

SANCTUARY SCOTLAND HOUSING ASSOCIATION LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

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

Annual Report and Financial Statements for the Year Ended 31 March 2013

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Sanctuary Scotland Housing Association Limited

Committee of Management and Advisors

Members of the Committee of Management

Mr J Holcombe (Chairperson)
Mr J Payne (Vice Chairperson)
Mr I Blackwood
Mr J Coleman
Mrs C Humphrey (Co-opted September 2012)
Mrs S Hunter (Community Member)
Mrs M Miller
Mrs S Moradi (Community Member)
Mrs E Noad (Resigned July 2012)
Mrs C Vine

Corporate Members

Sanctuary Housing Association
Spiral (Number 2) Housing Association Limited

Secretary

Craig Moule

Independent Registered Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cornwall Court
19 Cornwall Street
Birmingham
B3 2DT

Internal Auditors

KPMG LLP
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Bankers

Bank of Scotland plc	Barclays Bank plc
Bank of Scotland Commercial	Barclays Corporate
New Uberior House	Social Housing Team
11 Earl Grey Street	Level 27
Edinburgh	1 Churchill Place
EH3 9BN	London
	E14 5HP

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 2013.

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 it 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 streams:

	Turnover		Operating surplus	
	2013	2012	2013	2012
	£000	£000	£000	£000
General Needs	9,498	8,675	4,693	4,242
Sheltered & Supported Housing	686	638	200	233
Other Activities	382	212	244	46
Totals	10,566	9,525	5,137	4,521

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 2013	Actual for Year 2012
Current tenant arrears as a % of gross annual rent	3.02%	4.13%
Void loss as a % of gross annual rent	0.16%	0.29%

Sanctuary Scotland Housing Association Limited

The Committee of Management's Report continued

Review of business activities continued

Accommodation in management

	2013	2012
Social housing accommodation:		
General needs housing	2,521	2,362
Sheltered & supported housing accommodation	128	113
Total units in management	2,649	2,475
Not available for letting	(32)	(135)
Total stock available for letting	2,617	2,340

Some units in management within the 2012 comparative have been reclassified to align to the activities of the Group.

In addition to the units not available for letting, there were 12 units undergoing substantial repairs as at 31 March 2013.

At the Balance Sheet date, 32 (2012: 135) 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 classified as assets under construction within the financial statements.

At the Balance Sheet date, 24 (2012: 24) units owned by the Association were being managed by a third party, Margaret Blackwood Housing Association in Edinburgh, external to the Group. No Supported Housing Management Grant was payable during the year in respect of these properties.

At the Balance Sheet date, 152 (2012: 79) units owned by the Association were being managed by Cumbernauld Housing Partnership Limited, a Group company.

Housing Management

The Association has maintained its high level of performance in a range of key indicators such as void loss for general needs properties which was 0.125% (2012: 0.11%) of total general needs rental income. Void loss for supported housing properties reduced to 0.54% (2012: 2.71%) of total supported rental income, due to a lower level of turnover and closer working relationships with local authority partners. The level of current tenant rent arrears at the year end decreased to 3.02% (2012: 4.13%) of the annual rental income. The level of former tenant rent arrears increased marginally to 0.59% (2012: 0.55%).

Community Initiatives

A number of local community events and activities were supported and funded during the year by the Association. These events can make a very real difference to the quality of life in the estates and communities which the Association serves.

The service provided by the Association's Welfare Rights Officer has become increasingly important. During the year, this officer achieved the significant milestone of securing over £2,000,000 in backdated or additional income for tenants. It is expected that this service will become of increasing significance as reforms to the welfare system are implemented. The changes will include housing benefit being replaced by Universal Credit which will be paid to each tenant directly.

Property Maintenance

During the year, the Association's maintenance services team worked closely with external partner contractors to achieve a high level of performance and tenant satisfaction with the service. One external contractor opted to withdraw from their contract and alternative arrangements were put in place to ensure that a new contractor was appointed and that services to tenants in that contract area were not affected.

Sanctuary Scotland Housing Association Limited

The Committee of Management's Report continued

Review of business activities continued

Property Maintenance continued

Following a review of the provision of maintenance services the Association has agreed to adopt a similar model for the provision of maintenance and estates services to that which has been introduced successfully by Sanctuary Group in England. These services will now be delivered and managed through Sanctuary Maintenance Contractors Limited, and be introduced on a phased basis from August 2013 onwards.

The largest improvement contract undertaken by the Association during the year was a further phase of external refurbishment works on a small number of flatted blocks of properties at Dalmahoy Drive in Ardler. This project has greatly enhanced the appearance and thermal efficiency of the properties.

A small pilot project of improvements to kitchens and bathrooms in the "Foamslag" properties in Glasgow South was carried out during the year. The lessons learned from this pilot will be incorporated into the arrangements for a larger programme of such works to be carried out in 2013/14 and subsequent years.

The Association reviewed its progress towards compliance with the Scottish Housing Quality Standard during 2012/13. This review confirmed that the Association is on course to achieve full compliance by the required deadline of March 2015.

Support Services

The Sheltered Housing Support Service provided by the Association at its two sheltered housing developments in Dundee receives funding from Dundee City Council under the Supporting People Programme. This funding has again been confirmed for 2013/14, albeit the amount of funding has again been frozen.

An unannounced inspection of the sheltered housing support service was carried out by the Care Inspectorate in February 2013. Grades of 5 ("very good") were awarded for all quality themes inspected. The formal report contained no requirements or recommendations.

Risk Management Policy

The Association maintains a detailed Risk Map which is monitored and updated on a regular basis. The Risk Map identifies risks which the Group might face, the likelihood of such risks occurring and their impact on the Group if they do occur. The Risk Map also identifies action taken by the Group to mitigate against such risks occurring or to minimise their impact. The Risk Map is utilised by both the Committee 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.

Corporate Governance

The Association has a Committee 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 eight National Members, two Community Members and one co-opted Community Member on the Committee.

One Member of the Committee resigned from membership during the year. A tenant from the Ardler estate was co-opted onto the Committee to address issues of representation for tenants in Dundee.

Sanctuary Scotland Housing Association Limited

The Committee of Management's Report continued

Review of business activities continued

Corporate Governance continued

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 2013. 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. As part of this process, the Committee has agreed to review the

remit of the existing Policy and Performance Sub Committee during 2013/14 with the aim of achieving a greater distinction in consideration of strategic and operational matters.

John Holcombe was re-elected as Chairperson of the Association in August 2012 for his second year in office. Jack Payne, a former Chairperson, was re-elected as Vice-Chairperson of the Association, also in August 2012.

Statement of the Committee of Management's Responsibilities

The Committee is responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

The Friendly and Industrial and Provident Societies Act 1968 and registered social housing legislation require the Committee to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Association and of the surplus or deficit 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 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the Association and to enable it to ensure that the financial statements comply with the Friendly and Industrial and Provident Societies Act 1968, the Housing (Scotland) Act 2010, the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended), the Statement of Recommended Practice for Registered Social Landlords issued in March 1999 and updated in 2005, 2008 and 2010 (the "SORP") and the Determination of Accounting Requirements 2012.

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 of the persons who are Committee Members at the date the Committee of Management's Report is approved, that:

- (a) so far as each of the Committee Members is aware, there is no relevant audit information of which the Association's auditors are unaware; and
- (b) each of the Committee Members has taken all the steps that he/she ought to have taken as a Committee 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.

The Committee of Management's Report continued

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.

The Committee of Management has established key procedures to provide internal control and there are clear lines of responsibility for the creation and maintenance of the procedures through the 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; and
- The safeguarding of assets against unauthorised use or disposition.

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

- The 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
- The Sanctuary Group Audit Committee reviews reports from management, the internal auditors KPMG and from the in-house assurance team 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 Committee. The Group Audit Committee makes regular reports to the Group Board. The Association follows formal procedures for instituting appropriate action to correct weaknesses identified in the above reporting.

The Group Audit Committee has also met in private with KPMG, the internal auditors, 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 2013 and is not aware of any material changes at the date of signing of the financial statements.

Sanctuary Scotland Housing Association Limited

The Committee of Management's Report continued

Future developments and corporate issues

The year to 31 March 2013 saw a continued high level of development activity with a total of 164 new homes (2012: 125) for social rent or affordable home ownership (through the shared equity model) being completed on projects at Ardler in Dundee, Shortroods in Paisley and Carbrain in Cumbernauld. The second phase of the Anderston regeneration project in central Glasgow was also completed, providing 70 new homes for rent and 2 for shared equity.

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 successful bidding to the Scottish Government's Innovation and Investment Fund, and continued positive relationships with local authority partners and grant providers, the Association has a strong forward programme of development projects. A total of 269 (2012: 155) new homes were started during the year with funding from the Innovation and Investment Fund. These projects – in Dundee, Cumbernauld, Paisley and Glasgow - will see the completion of new homes during 2013/14. The third phase of new homes being provided as part of the large regeneration project at Anderston in Glasgow also commenced in the final quarter of 2013/14. This large phase will provide a further 158 new homes.

Despite the challenges represented by significant reductions in both the overall level of public funding and the amount of funding support for each new unit, the Association continues to identify projects which are viable within the new funding framework. The funding arrangements with the parent undertaking ensure continued access to affordable private funding to support the Association's development activities, including some funding raised through a bond issue by the parent undertaking in April 2012.

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. During the year Access Apna Ghar led on the transfer of 15 properties from two other housing associations in Glasgow, over which it holds nomination rights, to the Association. The acquisition of these properties was completed in March 2013. A review of the future role and structure of Access Apna Ghar has resulted in a decision being taken, supported by the Association, that it should cease to exist as a separate entity, become a more integrated part of the Association's structure and activities and contribute to the development of services to people from BME backgrounds across the Association more generally. The necessary constitutional arrangements for this will be put in hand in 2013/14.

The full implementation of the provisions of the Housing (Scotland) Act 2010 will impact on the Association's work during 2013/14. Reporting on the outcomes set out in Scottish Social Housing Charter will be fully implemented during the year. This will require the development of processes, many of them working closely with tenants, to ensure that the requirements of the 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 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 2013, 82.84% of the Association's debt was on fixed rate terms (2012: 89.37%). 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, 17.91% (2012: 10.75%) of debt was payable within one year. The Association does not use derivative financial instruments to manage interest rate costs.

Sanctuary Scotland Housing Association Limited

The Committee of Management's Report continued

Financial risk management continued

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 £1,140,656 (2012: £616,025). The Association has £5,384,000 (2012: £4,244,000) of revenue reserves and support via £22,011,867 (2012: £12,452,972) of loan funding from the Association's parent undertaking, Sanctuary Housing Association and £81,241,646 (2012: £74,869,053) 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. A report on health and safety matters is submitted to each meeting of the Committee.

Equality and diversity

The Group aims to be an open and inclusive organisation, where diversity is promoted and discrimination eliminated. Our single equality scheme - 'Fairness for All' – outlines our commitment to ensuring that our services meet the needs of all our diverse customers. It ensures that equality, diversity and human rights are integrated into the way we plan, develop and deliver our services, covering our internal functions as an employer and our external operations as a provider of housing, care and facilities management services.

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.

Sanctuary Scotland Housing Association Limited

The Committee of Management's Report continued

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
11 June 2013

Independent auditors' report to the members of Sanctuary Scotland Housing Association

We have audited the financial statements (the "financial statements") of Sanctuary Scotland Housing Association Limited for the year ended 31 March 2013 which comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement 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 Committee of Management's Responsibilities set out on page 6, the Committee of Management is responsible for the preparation of financial statements which give a true and fair view. We have been appointed as auditors under section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and report in accordance with regulations made under that Act. 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 Section 70 of the Housing (Scotland) Act 2010, Section 9(1) of the Friendly and Industrial and Provident Societies Act 1968, section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 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 and financial statements 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 2013 and Association's income and expenditure and cash flows for the year then ended; and
- have been properly prepared in accordance with the Friendly and Industrial and Provident Societies Act 1968, the Housing (Scotland) Act 2010, the Determination of Accounting Requirements 2012, the Charities and Trustee Investment (Scotland) Act 2005 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 Charities Accounts(Scotland) Regulations 2006 (as amended) and the Friendly and Industrial and Provident Societies Act 1968 require us to report to you if, in our opinion:

- the information given in the Committee of Managements' Annual Report is inconsistent in any material respect with the financial statements; or
- the Association has not kept proper books of account in accordance with Section 1(1)(a) of the Friendly and Industrial and Provident Societies Act 1968; or
- a satisfactory system of control over transactions has not been maintained in accordance with Section 1(1)(b) of the Friendly and Industrial and Provident Societies Act 1968 ; 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 Statutory Auditors
Birmingham
Date: 25 September 2013

PricewaterhouseCoopers is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006

Sanctuary Scotland Housing Association Limited

Income and Expenditure Account for the Year Ended 31 March 2013

	Notes	2013 £'000	2012 £'000
Turnover	2	10,566	9,525
Operating costs	2	(5,429)	(5,004)
Operating surplus	2,4	<u>5,137</u>	<u>4,521</u>
Profit on sale of fixed assets	4	106	88
Interest payable and similar charges	7	(4,103)	(3,993)
Surplus for the year	16	<u><u>1,140</u></u>	<u><u>616</u></u>

The above results relate wholly to continuing activities.

There are no material differences between the surplus 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.

The notes on pages 15 to 26 form part of these financial statements.

Sanctuary Scotland Housing Association Limited

Balance Sheet as at 31 March 2013

	Notes	2013 £'000	2012 £'000
Fixed Assets			
Housing Properties – depreciated cost	8	251,324	223,593
Less: HAG and other public grants	8	(133,829)	(125,984)
		<u>117,495</u>	<u>97,609</u>
Other fixed assets	9	585	628
Investments	10	-	-
Investments in subsidiaries	19	-	-
		<u>118,080</u>	<u>98,237</u>
Current Assets			
Debtors due within one year	11	2,665	3,748
Assets held for sale	12	1,014	1,494
Cash at bank and in hand		316	3,363
		<u>3,995</u>	<u>8,605</u>
Creditors: Amounts falling due within one year	13	(24,268)	(15,947)
Net Current Liabilities		<u>(20,273)</u>	<u>(7,342)</u>
Total Assets Less Current Liabilities		97,807	90,895
Creditors: Amounts falling due after more than one year	14	(92,423)	(86,651)
Net Assets		<u>5,384</u>	<u>4,244</u>
Capital And Reserves			
Share capital	15	-	-
Revenue reserve	16	5,384	4,244
Total Funds		<u>5,384</u>	<u>4,244</u>


The financial statements on pages 12, 13 and 14 were approved by the Committee of Management on 11 June 2013 and signed on its behalf by:



John Holcombe
Chairperson



Jack Payne
Vice-Chairperson



Craig Moule
Secretary

The notes on pages 15 to 26 form part of these financial statements.

Sanctuary Scotland Housing Association Limited

Cash Flow Statement for the Year Ended 31 March 2013

	Notes	2013 £'000	2012 £'000
Net cash inflow from operating activities	18(a)	5,904	6,233
Servicing of finance and returns on investments	18(b)	(4,666)	(4,414)
Capital expenditure and financial investment	18(b)	(20,354)	(3,524)
		<u>(19,116)</u>	<u>(1,705)</u>
Cash outflow before use of liquid resources and financing		(19,116)	(1,705)
Financing	18(b)	16,069	4,336
(Decrease)/increase in cash in the year	18(c)	<u>(3,047)</u>	<u>2,631</u>

Reconciliation of Net Cash Flow to Movement in Net Debt

	Notes	2013 £'000	2012 £'000
(Decrease)/increase in cash in the year	18(c)	(3,047)	2,631
Cash inflow from increase in debt and lease financing	18(b)	<u>(16,069)</u>	<u>(4,336)</u>
Change in net debt resulting from cash flows	18(c)	(19,116)	(1,705)
Non-cash	18(c)	<u>571</u>	<u>94</u>
Movement in net debt in the year		(18,545)	(1,611)
Net debt at start of year	18(c)	<u>(93,728)</u>	<u>(92,117)</u>
Net debt at end of year	18(c)	<u>(112,273)</u>	<u>(93,728)</u>

Notes to the Financial Statements for the Year Ended 31 March 2013

1. Principal Accounting Policies

Basis of accounting

The Association's financial statements have been prepared in accordance with applicable Financial Reporting Standards in the United Kingdom, the Friendly and Industrial and Provident Societies Act 1968, the Housing (Scotland) Act 2010, the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended), the Statement of Recommended Practice for Registered Social Landlords issued in March 1999 and updated in 2005, 2008 and 2010 (the "SORP") and the Determination of Accounting Requirements 2012. The principal accounting policies are set out below.

The Association's financial statements have been prepared on both a going concern basis and the historical cost basis.

Consolidation 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 financial statements under the terms of FRS 2. The Association is also exempt under the terms of FRS 8 from disclosing related party transactions with entities that are part of the Group and are wholly owned.

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). Turnover is recognised as it falls due, either daily, weekly or monthly.

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.

Value Added Tax (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. 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.

Notes to the Financial Statements for the Year Ended 31 March 2013 continued

1. Principal Accounting Policies continued

Tangible fixed assets and depreciation

Properties:

Housing properties comprise properties for rent and shared ownership. Housing properties are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. The cost of such properties includes the following:

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Association and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised.

Expenditure on housing properties which is either capable of generating increased future rents, extends their useful life, or significantly reduces future maintenance costs, is capitalised. All other repairs and maintenance are charged to the Income and Expenditure Account during the financial year in which they are incurred.

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

Structure	40 - 125 years
Door and door entry systems	10 - 40 years
Bathrooms	15 - 40 years
External works	15 - 20 years
Heating system	15 - 40 years
Kitchens	30 years
Lifts	10 years
Renewables	25 years
Roof covering	50 years
Windows	40 years
Electrical wiring	30 years

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

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
Improvements to freehold properties	15 years
Furniture and equipment	4 - 10 years
Motor vehicles	4 - 5 years

Notes to the Financial Statements for the Year Ended 31 March 2013 continued

1. Principal Accounting Policies continued

Impairment

In accordance with the SORP, a review of the indicators of impairment is performed annually. When an indicator is identified, an impairment review is performed at an income generating unit level using an assessment of future discounted cash flows. Provisions are made to write down the carrying amount of assets where it is considered that properties have suffered diminution in value.

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 components

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.

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.

Notes to the Financial Statements for the Year Ended 31 March 2013 continued

1. Principal Accounting Policies continued

Housing Association Grant (HAG) 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.

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.

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.

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.

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 if appropriate.

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

	2013	2013	2013	2012
	Turnover	Operating costs	Operating surplus	Operating surplus
	£'000	£'000	£'000	£'000
Social housing lettings	10,184	(5,291)	4,893	4,475
Other social housing activities	382	(138)	244	46
Total	<u>10,566</u>	<u>(5,429)</u>	<u>5,137</u>	<u>4,521</u>
Total for previous year	<u>9,525</u>	<u>(5,004)</u>	<u>4,521</u>	

Development administration expenditure and other indirect costs capitalised during the year amounted to £1,377,307 (2012: £522,090).

Sanctuary Scotland Housing Association Limited

Notes to the Financial Statements for the Year Ended 31 March 2013 continued

3a. Income and Expenditure from Social Housing Lettings

	Rented Housing £'000	Supported Housing £'000	2013 Total £'000	2012 Total £'000
Income from lettings				
Rents receivable net of service charges	9,393	514	9,907	9,050
Service charges	117	176	293	294
Gross Income from Rents and Service Charges	9,510	690	10,200	9,344
Less voids	(12)	(4)	(16)	(31)
Net Income from Rents and Service Charges	9,498	686	10,184	9,313
Expenditure on lettings				
Management and maintenance administration costs	(2,427)	(149)	(2,576)	(2,171)
Services costs	(445)	(142)	(587)	(487)
Reactive maintenance	(499)	(84)	(583)	(659)
Planned and cyclical maintenance	(483)	(14)	(497)	(369)
Bad debt charges – rents and service charges	(13)	(4)	(17)	(24)
Depreciation of social housing	(973)	(58)	(1,031)	(1,128)
Operating costs from social letting activities	(4,840)	(451)	(5,291)	(4,838)
Operating surplus from social letting activities	4,658	235	4,893	4,475
Operating surplus from social letting activities for previous year	4,242	233	4,475	

3b. Income and Expenditure from Other Activities

	Other income £'000	Other operating costs £'000	Operating surplus £'000
Other	237	(10)	227
Supporting People contract income	76	(76)	-
Management services for Registered Providers	69	(52)	17
Total from other activities	382	(138)	244
Total from other activities for the previous year	212	(166)	46

4. Operating Surplus

	2013 £'000	2012 £'000
The operating surplus is arrived at after charging:		
Depreciation of properties (note 8)	986	1,128
Depreciation of operating assets (note 9)	59	66
Auditors' remuneration – audit	9	8

There have been no non-audit services in the year or the prior year.

The net surplus on sale of fixed assets consists of £332,826 proceeds (2012: £325,134) less £227,250 cost (2012: £237,172).

Sanctuary Scotland Housing Association Limited

Notes to the Financial Statements for the Year Ended 31 March 2013 continued

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 £3,357 (2012: £3,610).

6. Employee Information

There were no employees of the Association during the year (2012: none). The Association's management and administration is carried out under contract by its parent undertaking Sanctuary Housing Association.

7. Interest Payable and Similar Charges

	2013	2012
	£'000	£'000
Bank loans, overdrafts and other loans:		
Repayable by instalments	54	10
Interest charges on non-instalment debt	394	395
Interest on loans from group undertakings	4,162	3,994
Less: amounts transferred to housing properties in the course of construction	<u>(507)</u>	<u>(406)</u>
	<u>4,103</u>	<u>3,993</u>

Sanctuary Scotland Housing Association Limited

Notes to the Financial Statements for the Year Ended 31 March 2013 continued

8. Fixed Assets – Properties

	Rented Properties £'000	Under Construction £'000	Total £'000
Cost			
At 1 April 2012	205,362	25,197	230,559
Additions during year	2,035	30,164	32,199
Transfer on completion	16,954	(16,954)	-
Disposals	(3,525)	(31)	(3,556)
At 31 March 2013	220,826	38,376	259,202
Depreciation			
At 1 April 2012	6,966	-	6,966
Charge for year	986	-	986
Disposals	(74)	-	(74)
At 31 March 2013	7,878	-	7,878
Depreciated Cost	212,948	38,376	251,324
Housing Association Grant			
At 1 April 2012	108,744	17,240	125,984
Receivable during year	1,707	9,172	10,879
Transfer on completion	9,267	(9,267)	-
Disposals	(3,034)	-	(3,034)
At 31 March 2013	116,684	17,145	133,829
Net Book Amount			
At 31 March 2013	96,264	21,231	117,495
At 31 March 2012	89,652	7,957	97,609

There are no amounts for properties under construction for shared ownership (2012: £nil).

Of the total net book value of housing stock, £117,495,000 is freehold (2012: £95,212,000).

During the year £655,572 (2012: £558,116) was capitalised in respect of works to existing properties. A total of £1,126,405 (2012: £993,578) 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 2013 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 2012	638	126	60	824
Additions during the year	18	6	-	24
Disposals	-	-	(12)	(12)
At 31 March 2013	656	132	48	836
Depreciation				
At 1 April 2012	75	95	26	196
Charge for year	39	10	10	59
Disposals	-	-	(4)	(4)
At 31 March 2013	114	105	32	251
Net Book Amount				
At 31 March 2013	542	27	16	585
At 31 March 2012	563	31	34	628

10. Investments

	2013 £'000	2012 £'000
Shared Equity		
- Investment	1,545	1,545
- Grant	(1,545)	(1,545)
	-	-

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 2010.

Sanctuary Scotland Housing Association Limited

Notes to the Financial Statements for the Year Ended 31 March 2013 continued

11. Debtors

	2013 £'000	2012 £'000
Current tenant rental debtors	419	493
Bad Debt Provision – rental debtors	(76)	(57)
Amounts due from group undertakings	76	11
Prepayments and other debtors	2,246	3,301
	<u>2,665</u>	<u>3,748</u>

Amounts due from group undertakings do not bear interest.

12. Assets Held For Sale

	£'000
Shared Equity properties:	
Cost of properties as at 1 April 2012	16,970
Additions	2,328
Disposals	(2,237)
Cost of properties as at 31 March 2013	<u>17,061</u>
Grant received as at 1 April 2012	15,476
Receivable during year	571
Grant Received as at 31 March 2013	<u>16,047</u>
Balance as at 31 March 2013	<u>1,014</u>
Balance as at 31 March 2012	<u>1,494</u>

Shared Equity Housing (also known as Homestake) 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.

Sanctuary Scotland Housing Association Limited

Notes to the Financial Statements for the Year Ended 31 March 2013 continued

13. Creditors: Amounts Falling Due Within One Year

	2013 £'000	2012 £'000
Amounts due to parent undertaking	20,430	10,740
Amounts due to fellow subsidiaries	768	1,285
Trade creditors	478	87
Other creditors and accruals	2,592	3,835
	<u>24,268</u>	<u>15,947</u>

Of the amounts disclosed as due to the parent undertaking £283,283 (2012: £283,993) and due to subsidiaries of £267,646 (2012: £846,310) is trading in nature. These amounts are non-interest bearing.

The remaining amount due to the parent undertaking relates to loans, of which £20,000,000 (2012: £10,320,000) is charged at a variable rate of 1.51% (2012: 1.21%) and £124,011 (2012: £120,427) is charged at a fixed rate of 5.69% (2012: 5.69%). Interest payable to the parent amounts to £23,469.

In the amount due to fellow subsidiaries are loans totalling £144,186, less setup costs of £102,328. The remaining amount due to subsidiaries of £458,812 relates to interest payable on loans.

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

	2013 £'000	2012 £'000
Amounts due to parent undertaking	1,888	1,897
Amounts due to fellow subsidiary	81,097	74,869
Bank loans	9,438	9,885
	<u>92,423</u>	<u>86,651</u>

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 5.29%.

The bank loans bear a fixed interest rate of 3.95% (2012: 3.95%).

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

	2013 £'000
Due within one year	20,166
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	92,423
	<u>112,589</u>

The Association provided security on loans with charges on property for loans totalling £93,253,513 at the Balance Sheet date. Amounts due within one year are net of £102,328 of setup costs. Of the amounts due after five years, £41,883,772 is due to be repaid by instalments with £51,097,460 treated as non-instalment debt. The remaining figure relates to set up costs.

Sanctuary Scotland Housing Association Limited

Notes to the Financial Statements for the Year Ended 31 March 2013 continued

15. Called Up Share Capital

	2013 £	2012 £
Each Member holds one share of £1 in the Association		
Allotted, issued and fully paid		
At 1 April 2012	22	147
Issued during the year	-	6
Redeemed in the year	(2)	(131)
At 31 March 2013	20	22

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

16. Reserves

	Revenue Reserve £'000
At 1 April 2012	4,244
Surplus for year	1,140
At 31 March 2013	5,384

17. Capital Commitments

	2013 £'000	2012 £'000
Expenditure contracted	25,018	16,484
Authorised expenditure not contracted	14,304	19,348
	39,322	35,832

£29,616,000 (2012: £13,501,000) 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.

18. Notes to the Cashflow Statement

a) Reconciliation of operating surplus to net cash inflow from operating activities

	2013 £'000	2012 £'000
Operating surplus	5,137	4,521
Depreciation on fixed assets (note 4)	1,045	1,194
Decrease in debtors	500	672
(Decrease) in creditors	(778)	(154)
Net cash inflow from operating activities	5,904	6,233

Sanctuary Scotland Housing Association Limited

Notes to the Financial Statements for the Year Ended 31 March 2013 continued

18. Notes to the Cashflow Statement

b) Detailed analysis of cash flows

	2013	2012
	£'000	£'000
Servicing of finance and returns on investments		
Interest paid	(4,666)	(4,414)
	<u>(4,666)</u>	<u>(4,414)</u>
Capital expenditure and financial investment		
Acquisition and construction of housing properties	(32,437)	(21,082)
Purchase of other fixed assets and investments	(24)	(542)
Capital grants received	11,774	17,775
Sales of housing properties	333	306
Sales of other fixed assets	-	19
	<u>(20,354)</u>	<u>(3,524)</u>
Financing		
Loan advances received	24,990	14,850
Loan principal repayments	(8,921)	(10,514)
Net cash inflow from financing	<u>16,069</u>	<u>4,336</u>

c) Analysis of net debt

	At 1 April		Non-cash	At 31
	2012	Cash flows	changes	March
	£'000	£'000	£'000	2013
				£'000
Cash at bank and in hand	3,363	(3,047)	-	316
Debt due less than one year	(10,440)	8,921	(18,647)	(20,166)
Debt due after more than one year	(86,651)	(24,990)	19,218	(92,423)
	<u>(93,728)</u>	<u>(19,116)</u>	<u>571</u>	<u>(112,273)</u>

19. Investments in Subsidiaries

	£
As at 1 April 2012 and 31 March 2013	<u>12</u>

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

20. 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 Homes and Communities Agency (Number L0247). A copy of the Group financial statements can be obtained from Sanctuary Housing Association, Chamber Court, Castle Street, Worcester WR1 3ZQ.