

SANCTUARY SCOTLAND HOUSING ASSOCIATION LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2015

Scottish Registered Charity:
Scottish Housing Regulator:
Registered Society Number:

SC024549
HEP302
2508RS

Annual Report and Financial Statements for the year ended 31 March 2015

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Sanctuary Scotland Housing Association Limited

Committee of Management and Advisors

Members of the Committee of Management

John Holcombe (Chairperson)
Jack Payne (Vice Chairperson)
Iain Blackwood
James Coleman
Suzanne Hunter (Community Member)
Sima Moradi (Community Member)
Christine Vine

Corporate members

Sanctuary Housing Association
Spiral (Number 2) Housing Association Limited

Secretary

Sophie Atkinson

Independent statutory auditor

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B4 6GH

Internal auditor

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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 2015.

Principal activity

Sanctuary Scotland Housing Association Limited (the Association) was registered for the purpose of developing, managing and maintaining housing for people in housing need.

The Association is registered with the Scottish Housing Regulator, number HEP302.

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 Co-operative and Community Benefit Societies Act 2014, 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	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
General needs	11,670	10,754	5,803	4,854
Sheltered and supported housing	803	699	346	260
Other activities	863	1,122	(44)	(43)
Totals	13,336	12,575	6,105	5,071

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 2015	Actual for year 2014
Current tenant arrears as a % of gross annual rent	3.29%	3.45%
Void loss as a % of gross annual rent	0.20%	0.23%

Sanctuary Scotland Housing Association Limited

The Committee of Management's report continued

Review of business activities continued

Accommodation in management

	2015	2014
Social housing accommodation:		
General needs housing	2,943	2,780
Sheltered & supported housing accommodation	139	136
Total units in management	3,082	2,916
Not available for letting	(165)	(92)
Total stock available for letting	2,917	2,824

At the Balance Sheet date, 165 (2014: 90) 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. There are no longer any (2014: 2) supported living properties not in use.

24 (2014: 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.

210 (2014: 210) units owned by the Association were being managed by Cumbernauld Housing Partnership Limited, a Group company, at the Balance Sheet date.

Housing management

The Association has maintained its performance in a range of key indicators such as void loss for available to let properties, which was 0.20% (2014: 0.23%). As a result of lack of demand for some supported housing properties, decisions were taken to dispose of a small number of such properties and three were sold during the year. The level of current tenant rent arrears at the year end decreased to 3.29% (2014: 3.45%) of the annual rental amount, despite the continuing pressures arising from welfare reforms. The level of former tenant rent arrears increased marginally to 0.66% (2014: 0.65%).

Community initiatives

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

The Welfare Rights Officer continued to offer assistance to tenants in maximising their incomes, including claims for Discretionary Housing Payments to mitigate the impacts of welfare reforms. This service, which has now secured in excess of £2.7 million in additional income for tenants, will be of increasing significance as further reforms to the welfare system are implemented.

Property maintenance and improvement

Throughout the year, the Association's maintenance services continued to be delivered by Sanctuary Maintenance Contractors Limited, with support from specialist contractors. The services covered both reactive and voids maintenance and estates services (grounds maintenance, cleaning of communal areas, etc).

The Committee of Management's report continued

Review of business activities continued

Property maintenance continued

The in-house services have proved popular with tenants with feedback suggesting that the services are appreciated and meeting their expectations.

The largest improvement contract undertaken by the Association during the year was the second phase of bathroom and kitchen renewals to 70 foam-slag constructed properties in the Priesthill area of Glasgow. A further phase of similar works to properties in the Pollok and Rosshall areas is planned for 2015/2016. Other capital works carried out during the year included further remedial works to gardens in the Shortroods area of Paisley to address drainage issues, internal refurbishment of the communal areas of the Sidlaw House sheltered housing in Dundee, and internal improvements to properties originally acquired under the auspices of Access Apna Ghar Housing Association Limited. Significant sums were also expended on one-off replacements of building components, such as central heating boilers, which failed during the year. The Association also continued, with welcome funding support from Glasgow City Council and the Scottish Government, its programme of medical aids and adaptations for tenants with particular needs.

The Association met the requirements of the Scottish Housing Quality Standard by the due date of 31 March 2014 with only a small number of exemptions required for properties in blocks where other owners are unable or unwilling to participate in communal improvement projects.

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 2015/2016, albeit the amount of funding has again been frozen.

An announced short notice inspection of the sheltered housing support service was carried out by the Care Inspectorate in March 2014. Grades of 5 ("very good") were awarded for all quality themes inspected. The formal report contained no requirements or recommendations. A further inspection is anticipated in 2015/2016.

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 Association might face, the likelihood of such risks occurring and their impact on the Association if they do occur. The risk map also identifies action taken by the Association to mitigate 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.

The three principal risks identified in the most recent (April 2015) risk map are:

- Welfare reforms – the likely impact of measures such as the under occupancy charge and Universal Credit on the Association and its tenants;
- The impact of the potential merger with other Sanctuary Group social housing subsidiaries in Scotland; and
- Planned changes to the Group's information systems platform and systems over the course of 2015.

Sanctuary Scotland Housing Association Limited

The Committee of Management's report continued

Corporate governance

The Committee again completed a process of self-appraisal and development during the year, the outcome of which will be considered by the Committee in June 2015. 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.

During the year two sub committees – the Operations Sub Committee and the Access Apna Ghar Committee (now renamed as the Equality and Diversity Committee) – met regularly to consider matters within their approved remits.

John Holcombe was again elected as Chairperson of the Association in August 2014 for his fourth year in office. Jack Payne, a former Chairperson, was re-elected as Vice-Chairperson of the Association, also in August 2014. Margaret Miller resigned from the Committee on 30 April 2015.

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 Co-operative and Community Benefit Societies Act 2014 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 Co-operative and Community Benefit Societies Act 2014 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 financial control

The Committee of Management is ultimately responsible for ensuring that the Association maintains a system of internal financial 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 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; and
- The safeguarding of assets against unauthorised use or disposition.

Note that the system can only provide reasonable and not absolute assurance against material misstatement or loss.

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

- The Committee is 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 take responsibility for important business functions. Annual appraisal procedures ensure standards of performance are maintained;
- Executives 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;

The Association reviews the effectiveness of the system of internal financial control through the following:

- The Group Audit Committee reviews reports from management, PWC (internal auditor) 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 Executive Committee.
- The Group Audit Committee make regular reports to the Group Board and relevant points are communicated to the Association.

The Association follows formal procedures for ensuring appropriate actions are taken to correct weaknesses identified from the above reports, which are followed up by the Committee.

During the year the Association migrated various transactions from the Group's former financial ledger (SUN) to SAP, the Group's new Enterprise Resource Planning system, known internally as OneSanctuary. The Committee of Management and the Group Audit Committee are satisfied that since the transfers the system of internal control is appropriate to the various business environments in which it operates.

The Committee of Management's report continued

Statement of internal financial control continued

On behalf of the Committee of Management, the Group Audit Committee has reviewed the effectiveness of the system of internal control in existence in the Association for the year ended 31 March 2015 and to the date of the signed accounts and can confirm that there have been no weaknesses identified which have resulted in material loss, contingencies or uncertainties which need to be disclosed in the audited accounts.

Future developments and corporate issues

The year to 31 March 2015 saw a continued high level of development activity with a total of 206 new homes (2014: 275) – 171 for social rent and 35 for affordable home ownership (through the shared equity model) – being completed on projects at Braille Crescent in Renfrew, Holmbank Avenue in Glasgow, Anderston in Glasgow and Woodilee in Lenzie. 109 of these new homes were provided under the third phase of the ongoing Anderston regeneration project in central Glasgow. This will allow the demolition of the final properties at Anderston which were acquired in 2005.

As a result of its strong and positive relationships with grant funders and other key stakeholders, the Association has a strong forward programme of development projects. Projects at Anniesland and Maryhill in Glasgow, at Shortroods in Paisley, at Peterhead and at Strichen are already under way and further sites at Nitshill in Glasgow, at Braille Crescent in Renfrew and at Cumbernauld have been, or are in the process of being, acquired for future development.

The amount of Housing Association Grant for new housing for social rent which is available from the Scottish Government remained at the same level as in the previous year and contributed to the viability of new projects. Challenges in the funding and valuation framework, however, remain and the Association will continue to carefully appraise the viability of all new projects.

During the year, the Association participated in new private funding arrangements arranged by the parent undertaking. These new facilities ensure continued access to affordable private funding to support the Association's development activities.

Over 2015/2016 the Association will continue with the process towards a formal merger with the two other Group social housing organisations in Scotland – Cumbernauld Housing Partnership Limited (Sanctuary Cumbernauld) and Tenants First Housing Co-operative Limited. The three organisations already share operating structures to a significant degree and it is envisaged that a merger of all of these organisations will yield further efficiencies and operational enhancements which will be of benefit to tenants. A business case has been developed and has been used as the basis for extensive consultation with tenants and other stakeholders. Subject to tenant support in formal ballots, and to necessary governing body and regulatory approvals, it is anticipated that the formal merger will be completed within 2015/2016.

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 2015, 100% of the Association's debt was on fixed rate terms (2014: 100%). 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, 0.26% (2014: 0.27%) 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.

Sanctuary Scotland Housing Association Limited

The Committee of Management's report continued

Financial risk management continued

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 £576,000 (2014: £342,000). The Association has £6,302,000 (2014: £5,726,000) of revenue reserves and support via £1,741,972 (2014: £1,883,773) of loan funding from the Association's parent undertaking, Sanctuary Housing Association and £113,681,935 (2014: £108,166,377) from Sanctuary Treasury Limited, a fellow Group undertaking.

Committee Members

The Committee Members are listed on page 2.

National Members of the Committee 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 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 in the year or the prior year.

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.

Going concern

The Committee 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.

Independent Auditor

KPMG LLP were appointed as auditor on 28 November 2014, and have indicated their willingness to continue in office. A resolution concerning their reappointment will be proposed at the Annual General Meeting.

By order of the Committee of Management.



Sophie Atkinson
Secretary
9 June 2015

Independent auditor's report to Sanctuary Scotland Housing Association Limited

We have audited the financial statements of Sanctuary Scotland Housing Association Limited ("the Association") for the year ended 31 March 2015 set out on pages 13 to 15. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Association, in accordance with section 87 of the Co-operative and Community Benefit Societies Act 2014 and section 69 of the Housing (Scotland) Act 2010. Our audit work has been undertaken so that we might state to the Association those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Committee of Management and auditor

As more fully explained in the Statement of the Committee of Management's responsibilities set out on page 7, the Association's 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 (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the Association as at 31 March 2015 and of its income and expenditure for the year then ended;
- comply with the requirements of the Co-operative and Community Benefit Societies Act 2014; and
- have been properly prepared in accordance with the Housing (Scotland) Act 2010 and the Registered Social Landlords Determination of Accounting Requirements 2012.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Independent auditor's report to Sanctuary Scotland Housing Association Limited continued

Under the Scottish Housing Regulator Regulatory Advice Note: *Internal Financial Controls and the Regulatory Standards* we are required to report to you if, in our opinion the Statement on Internal Financial Control on page 8:

- does not provide the disclosures required by the relevant Regulatory Standards for systemically important RSLs within the publication "Our Regulatory Framework" and associated Regulatory Advisory Notes issued by the Scottish Housing Regulator in respect of internal financial controls; or
- is materially inconsistent with the knowledge acquired by us in the course of performing our audit.



Darren Turner
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham B4 6GH
29 June 2015

Sanctuary Scotland Housing Association Limited

Income and Expenditure Account for the year ended 31 March 2015

	Note	2015 £'000	2014 £'000
Turnover	2	13,336	12,575
Operating costs	2	(7,231)	(7,504)
Operating surplus	2,4	6,105	5,071
Surplus on sale of fixed assets	4	208	108
Interest payable and similar charges	7	(5,737)	(4,835)
Loss on business combinations	1	-	(2)
Surplus for the year	16	576	342

The above results relate wholly to continuing activities.

There is no material difference between the surplus for the year stated above and the historical cost equivalent.

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 27 form part of these financial statements.


Sanctuary Scotland Housing Association Limited


Balance Sheet as at 31 March 2015


	Note	2015 £'000	2014 £'000
Fixed assets			
Housing properties – depreciated cost	8	301,505	274,574
Less: Housing Association Grant and other public grants	8	(167,382)	(149,326)
		<u>134,123</u>	<u>125,248</u>
Other fixed assets	9	545	622
Investments	10	-	-
		<u>134,668</u>	<u>125,870</u>
Current assets			
Debtors due within one year	11	887	1,834
Assets held for sale	12	2,439	390
Cash at bank and in hand		378	1,956
		<u>3,704</u>	<u>4,180</u>
Creditors: Amounts falling due within one year	13	(7,002)	(5,170)
Net current liabilities		<u>(3,298)</u>	<u>(990)</u>
Total assets less current liabilities		131,370	124,880
Creditors: amounts falling due after more than one year	14	(125,068)	(119,154)
Net assets		<u>6,302</u>	<u>5,726</u>
Capital and reserves			
Share capital	15	-	-
Revenue reserve	16	6,302	5,726
Total funds		<u>6,302</u>	<u>5,726</u>

The notes on pages 15 to 27 form part of these financial statements.

The financial statements were approved by the Committee of Management on 9 June 2015 and signed on its behalf by:


 John Holcombe
 Chairperson


 Jack Payne
 Vice-Chairperson


 Sophie Atkinson
 Secretary

Sanctuary Scotland Housing Association Limited

Cash Flow Statement for the year ended 31 March 2015

	Note	2015 £'000	2014 £'000
Net cash inflow from operating activities	18(a)	7,898	5,865
Servicing of finance and returns on investments	18(b)	(5,230)	(5,097)
Cash inflow on transfer of engagement		-	3
Capital expenditure and financial investment	18(b)	(10,254)	(5,696)
Cash outflow before use of liquid resources and financing		(7,586)	(4,925)
Financing	18(b)	6,008	6,565
(Decrease)/increase in cash in the year	18(c)	(1,578)	1,640

Reconciliation of net cash flow to movement in net debt

	Note	2015 £'000	2014 £'000
(Decrease)/increase in cash in the year	18(c)	(1,578)	1,640
Cash inflow from increase in debt and lease financing	18(b)	(6,008)	(6,565)
Change in net debt resulting from cash flows	18(c)	(7,586)	(4,925)
Non-cash	18(c)	130	(296)
Movement in net debt in the year		(7,456)	(5,221)
Net debt at start of year	18(c)	(117,494)	(112,273)
Net debt at end of year	18(c)	(124,950)	(117,494)

Notes to the Financial Statements for the year ended 31 March 2015

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 Co-operative and Community Benefit Societies Act 2014, 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 Accounting by Registered Social Housing Providers: Update 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. Factored 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 2015 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 - 8 years
Motor vehicles	4 - 5 years

Notes to the Financial Statements for the year ended 31 March 2015 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 employees recharged to the Association 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.

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 and included in surplus on sale of fixed assets.

Shared Equity Housing

Properties developed under the Scottish Government's shared equity initiative are funded by grant and ultimate sales proceeds. For properties commenced and completed before 1 April 2008, 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. Shared equity properties under construction are shown as assets held for sale, while completed properties commenced and completed after 1 April 2008 are not disclosed in the financial statements, as any interest in the completed property is held by the Scottish Government.

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.

Notes to the Financial Statements for the Year Ended 31 March 2015 continued

1. Principal Accounting Policies continued

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.

Transfers of engagements

Where the assets and liabilities of an entity within the Group are transferred into another Group entity via a transfer of engagements, the transfers are treated as an acquisition in the receiving entity with assets and liabilities being fair valued using external data available and any gains on business combinations presented in the receiving entity. There is no consideration paid.

2. Turnover, Operating Costs and Operating Surplus

	2015 Turnover	2015 Operating costs	2015 Operating Surplus/ (deficit)	2014 Operating Surplus/ (deficit)
	£'000	£'000	£'000	£'000
Social housing lettings	12,473	(6,324)	6,149	5,114
Other social housing activities	863	(907)	(44)	(43)
Total	13,336	(7,231)	6,105	5,071
Total for previous year	12,575	(7,504)	5,071	

Development administration expenditure and other directly attributable costs capitalised during the year amounted to £1,352,719 (2014: £1,529,762).

Sanctuary Scotland Housing Association Limited

Notes to the Financial Statements for the year ended 31 March 2015 continued

3a. Income and Expenditure from Social Housing Lettings

	Rented housing £'000	Supported housing £'000	2015 Total £'000	2014 Total £'000
Income from lettings				
Rents receivable net of service charges	11,635	564	12,199	11,193
Service charges	51	241	292	287
Gross income from rents and service charges	11,686	805	12,491	11,480
Less voids	(16)	(2)	(18)	(27)
Net income from rents and service charges	11,670	803	12,473	11,453
Expenditure on lettings				
Management and maintenance administration costs	(2,658)	(187)	(2,845)	(3,006)
Services costs	(428)	(80)	(508)	(503)
Reactive maintenance	(986)	(105)	(1,091)	(875)
Planned and cyclical maintenance	(468)	(50)	(518)	(513)
Bad debt charges – rents and service charges	(25)	(4)	(29)	(102)
Depreciation of social housing	(1,302)	(31)	(1,333)	(1,340)
Operating costs from social letting activities	(5,867)	(457)	(6,324)	(6,339)
Operating surplus from social letting activities	5,803	346	6,149	5,114
Operating surplus from social letting activities for previous year	4,854	260	5,114	

3b. Income and Expenditure from Other Activities

	Other income £'000	Other operating costs £'000	Operating surplus £'000	2014 Operating Surplus £'000
Management services for Registered Providers	718	(757)	(39)	-
Supporting People contract income	63	(63)	-	-
Other	82	(87)	(5)	(43)
Total from other activities	863	(907)	(44)	(43)
Total from other activities for the previous year	1,122	(1,165)	(43)	244

Sanctuary Scotland Housing Association Limited

Notes to the Financial Statements for the year ended 31 March 2015 continued

4. Operating Surplus

	2015	2014
	£'000	£'000
The operating surplus is arrived at after charging:		
Depreciation of properties	1,315	1,340
Depreciation of operating assets (note 9)	70	59
Surplus on sale of fixed assets	208	108
Auditors' remuneration – audit	10	10
	<u>1,315</u>	<u>1,340</u>

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

The net surplus on sale of fixed assets consists of £662,999 proceeds (2014: £391,793) less £454,731 cost (2014: £284,230).

5. Committee of Management Members' Emoluments

The Members of the Committee of Management were reimbursed for expenses necessarily incurred in the conduct of their duties amounting to £1,747 (2014: £3,069).

6. Employee Information

There were no employees of the Association during the year (2014: 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

	2015	2014
	£'000	£'000
Bank loans, overdrafts and other loans:		
Repayable by instalments	-	254
Interest charges on non-instalment debt	394	394
Interest on loans from group undertakings	6,074	5,006
Less: amounts transferred to housing properties in the course of construction	(731)	(819)
	<u>5,737</u>	<u>4,835</u>

Sanctuary Scotland Housing Association Limited

Notes to the Financial Statements for the year ended 31 March 2015 continued

8. Fixed assets – properties

	Rented properties £'000	Under construction £'000	Total £'000
Cost			
At 1 April 2014	252,677	30,708	283,385
Additions during year	1,463	31,340	32,803
Transfer on completion	31,185	(31,185)	-
Disposals	(829)	-	(829)
Transfer to assets held for sale	(26)	(5,453)	(5,479)
Transfer from other subsidiaries	-	1,472	1,472
At 31 March 2015	284,470	26,882	311,352
Accumulated depreciation			
At 1 April 2014	8,811	-	8,811
Charge for year	1,179	-	1,179
Disposals	(143)	-	(143)
At 31 March 2015	9,847	-	9,847
Depreciated cost	274,623	26,882	301,505
Housing association grant			
At 1 April 2014	132,048	17,277	149,325
Receivable during year	148	17,470	17,618
Transfer from other subsidiaries	-	693	693
Transfer on completion	18,262	(18,262)	-
Disposals	(254)	-	(254)
At 31 March 2015	150,204	17,178	167,382
Net book amount			
At 31 March 2015	124,419	9,704	134,123
At 31 March 2014	111,818	13,430	125,248

There are no amounts for properties under construction for shared ownership (2014: £nil).

Of the total net book value of housing stock, £134,122,838 is freehold (2014: £125,248,064).

During the year £818,803 (2014: £1,049,189) was capitalised in respect of works to existing properties. A total of £1,620,929 (2014: £1,354,602) 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 2015 continued

9. Fixed assets – other operating assets

	Freehold land and buildings £'000	Furniture and equipment £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 April 2014	720	64	34	818
Additions	-	1	-	1
Disposals	-	-	(12)	(12)
At 31 March 2015	720	65	22	807
Accumulated depreciation				
At 1 April 2014	154	36	6	196
Charge for year	53	9	8	70
Disposals	-	-	(4)	(4)
At 31 March 2015	207	45	10	262
Net Book Amount				
At 31 March 2015	513	20	12	545
At 31 March 2014	566	28	28	622

10. Investments

	2015 £'000	2014 £'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 2015 continued

11. Debtors

	2015	2014
	£'000	£'000
Current tenant rental debtors	503	573
Bad debt provision – rental debtors	(264)	(132)
	<u>239</u>	<u>441</u>
Amounts due from group undertakings	62	239
Prepayments and other debtors	586	1,154
	<u>887</u>	<u>1,834</u>

Amounts due from group undertakings are trading in nature and do not bear interest.

12. Assets held for sale

	£'000
Shared equity properties:	
Cost of properties as at 1 April 2014	17,987
Additions	5,479
Disposals	(1,042)
Cost of properties as at 31 March 2015	<u>22,424</u>
Grant received as at 1 April 2014	17,597
Receivable during year	2,388
Grant received as at 31 March 2015	<u>19,985</u>
Balance as at 31 March 2015	<u>2,439</u>
Balance as at 31 March 2014	<u>390</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 2015 continued

13. Creditors: amounts falling due within one year

	2015	2014
	£'000	£'000
Amounts due to parent undertaking	478	519
Amounts due to fellow subsidiaries	1,599	1,275
Trade creditors	748	198
Other creditors and accruals	4,177	3,178
	<u>7,002</u>	<u>5,170</u>

Of the amounts disclosed as due to the parent undertaking £317,599 (2014: £374,779) is trading in nature. Of those due to subsidiaries £137,034 (2014: £176,946) is trading in nature. These amounts are non-interest bearing.

The remaining amount due to the parent undertaking relates to fixed rate loan of £143,305 (2014: £134,810) which is charged at a rate of 5.69% (2014: 5.69%). Interest payable to the parent amounts to £17,308 (2014: £9,495).

In the amount due to fellow subsidiaries are loans totalling £183,062 (2014: £188,293), less setup costs of £65,945 (2014: £14,624). The remaining amount due to subsidiaries of £1,344,593 (2014: £924,253) relates to interest payable on loans.

14. Creditors: amounts falling due after more than one year

	2015	2014
	£'000	£'000
Amounts due to parent undertaking	1,599	1,742
Amounts due to fellow subsidiary	113,565	107,532
Bank loans	9,904	9,880
	<u>125,068</u>	<u>119,154</u>

The amounts due to the parent undertaking are in relation to a loan, which is repayable over the next 9 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 2.95% and 6.69%.

The bank loans bear a fixed interest rate of 3.95% (2014: 3.95%).

Sanctuary Scotland Housing Association Limited

Notes to the Financial Statements for the year ended 31 March 2015 continued

14. Creditors: amounts falling due after more than one year continued

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

	2015	2014
	£'000	£'000
Due within one year	260	296
Due in more than one year but less than two years	1,878	234
Due in more than two years but less than five years	18,474	18,934
Due in more than five years	104,716	99,986
	<u>125,328</u>	<u>119,450</u>

The Association provided security on loans with charges on property for loans totalling £126,006,498 at the Balance Sheet date. Amounts due after one year are net of £611,377 (2014: £562,474) of setup costs. Of the amounts due after five years, £21,932,377 is due to be repaid by instalments with £82,784,042 treated as non-instalment debt. The remaining figure relates to set up costs.

15. Called up share capital

	2015	2014
	£	£
Each member holds one share of £1 in the Association		
Allotted, issued and fully paid		
At 1 April	20	20
Redeemed in the year	(4)	-
At 31 March	<u>16</u>	<u>20</u>

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 2014	5,726
Surplus for year	576
At 31 March 2015	<u>6,302</u>

Sanctuary Scotland Housing Association Limited

Notes to the Financial Statements for the year ended 31 March 2015 continued

17. Capital commitments

	2015	2014
	£'000	£'000
Expenditure contracted	10,926	24,620
Authorised expenditure not contracted	42,188	30,903
	<u>53,114</u>	<u>55,523</u>

£17,258,895 (2014: £30,981,333) 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 Cash Flow Statement

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

	2015	2014
	£'000	£'000
Operating surplus	6,105	5,071
Depreciation on fixed assets (note 4)	1,385	1,399
Decrease/(Increase) in debtors	66	(287)
Increase/(decrease) in creditors	342	(318)
Net cash inflow from operating activities	<u>7,898</u>	<u>5,865</u>

b) Detailed analysis of cash flows

	2015	2014
	£'000	£'000
Servicing of finance and returns on investments		
Interest paid	(5,230)	(5,097)
	<u>(5,230)</u>	<u>(5,097)</u>
Capital expenditure and financial investment		
Acquisition and construction of housing properties	(28,608)	(27,360)
Purchase of other fixed assets and investments	(1,246)	(97)
Capital grants received	18,937	17,328
Sales of housing properties	663	4,415
Sales of other fixed assets	-	18
	<u>(10,254)</u>	<u>(5,696)</u>
Financing		
Loan advances received	13,370	36,743
Loan principal repayments	(7,362)	(30,178)
Net cash inflow from financing	<u>6,008</u>	<u>6,565</u>

Notes to the Financial Statements for the year ended 31 March 2015 continued

18. Notes to the Cash Flow Statement continued

c) Analysis of net debt

	At 1 April 2014 £'000	Cash flows £'000	Non-cash changes £'000	At 31 March 2015 £'000
Cash at bank and in hand	1,956	(1,578)	-	378
Debt due less than one year	(296)	(94)	130	(260)
Debt due after more than one year	(119,154)	(5,914)	-	(125,068)
	<u>(117,494)</u>	<u>(7,586)</u>	<u>130</u>	<u>(124,950)</u>

19. Ultimate parent undertaking and controlling party

The ultimate parent undertaking and controlling party is Sanctuary Housing Association, registered in England as an Registered 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.