to the Income and Expenditure Account in the year in which it is incurred.

Notes to the Financial Statements for the Year Ended 31 March 2011 continued

1. Principal Accounting Policies continued

Capitalisation of interest and development administration costs

Interest on the Association's borrowings to finance developments is capitalised in fixed asset properties under construction to the extent it accrues in respect of the period of development. The interest is either on borrowings specifically financing a scheme (after deduction of interest on Housing Association Grant received in advance) or the weighted average borrowing rate across net borrowings deemed to be financing a scheme. Where a scheme has Housing Association Grant in excess of costs, interest receivable is accrued against the balance.

Directly attributable development administration costs capitalised are the labour costs of the Association's own employees arising directly from the construction or acquisition of a property, and the incremental costs that would have been avoided only if the property had not been constructed or acquired.

Agreements to improve existing properties

Where the Association has entered into agreements to purchase property from a third party and subsequently enters into a sub-contracting agreement to carry out improvement works to the properties, the related assets and liabilities are shown at gross values unless the right of net settlement exists.

Sales of housing properties

Where properties built for sale are disposed of during the year, the disposal proceeds are included in turnover, and the attributable costs included in cost of sales. The surplus or deficit on disposal of housing properties held as fixed assets, including second or subsequent tranches of shared ownership properties, is accounted for in the Income and Expenditure Account.

Shared Equity Housing

Properties developed under the Scottish Government's shared equity initiative are funded by grant and ultimate sales proceeds. The net investment in shared equity properties is shown on the face of the Balance Sheet as investments and carried at historical cost with the linked finance cost, being the grant received, deducted from the gross amount of the shared equity asset.

Housing Association Grant and other public grant

Where developments have been financed wholly or partly by HAG and/or other public grant, the amount of grant received is offset against the cost of developments on the Balance Sheet. In instances where grant for the development programme exceeds development costs, an amount equal to the excess is held in creditors. Similarly if grant is receivable for the development programme in arrears the amount is accrued in debtors.

Notes to the Financial Statements for the Year Ended 31 March 2011 continued**1. Principal Accounting Policies continued****Capital grants**

Where grants have been received to fund the purchase of fixed assets, other than properties, the grant is recognised within creditors. As the assets are depreciated the grant is released to the Income and Expenditure account to match the charge. At any point, the grants balance is equal to the net book value of related assets.

Financial Instruments

The Association categorises its financial assets and liabilities in accordance with FRS26 'Financial Instruments: Measurement'.

Financial assets

Financial assets are defined as cash or any asset that is a contractual right to receive cash or another financial asset from another entity, or a contractual right to exchange financial instruments with another entity under conditions that are potentially favourable, or an equity instrument of another entity. There are two categories of financial assets held by the Association:

- Loans and receivables; and
- Available-for-sale financial assets.

Loans and receivables are assets with fixed or determinable payments that are not quoted on an active market, other than those that are categorised as financial assets at fair value through profit or loss of available-for-sale assets. These are initially recognised at fair value plus transaction costs. At each balance sheet date they are re-measured at amortised cost using the effective interest method. Examples of loans and receivables include tenant arrears, unlisted investments and sundry debtors.

Available-for-sale financial assets are assets that are available for sale. They are initially recognised at fair value plus transaction costs, which is effectively historical cost. At each balance sheet date they are re-measured at fair value and movements are recorded in revenue reserves and in the Income and Expenditure Account when the reserves are fully utilised. The Association considers listed investments to be available-for-sale assets.

Financial liabilities

Financial liabilities are defined as any liability that is a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial instruments with another entity under conditions that are potentially unfavourable. The only category of financial liability held by the Association is other financial liabilities. Other financial liabilities are all financial liabilities that are not initially measured at fair value and revalued at balance sheet dates, for instance debt finance.

Provisions against tenant arrears

The Association provides fully for former tenant arrears. Specific categories of current tenant debt and specific tenant balances are provided for where the likelihood of settlement in full or in part is unlikely.

Provisions against sundry debtors

The Association provides for specific categories of sundry debtor balances and specific sundry debtor balances where the likelihood of settlement in full or in part is unlikely.

Sanctuary Scotland Housing Association Limited

Notes to the Financial Statements for the Year Ended 31 March 2011 continued

1. Principal Accounting Policies continued

Financing costs

Costs which are incurred directly in connection with the raising of private finance are deducted from the liability and amortised over the term of the loan on a consistent periodic rate of charge. Premiums or discounts on financial instruments are amortised using the effective interest rate basis or a straight line basis where it can be demonstrated that there is no material difference between the two methods.

Negative Goodwill

Goodwill is calculated as the difference between the fair value of consideration and the fair value of net assets acquired. In accordance with the SORP, negative goodwill is held within capital and reserves and amortised evenly over the useful economic life of the housing stock acquired.

Fixed asset investments

Where investments in listed or unlisted securities are held as a condition of financing arrangements, with the result that the Association's ability to utilise these funds is restricted in the long term, the investments are treated as fixed assets. Investments are recorded at valuation in the Balance Sheet and any upwards revaluations are credited to the revaluation reserve. Subsequent diminutions in value are recognised in the Statement of Total Recognised Surpluses and Deficits until the revaluation reserve in respect of that asset no longer exists. Further diminutions in value or impairments of fixed asset investments are recognised in the Income and Expenditure Account.

Impairment of current and unlisted investments

Current and unlisted investments are stated at the lower of cost and net realisable value. The Association considers whether an impairment exists in this respect of all such balances at each Balance Sheet date and provides accordingly.

2. Turnover, Cost of Sales, Operating Costs and Operating Surplus

	2011 Turnover	2011 Cost of Sales	2011 Operating costs	2011 Operating surplus	2010 Operating surplus
	£'000	£'000	£'000	£'000	£'000
Social lettings	8,473	-	(5,441)	3,032	3,292
Other activities	2,402	(2,193)	(65)	144	72
Total	<u>10,875</u>	<u>(2,193)</u>	<u>(5,506)</u>	<u>3,176</u>	<u>3,364</u>
Total for previous period of account	<u>7,865</u>	<u>-</u>	<u>(4,501)</u>	<u>3,364</u>	

Development administration expenditure and other indirect costs capitalised during the year amounted to £609,332 (2010: £330,496).

Some revenues and costs within the 2010 comparative have been reclassified to align to the activities of the Association.

Sanctuary Scotland Housing Association Limited

Notes to the Financial Statements for the Year Ended 31 March 2011 continued

3a. Income and Expenditure From Social Housing Lettings

	Rented Housing £'000	Supported Housing £'000	2011 Total £'000	2010 Total £'000
Income from lettings				
Rents receivable net of service charges	7,683	543	8,226	7,484
Service charges	85	173	258	254
Gross Income from Rents and Service Charges	7,768	716	8,484	7,738
Less voids	(6)	(5)	(11)	(23)
Net Income from Rents and Service Charges	7,762	711	8,473	7,715
Expenditure on lettings				
Management and maintenance administration costs	(2,709)	(80)	(2,789)	(2,125)
Services costs	(373)	(88)	(461)	(338)
Reactive maintenance	(600)	(81)	(681)	(614)
Planned and cyclical maintenance	(421)	(9)	(430)	(380)
Bad debt charges – rents and service charges	(25)	-	(25)	(9)
Depreciation of social housing	(1,034)	(21)	(1,055)	(957)
Operating costs from social letting activities	(5,162)	(279)	(5,441)	(4,423)
Operating surplus from social letting activities	2,600	432	3,032	3,292
Operating surplus from social letting activities for previous period of account	2,930	362	3,292	

The average weekly rent (including service charges eligible for housing benefit) charged during the year was £69.13 (2010: £57.53).

Some revenues and costs within the 2010 comparative have been reclassified to align to the activities of the Association.

3b. Income and Expenditure from Other Activities

	Other income £'000	Cost of Sales £'000	Other operating costs £'000	Operating surplus £'000
Other	105	-	(29)	76
Other activities (outright sales)	2,261	(2,193)	-	68
Management services for Registered Providers	36	-	(36)	-
Total from other activities	2,402	(2,193)	(65)	144
Total from other activities for the previous year	150	-	(78)	72

Some revenues and costs within the 2010 comparative have been reclassified to align to the activities of the Association.

Sanctuary Scotland Housing Association Limited

Notes to the Financial Statements for the Year Ended 31 March 2011 continued

4. Operating Surplus

	2011 £'000	2010 £'000
The operating surplus is arrived at after charging / (crediting)		
Depreciation on owned assets	1,096	993
Auditors' remuneration – audit	15	12
Auditors' remuneration – non audit services	5	-
Amortisation of negative goodwill	(27)	(29)
	2,690	2,629

The net surplus on sale of fixed assets consists of £101,289 proceeds (2010: £nil) less £41,400 cost (2010: £nil).

5. Committee of Management Members' Emoluments

The Members' emoluments are borne by the ultimate parent undertaking, Sanctuary Housing Association.

The Members of the Committee of Management were reimbursed for expenses necessarily incurred in the conduct of their duties amounting to £2,681 (2010: £1,100).

6. Employee Information

There were no employees of the Association during the year. The Association's management and administration is carried out under contract by its parent undertaking Sanctuary Housing Association.

7. Interest Payable and Similar Charges

	2011 £'000	2010 £'000
Bank loans, overdrafts and other loans:		
Repayable by instalments	85	93
Interest on loan from parent undertaking	3,095	2,866
Less: amounts transferred to housing properties in the course of construction	(490)	(330)
	2,690	2,629

Sanctuary Scotland Housing Association Limited

Notes to the Financial Statements for the Year Ended 31 March 2011 continued

8. Fixed Assets – Properties

	Rented Properties £'000	Under Construction £'000	Total £'000
Cost			
At 1 April 2010	147,835	37,689	185,524
Additions during year	1,425	29,210	30,635
Transfer from fellow subsidiary	-	764	764
Transfer on completion	8,439	(8,439)	-
Disposals	(48)	(2,193)	(2,241)
At 31 March 2011	157,651	57,031	214,682
Depreciation			
At 1 April 2010	4,860	-	4,860
Charge for year	1,055	-	1,055
Disposals	(9)	-	(9)
At 31 March 2011	5,906	-	5,906
Depreciated Cost	151,745	57,031	208,776
Housing Association Grant			
At 1 April 2010	69,868	28,831	98,699
Receivable during year	(54)	11,702	11,648
Transfer from fellow subsidiary	669	72	741
Transfer on completion	3,592	(3,592)	-
Disposals	-	(358)	(358)
At 31 March 2011	74,075	36,655	110,730
Net Book Amount			
At 31 March 2011	77,670	20,376	98,046
At 31 March 2010	73,107	8,858	81,965

There are no amounts for properties under construction for shared ownership (2010: £nil).

Of the total net book value of housing stock, £98,046,000 is freehold (2010: £81,965,000).

During the year £846,870 (2010: £700,000) was capitalised in respect of works to existing properties. A total of £1,058,523 (2010: £968,000) is recognised in the Income and Expenditure Account in respect of maintenance costs incurred on existing properties.

Sanctuary Scotland Housing Association Limited

Notes to the Financial Statements for the Year Ended 31 March 2011 continued

9. Fixed Assets – Other Operating Assets

	Freehold Land and buildings	Furniture and Equipment	Motor Vehicles	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 April 2010	136	101	35	272
Additions during the year	-	8	25	33
Group transfers in	-	-	15	15
At 31 March 2011	136	109	75	320
Depreciation				
At 1 April 2010	21	69	17	107
Charge for year	14	14	13	41
Group transfers in	-	-	13	13
At 31 March 2011	35	83	43	161
Net Book Amount				
At 31 March 2011	101	26	32	159
At 31 March 2010	115	32	18	165

10. Investments

	2011 £'000	2010 £'000
Shared Equity		
- Investment	1,545	1,545
- Grant	(1,545)	(1,545)
	<u>-</u>	<u>-</u>

Properties developed under the Scottish Government's shared equity initiative are funded by grant and ultimate sales proceeds. The net investment in shared equity properties is carried at historical cost with the linked finance cost, being the grant received, deducted from the gross amount of the shared equity asset in line with the SORP for Registered Social Landlords 2008.

11. Debtors

	2011 £'000	2010 £'000
Current tenant rental debtors	445	395
Amounts due from group undertakings	772	261
Prepayments and other debtors	651	593
	<u>1,868</u>	<u>1,249</u>

Rental debtor balances are net of a provision of £64,139 (2010: £91,041). Amounts due from group undertakings do not bear interest.

Sanctuary Scotland Housing Association Limited

Notes to the Financial Statements for the Year Ended 31 March 2011 continued

12. Assets Held For Sale

	2011 £'000	2010 £'000
Shared Equity properties		
- Cost of properties	12,880	12,040
- Grant Received	(11,849)	(11,069)
	1,031	971

Shared Equity Housing is a scheme run by Sanctuary Scotland Housing Association Limited and funded through Government grants. The cost of the properties is shown in assets held for sale net of grants received in accordance with the SORP.

13. Creditors: Amounts Falling Due Within One Year

	2011 £'000	2010 £'000
Deferred finance, bank loans and overdrafts	-	141
Amounts due to parent undertaking	7,129	31,975
Trade creditors	242	111
Other creditors and accruals	3,972	3,355
	11,343	35,582

Of the amounts disclosed as due to the parent undertaking £1,145,265 (2010: £367,426) is trading in nature. These amounts are non-interest bearing.

The remaining amount relates to loans due to the parent undertaking, of which £5,870,000 (2010: £31,500,000) is charged at a variable rate of 1.13% (2010: between 1.05% and 1.70%) and £113,821 (2010: £107,574) is charged at a fixed rate of 5.69% (2010: 5.35%).

14. Creditors: Amounts Falling Due After More Than One Year

	2011 £'000	2010 £'000
Amounts due to parent undertaking	2,091	42,138
Amounts due to fellow subsidiary	75,000	-
Bank loans	9,774	3,521
	86,865	45,659

The amounts due to the parent undertaking are in relation to a loan, which is repayable over 15 and 32 years and which bears a fixed interest rate of 5.69%.

The amounts due to the fellow subsidiary are in relation to loans which bear fixed interest rates of between 4.88% and 6.70%.

The bank loans bear a fixed interest rate of 3.948% (2010: between 1.54% and 4.96%).

Sanctuary Scotland Housing Association Limited

Notes to the Financial Statements for the Year Ended 31 March 2011 continued

14. Creditors: Amounts Falling Due After More Than One Year continued

The bank and intercompany loans fall due for payment as follows:

	2011	£'000
Due within one year	7,129	
Due in more than one year but less than two years	-	
Due in more than two years but less than five years	-	
Due in more than five years	86,865	
	<u>93,994</u>	

The Association provided security on loans with charges on property for loans totalling £87,247,469 at the Balance Sheet date.

15. Called Up Share Capital

	2011	2010
	£	£
Each Member holds one share of £1 in the Association		
Allotted, issued and fully paid		
At 1 April 2010	145	145
Issued during the year	2	1
Redeemed in the year	-	(1)
At 31 March 2011	<u>147</u>	<u>145</u>

Each share carries voting rights but not rights to dividends, distributions on winding up or rights of redemption.

16. Reserves

	Revenue Reserve	Negative Goodwill	Total
	£'000	£'000	£'000
At 1 April 2010	1,151	1,958	3,109
Surplus for year	546	-	546
Amortisation of goodwill	-	(27)	(27)
At 31 March 2011	<u>1,697</u>	<u>1,931</u>	<u>3,628</u>

17. Capital Commitments

	2011	2010
	£'000	£'000
Expenditure contracted	<u>61,692</u>	<u>61,094</u>

£34,232,000 (2010: £35,381,000) of the capital commitments will be financed by grant and other public finances with the remainder being financed from existing funds, largely from the parent undertaking or Sanctuary Treasury Limited.

There is no expenditure authorised but not contracted (2010: £nil).

Sanctuary Scotland Housing Association Limited

Notes to the Financial Statements for the Year Ended 31 March 2011 continued

18. Investments In Subsidiaries

As at 1 April 2010 and 31 March 2011

£
2

Access Apna Ghar Housing Association Limited is a wholly-owned subsidiary of the Association. The entity is dormant.

19. Ultimate Parent Undertaking and Controlling Party

The ultimate parent undertaking and controlling party is Sanctuary Housing Association, registered in England as an Industrial and Provident Society (Number 19059R) and with the Tenant Services Authority (Number L0247). A copy of the Group financial statements can be obtained from Sanctuary Housing Association, Chamber Court, Castle Street, Worcester WR1 3ZQ.