

REPORT & FINANCIAL STATEMENTS

For the year ended
31 March 2018

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Strategic Report

Strategic Report

Who we are

Salvation Army Housing Association ("saha" or "the Association") is a charitable diverse specialist provider of supported housing and support services across England. We provide a range of General Needs, Directly Managed Supported and Agency Managed Supported housing. Our principal focus is upon providing services to rough sleepers, young homeless people, young mothers, families and ex-offenders.

The Association is registered under the Co-operative and Community Benefit Societies Act 2014 (registration no. 15210R) and is also registered with the Regulator (registration no. LH 2429).

Our Vision

saha will be an acknowledged provider of choice for Local Authorities, providing supported housing and community solutions to homelessness in conjunction with its parent The Salvation Army (TSA), where its residents are provided with opportunities to develop their potential and transform their own lives.

Our Mission

saha's mission is 'Transforming Lives' by providing solutions to homelessness and enabling customers to develop their own potential.

Our Values

Servant Leadership

saha is a Christian faith based organisation, with a participative, collaborative, encouraging and supportive leadership style.

Passion

Both corporately and personally, we have a strong desire and commitment to see those labelled as 'vulnerable' in society to develop, flourish and reach their full potential.

Inclusion

We seek to provide an environment where everyone has a sense of belonging and feels respected and valued.

Strategic Report – cont'd

Respect

We believe that everyone should show respect for all, whether they are residents, colleagues or delivery partners.

Effectiveness

We are solutions focussed, and are committed to achieving our objectives and "Transforming Lives" over the long term.

Principal activities

Our principal activities are the development and management of social housing, primarily for single people. This includes Lifehouses for homeless people, Foyers offering support and training, housing with appropriate support services for vulnerable people, special housing for the elderly as well as self-contained rented homes at rents affordable to those on low incomes.

We operate nationally in 86 local authorities across England and have six main areas of operation:

1. Agency Managed Centres (1,723 bed spaces)

We work in partnership with a number of organisations nationally, including The Salvation Army, to provide a wide range of Agency Managed Supported Housing services. We have 40 schemes, including residential centres (called Lifehouses) for homeless single people and homeless families, centres for those detoxing and/or recovering from drug and alcohol addictions, accommodation for ex-offenders and individuals and families fleeing domestic violence. Within these partnerships, we act as the landlord owning and maintaining the buildings, whilst our managing agents undertake the day-to-day management of the service.

2. General Needs (1,309 homes)

We have a range of accommodation for mainly single people; we also have flats and houses for families. Generally, residents come into this type of accommodation through council housing lists and choice based lettings.

3. Accommodation for the over 55s (292 bed spaces)

Some of our accommodation comes with specialist services for those over the age of 55, including a scheme manager providing on-site support. In accommodation where there is no staff on site, there will be an alarm call system and other types of floating or community support available. Styles of accommodation vary from studio flats to bungalows. Many of our schemes have communal facilities where activities and clubs take place.

Strategic Report – Principal activities cont'd**4. Directly Managed Supported Housing (614 bed spaces)**

We have five Foyers, housing young people between the ages of 16 and 25, one supported housing direct access accommodation for those over the age of 16, two accommodation centres for young mothers in East Sussex and one scheme for people with mental health issues. We also provide domestic abuse services, drug and alcohol services, services for ex-offenders, and physically adapted accommodation. The majority of these services have 24 hour staff support, and residents engage in a range of activities to promote independence with the aim of resettlement into other types of non-supported accommodation.

5. Registered Care Homes (58 bed spaces)

We manage two registered care homes, both directly and working with our partnering agency to provided support and care for clients in a residential environment. Our services are inspected by an internal inspection team who are trained in CQC standards.

6. Student Accommodation

We manage 141 residential properties in partnership with Imperial College, providing Student Accommodation in London.

External Contracts

We manage over 728 residential properties on behalf of The Salvation Army, providing a housing management service throughout the country. We also provide a supported housing inspection service to The Salvation Army and a number of external bodies and a housing management accredited service to supported housing providers.

It should be noted that there are variances in the stock profile data between the Statistical Data Return and the Annual Accounts. This is predominantly due to differences in regulatory and internal definitions of some property assets. saha has a complex overall stock profile and as a consequence, a cross departmental annual stock reconciliation exercise has been introduced in the last quarter of each year to provide assurance that the data is as robust as feasibly possible.

Strategic Report – Our corporate strategy

Our corporate strategy

In view of changes to the social housing environment and following the merger with Chapter 1 Charity Limited ('Chapter 1'), saha's Board approved an updated 2016/21 five year corporate strategy. The key strategic priorities of this strategy are:

1. Transforming Lives
2. Financial viability and good governance
3. Digitisation
4. Organisational and Cultural Change

Strategic Report – Our corporate strategy cont'd

Delivering our key objectives for 2017/18

The Chapter 1 transfer of engagements was the main priority for the year and this was achieved on 30th September 2017. The continuing assimilation of the organisations is also subsumed into the work undertaken to achieve the other objectives outlined as follows:

Objective	Outcomes
Develop and deliver the Business Case to support the merger of Chapter1 with saha	<ul style="list-style-type: none"> • Merger delivered to agreed timescale • Integration performance criteria measured and satisfied • Action plans in place to address ongoing integration work
Scope and agree organisational restructure requirements to reflect the Chapter1 merger	<ul style="list-style-type: none"> • Board has agreed the designation of all services, with the impact assessments and Viability Assessment Framework informing a draft Structure chart. This will be finalised in the first quarter of 2018/19 • Clear understanding across the business of the purpose of the structure and infrastructure in place to support staff as appropriate
Stabilisation and consolidation of the ICT priorities outlined in saha's Target Operating Model (TOM)	<ul style="list-style-type: none"> • Board approved ICT infrastructure re application and hardware approach. • Project plan in place for implementation of the digital transformation framework
Delivery of saha development programme and maintenance of effective assets	<ul style="list-style-type: none"> • Delivery of 30 new affordable rented homes • Decent Homes compliance for both saha and former Chapter 1 stock • Standardisation of services and performance across the merged organisations
Complete Governance Review	<ul style="list-style-type: none"> • Robust governance practices • Maintain Regulatory rating
Achieving targeted efficiencies in line with the Financial Forecast	<ul style="list-style-type: none"> • £500k cash receipt from stock rationalisation • Achievement of planned maintenance programme • Cashable efficiency recognised through energy renewal programmes

Strategic Report – Our corporate strategy cont'd

Delivering our key objectives for 2018/19

We are committed to improving our performance across all areas of the business. Our Key Performance Indicator (KPI) suite includes customer-facing service performance indicators *and* performance measurement across key business enabling functions, including Governance, HR and ICT. We will continue to focus on measuring, understanding and improving our performance across all areas of the business.

We have adopted the Regulator of Social Housing's *Value for Money* framework, to gauge our financial performance, through a range of financial metrics to demonstrate value for money, financial viability and returns on our investments. The new Value for Money standard enables us to measure our relative financial performance against peers across the sector, complemented by narrative to outline saha's financial structure, asset portfolio and their related challenges.

saha also has an emphasis upon social return on investment and social purpose metrics. We use the HACT model to assess our SROI and have devised an internal method of social purpose metrics to demonstrate how we Transform Lives. The client groups for whom we provide services range from families in general needs accommodation to people with highly complex needs. We seek to serve people who are regarded as vulnerable by society and do not have access to housing and the support services they need. The focus of saha is therefore upon people and providing services that assist in *Transforming Lives*.

This Corporate Strategy sets out the key objectives for each of these priorities, which will form the basis of our annual plans.

Strategic Report – Our corporate strategy cont'd

Strategic Priority	Key Objectives
1. Transforming Lives	Prioritise the further development and delivery of our <i>Transforming Lives</i> activities.
	Effectively evaluate the impacts and outcomes of our <i>Transforming Lives</i> activities.
	Capture and learn from <i>Transforming Lives</i> Case studies across the business.
2. Financial Viability & Good Governance	Seeking greater efficiencies and maximising social return on investment (SROI), value for money, income maximisation and future returns on our assets.
	Reviewing all services to assess whether they are surplus generating or financially neutral, and to identify key schemes which may, in exceptional circumstances, be supported by cross subsidy.
	Reviewing all commercial operations, to ensure the retention of only those that achieve a positive income stream to help counter cyclical impacts when economic conditions change; and to support our core social business and mission.
	Continuing to develop new homes and schemes based upon our Supported Housing and Development Strategies approved by the Board, which directs resources to achieve our mission.
	Maintain effective governance arrangements to enhance our efficiency and effectiveness.
3. Digitisation	Build a digital infrastructure, including a Customer Relationship Management (CRM) online solution, to enhance our relationship with customers by making it simple to communicate digitally by choice.
	Seek opportunities to enhance customers' Internet access and provide support, where required, to maximise their digital inclusion.
	Review and re-engineer core business processes, ensuring that they are lean and agile, to support our digital services.
	Migrate towards digitising core general housing management services, ensuring that, where customers are unable to engage digitally, we retain alternative communication channels.

Strategic Report – Our corporate strategy cont'd

Strategic Priority	Key Objectives
4. Organisational and Cultural Change	Ensure that the way we operate reflects saha values
	Ensure that our operational structure is fit for purpose
	Train and support all saha staff through the cultural change process.
	Optimise our Learning and Development budget and outcomes to support saha's culture
	Increase the supply of accommodation available by maximising the development of affordable high quality new homes across our geographical footprint
	Design developments to include community facilities and support infrastructure, to deliver wider <i>Transforming Lives</i> outcomes through assisting residents to sustain tenancies and build supportive communities.
	Maintain all our assets to a high standard, providing high quality accommodation for customers and protecting and enhancing the value of our assets.
	Comprehensively review and adapt our service delivery model, and allocations policies across the saha portfolio, to maximise financial efficiency, long term viability and the delivery of our targeted balanced customer profile.
	Carry out a strategic options appraisal and develop exit strategies for each saha Lifehouse service.
	Review and redesign our Foyer services, to maintain viability and reduce dependence on public funding

Strategic Report – Performance overview

Performance overview

We have a balanced scorecard of key performance indicators grouped into the four key areas of; People, Residents, Homes and Business. A summary of the main indicators is set out below.

We operate a colour coding for measuring our key performance indicators. A green colour code indicates a good level of performance that is within, or better than, target.

An amber colour code indicates that whilst performance was not at the target level expected, it was better than performance at the previous year end.

A red colour code indicates a poor level of performance, not at the target level expected.

The direction of movement is also colour coded to indicate a favourable movement (green) or adverse movement (red) between 2016/17 and 2017/18

Strategic Report – Performance overview cont'd

PEOPLE - saha				
Performance Indicator	Year End 2016-17	Year End 2017-18	Target	Movement
Average number of days sickness per person	6.82 days	10.57 days	7.6 days	▲
Staff turnover	22.79%	30.06%	20%	▲
Average number of hours learning per person	25.75 hrs	20.37 hrs	35 hours	▼
Staff engagement index	700	692	697	▼

RESIDENTS - saha				
Performance Indicator	Year End 2016-17	Year End 2017-18	Target	Movement
Satisfaction with repairs	98%	98%	90%	—
STAR overall satisfaction	88%	91%	90%	▲
Planned move on	76%	84%	80%	▲
Inspected schemes at 'Good' or 'Excellent'	98%	90%	85%	▼
AMS (TSA) at 'Achieving' standard	68%	77%	80%	▲
AMS (Non TSA) at 'Achieving' standard	40%	10%	80%	▲
HMA at 'Achieving' standard	83%	71%	80%	▼
DMS at 'Achieving' standard	100%	83%	80%	▼
Average time to answer inbound calls (in 20 seconds)	12 seconds	16 seconds	20 seconds	▲
Percentage of calls answered	95%	99%	98%	▲

HOMES – saha				
Performance Indicator	Year End 2016-17	Year End 2017-18	Target	Movement
Repairs completed in target (Handypersons)	99%	100%	96%	▲
Repairs completed in target (Contractors)	98%	97%	96%	▼
Repairs completed right first time	86%	87%	80%	▲
Gas safety inspections overdue	0	1	0	▲
Fire Risk Assessment (saha)	100%	99%	100%	▼
Fire Risk Assessment (Agency)	100%	100%	100%	—
Periodic inspection report	-	98%	100%	—
Voids (tenantable and non-tenantable)	2%	3%	2%	▲
Void rent loss	1.9%	2.5%	2%	▲
Average time to re-let voids	23.8 days	28.9 days	17 days	▲
Surplus from property disposals	£333k	£162k	£500k	▼
Average energy efficiency rating	68	68	69	—

Strategic Report – Performance overview cont'd

BUSINESS – saha				
Performance Indicator	Year End 2016-17	Year End 2017-18	Target	Movement
Current tenant arrears (gross)	4.3%	4.2%	5%	▼
Current tenant arrears (net of HB)	1.6%	2.0%	2%	▲
Former tenant arrears	1.0%	1.4%	1%	▲
Rent written off	1.2%	1.0%	1%	▼
Surplus as a % of turnover (social activities)	9.2%	2.8%	2%	▼
Central overhead as a % of turnover	11.0%	13.9%	10%	▲
Return on assets (surplus / fixed asset)	2%	1.0%	1%	▼
Annualised management cost per unit	£1,268	£1,433	£1,404	▲
Annualised maintenance cost per unit	£856	£810	£891	▼
Interest cover covenant	5.6	3.5	11	▼
Cash covenant	£17.7m	£18.3m	£3m	▲
Gearing covenant	22%	22%	60%	–

PEOPLE – former Chapter1				
Performance Indicator	Year End 2016-17	Year End 2017-18	Target	Movement
Average number of days sickness per person	7.70 days	11.33 days	7.6 days	▲
Staff turnover	40.80%	38.05%	20%	▼
Average number of hours learning per person	-	19.42 hrs	35 hours	-
Staff engagement index	-	-	697	-

RESIDENTS – former Chapter1				
Performance Indicator	Year End 2016-17	Year End 2017-18	Target	Movement
Satisfaction with repairs	70%	100%	90%	▲
STAR overall satisfaction	86%	87%	90%	▲
Planned move on	73%	75%	80%	▲
Inspected schemes at 'Good' or 'Excellent'	-	-	85%	-
AMS (TSA) at 'Achieving' standard	-	-	80%	-
AMS (Non TSA) at 'Achieving' standard	-	-	80%	-
HMA at 'Achieving' standard	-	-	80%	-
DMS at 'Achieving' standard	-	-	80%	-
Former Chapter1 Services meeting IQI inspection standard	-	58%	80%	-
Average time to answer inbound calls (in 20 seconds)	-	-	20 seconds	-
Percentage of calls answered	-	-	98%	-

Strategic Report – Performance overview cont'd

HOMES – former Chapter1				
Performance Indicator	Year End 2016-17	Year End 2017-18	Target	Movement
Repairs completed in target (Handypersons)	-	-	96%	-
Repairs completed in target (Contractors)	-	95%	96%	-
Repairs completed right first time	-	100%	80%	-
Gas safety inspections overdue	-	0	0	-
Fire Risk Assessment (saha)	-	100%	100%	-
Fire Risk Assessment (Agency)	-	-	100%	-
Periodic Inspection Report	-	99%	100%	-
VOIDS (tenantable and non-tenantable)	6%	5%	2%	▼
Void rent loss	8%	9%	2%	▲
Average time to re-let voids	12.9 days	13.2 days	17 days	▲
Average energy efficiency rating	-	63	69	-

BUSINESS – former Chapter1				
Performance Indicator	Year End 2016-17	Year End 2017-18	Target	Movement
Current tenant arrears (gross)	6.7%	5.8%	5%	▼
Current tenant arrears (net of HB)	1.8%	2.0%	2%	▲
Former tenant arrears	11%	2%	1%	▼
Rent written off	38%	6%	1%	▼
Surplus as a % of turnover (social activities)	-3.4%	-	2%	-
Central overhead as a % of turnover	23.3%	-	10%	-
Return on assets (surplus / fixed asset)	-1.3%	-	1%	-
Annualised management cost per unit	£2,265	-	£1,404	-
Annualised maintenance cost per unit	£818	-	£891	-
Interest cover covenant	1.53	-	1.15	-
Cash covenant	£1.8m	-	£3m	-
Gearing covenant	29%	-	50%	-

Green Good performance within or better than budget

Red Poor performance not at target level

Amber Not at target but better than or same as previous year end

STAR: Survey of tenants and residents

AMS: Agency Managed Services

TSA: The Salvation Army

HMA: Housing Management Agreement

DMS: Directly Managed Services

Strategic Report – Performance overview cont'd

Planned Move on

Our overall performance against our planned move on target improved slightly over the year, reaching 75% against our 80% target. Half of all services exceeded the target and a number of services have local targets which are specified by the local authority and have been met. Where services were not able to undertake move-ons in a planned way, then typically this was due to circumstances such as abandonments or cases of Anti-Social Behaviour where immediate moves were necessary due to the safety of other residents within the service.

Voids

Voids performance has been steady and whilst our overall performance is still some way off our corporate target, performance has improved over the year. Void performance will remain an area of focus going forward although it will be further impacted due to vacancies arising from services due to be decommissioned. The average time it takes to re-let a property has increased overall and unfortunately we still remain some way off from our corporate target. We have worked with our contractors to improve the timescales within which works are completed, and have worked with local teams where we have had to increase the numbers of referrals coming through to deal with turnover. In a number of cases voids have been held whilst we have taken the opportunity to undertake improvement works and bring them up to saha standards whilst properties have been empty.

Rent Arrears

Over overall performance for our current arrears against target has improved over the year and is close to our corporate target of 5%. Our net arrears performance increased slightly although this was anticipated as we aligned our calculations of arrears net of Housing Benefit and Social Services payments to take into account only where payments were confirmed in writing. Both our former arrears and write off performance were very much over target. Former Chapter1 systems for managing former tenant arrears were not fully integrated with saha which impacted upon our performance. The former tenant arrears and write offs related in part to aged former Chapter1 debts which had not been dealt with prior to the transfer and so impacted greatly upon our overall performance. The systems for managing both current and former arrears have been established going forward and will remain a key focus of the teams work.

Strategic Report – Risk Management

Risk Management

Our ability to fulfil our mission relies on our continuing viability and as such, the protection of our social housing assets from undue risk. We, therefore, take a risk averse approach to managing our social housing business, but at the same time acknowledge that the nature of our business and the environment we work in presents a number of risks over and above those faced by other providers of social housing and support. These include funding risks and risks associated with safeguarding the lives of vulnerable people. We see this as consistent with our mission and work to ensure that the benefits of our work far outweigh the risks.

Risk identification and management

Risks are recorded in our corporate risk management software system in accordance with business objectives. Individual risks are assessed and analysed according to their probability of occurrence and corresponding impact, the product of which gives rise to a risk score. Risk scores are regularly reviewed via a digitised risk map produced for review by the Executive, the Audit and Risk Committee and the Board. We operate a controls assurance framework that sets out for each risk:

1. The possible causes
2. The controls in place to manage each possible cause
3. An assessment of the effectiveness of those controls
4. The source of assurance for each assessment
5. Remedial action for any controls assessed as weak
6. Recovery plan in the event of risk crystallisations

During the year we expanded this framework to test the resilience of our business plan to stresses arising from multi variant risks. This is kept under regular review by the Executive, Audit and Risk Committee and the Board.

Strategic Report – Risk Management cont'd

Key internal controls

Policies and procedures	We have written policies and procedures which are kept under review and cover a range of areas intended to manage risks effectively. These include safeguarding adults and children, data protection, IT security, code of personal conduct, whistleblowing, financial regulations, health & safety, and equality, diversity and inclusion.
Business continuity and disaster recovery plans	We have plans in place that are periodically tested, which minimise the risk of interruption to our business in the event of a major disruption to normal functioning arrangements.
Budget and financial plan	We produce annual budgets, in accordance with a clearly outlined methodology, together with five and thirty year financial plans developed from a recognised and validated planning model. These, together with quarterly management accounts including a rolling cash flow, are reviewed and approved by the Board. Financial plans are stress tested for multi variant risks by the Executive and the Board. Monthly management accounts are produced and reviewed by the Executive Management Team.
Insurance	We have a large and comprehensive portfolio of insurance with a preference to insure against risks where appropriate. saha has extended this portfolio to include procurement of cyber fraud insurance.
Clear delegation and limits of authority	We have a Board approved schedule of delegated authority (reviewed every two years) that sets out levels of financial decision making authority delegated by it.
External accreditation in key areas	We are a Sunday Times top 100 not for profit employer, with Investors in People accreditation at Silver standard. We have Customer Service Excellence accreditation for our Customer Service Centre and our IQI inspection service is ISO9001 certificated. In addition we have Centre for Housing Support (CHS) and Elderly Accommodation Counsel (EAC) accreditations for our housing for older people and Foyer Federation accreditation for our Foyers for single young homeless people.

Strategic Report – Risk Management cont'd

Resident scrutiny panel	We have a trained panel of residents who help to scrutinise services for quality and for compliance with regulatory customer standards. During the year three areas were selected by the panel for scrutiny and reported to the Board – what it means to transform lives; anti-social behaviour; and value for money from allocations and lettings.
Internal and external audit	We employ internal auditors to provide independent assurance on the effectiveness of our risk management processes. During the year they were able to provide substantial assurance in this area. Our external auditors provide an independent opinion on the financial statements of our organisation and that the financial statements comply with all relevant accounting regulations.
Independent Quality Inspectorate (IQI)	Our IQI inspection service is a key driver of continuous improvement in the standards of our Agency and Directly Managed Supported Housing services.
Performance monitoring and reporting	We have a key performance indicator scorecard. The Board receives regular reports on financial and operational performance and matters of potential strategic significance. The Executive reviews performance of the business on a monthly basis.
An effective Board	Board performance is appraised annually and externally facilitated every third year. Annual improvement plans are implemented following each appraisal.

Strategic Report – Risk Management cont’d

Key Risks and Controls table updated to reflect Top 5 Q4 Risks (Strategic and Operational)

Strategic Risks			
Ref	Risk	Key Controls	Movement
C18	Failure to adequately address former Chapter 1 Rent Standard compliance issues,	<ul style="list-style-type: none"> • Ensure adherence to agreed Rent Plan and the Regulator’s approved action plan • Adopt Campbell Tickell (CT) proposal for verification of Rent Plan following acceptance by the Regulator. • Externally validated regulatory returns including Statistical Data Return (SDR) and Financial Forecast return (FFR). 	↔
C1	A lack of alternative uses / obsolescence of some housing assets	<ul style="list-style-type: none"> • Develop alternative operating models not reliant on SP funding • Exit Strategies as appropriate, including conversion to mixed use and Disposal. 	↔
C13	Increased cost of pension provision	<ul style="list-style-type: none"> • Deficit funding structure in place. • Financial assessment by The Pensions Trust (anticipated: May 2018). Post-valuation meeting with saha’s pension advisor to discuss/plan for implications arising from the valuation. 	↔
C2	A failure to successfully implement our Target Operating Model (TOM)	<ul style="list-style-type: none"> • Consultancy support if required and dedicated Project Manager • Competent third party support, accredited systems • Encourage and enable staff buy-in to the vision and model through dialogue and transparency. • Regular review and adaptation in the development and delivery of TOM work-streams, to reflect post-merger organisational requirements and opportunities. 	↔
C17	New Homes and Communities Agency (‘HCA’) financial metrics and Sector Scorecard inhibit saha from reflecting its success in Transforming Lives	<ul style="list-style-type: none"> • Develop appropriate SROI metrics, closely aligned to saha’s <i>Transforming Lives</i> Mission and social purpose. • Effective evidence narrative to explain metrics results • saha’s management accounts evidence detailed Cost Per Unit (CPU) data across all trading activities. 	↔

Strategic Report – Risk Management cont'd

Operating Risks			
Ref	Risks	Key Controls	Movement
O1	Government Policy / Budget decisions adversely impacting on saha	<ul style="list-style-type: none"> • Lobbying of government by National Housing Federation ('NHF') and other bodies • Diversified operating model • Treasury management (floating/fixed facilities) • Skills/staff incentives 	↔
O5	Reputational / PR impact arising from an adverse event	<ul style="list-style-type: none"> • Relationship building and maintenance with key stakeholders • IQI inspections and related action planning • Service level provision maintained via invocation of BCP 	↔
O2	Reductions in local government funding of support services	<ul style="list-style-type: none"> • Sector intelligence regularly updated • Tracking of SP tender processes and results • Alternative funding streams • Review of asset use 	↔
O3	Welfare reform impacting on tenancy sustainability and saha income	<ul style="list-style-type: none"> • Supported housing exemption. • Dedicated resource to deal with income collection • Strengthening of rent payment policies and procedures 	↔
O6	One or more managing agents serve notice on agency managed services	<ul style="list-style-type: none"> • Exit and alternative use strategies in place. 	↑

Strategic Report – Risk Management cont'd

Controls assurance

The Board acknowledges that it is responsible for the Association's system of internal control and for reviewing its effectiveness. However, it accepts that such a system is designed to manage rather than to eliminate the risk of failure to achieve business objectives. Therefore, such a system can only provide reasonable and not absolute assurance against material misstatement or loss.

The process we follow for identifying, evaluating and managing the significant risks we face is dynamic. It has been in place for the year under review and up to the date of approval of the Annual Report and Financial Statements, and is regularly reviewed by the Board.

The Board has approved an Anti-Fraud, Bribery & Anti-Money Laundering Policy which covers employee responsibilities in respect of fraud and the necessary actions to be taken. The Anti-Fraud, Bribery and Anti Money Laundering Register is updated whenever fraud or attempted fraud is detected. This register is regularly reviewed by the Audit and Risk Committee.

In order to fulfil its responsibility, the Board approves the following guidelines and key policies, which are essential to achieve effective internal control:

- Governance Handbook (incorporating Financial Regulations)
- Treasury Management Policy
- Anti-Fraud, Bribery & Anti-Money Laundering Policy
- Risk Management Policy
- Health & Safety Policy
- Data Protection, Confidentiality and Disclosure Policy
- Equality, Diversity & Inclusion Policy
- Rent Policy

The Board has a separately designated Audit and Risk Committee. The Committee engages the services of an Internal Auditor and has adopted a strategic approach to risk management and performance improvement.

Assurances are gained from a number of functions and processes. These provide key sources of evidence for the Board to utilise in reviewing the effectiveness of the Association's System of Internal Control. The relevant functions and sources are as follows:

Strategic Report – Risk Management cont'd

Audit and Risk Committee

The Audit and Risk Committee is responsible for reviewing the adequacy and effectiveness of the Association's System of Internal Control and reporting its conclusions to the Board. This committee receives reports from both the Internal and External Auditors. The Executive attends this meeting, supported by other staff as required.

Internal Audit Function

We purchase an externally provided Internal Audit service whose work is carried out in accordance with International Standards.

The Internal Auditors report annually to the Audit and Risk Committee on the System of Internal Control, with an opinion as to the adequacy and effectiveness of key internal control systems. The Internal Auditor attends the Audit and Risk Committee to present reports and to report on management progress in implementing agreed recommendations. The work of the internal audit is planned, based on the results of an Audit Needs Assessment, which in itself is derived from a review of our main risks. A rolling programme is undertaken to cover all of our systems of control.

The Annual Internal Audit Report for the year ended 31 March 2018 states that in the opinion of the Internal Auditor, we have an adequate, effective and reliable framework of internal control and effective risk management and governance processes, which provides reasonable assurance regarding the effective and efficient achievement of the Association's objectives.

External Audit

The External Auditor, in arriving at his audit opinion on the financial statements, assesses whether a satisfactory system of control over books of account and transactions has been maintained. Any material weaknesses in internal controls identified are reported to the Board and an action plan to address the weakness is agreed. The Management Letter for the financial year to 31 March 2018 did not contain any control issues.

Risk Management

The risk management process is identified above. The risk assurance framework is reviewed on a regular basis and updated alongside the risk map.

The Executive Management Team meets monthly or more often if required. Part of the scope of the Executive Management Team is to review, monitor and summarise assurances to the Board, through the Audit and Risk Committee, on the effectiveness of the Association's internal control system, risk management and continuous improvement.

Reports from the Regulator

In accordance with guidance issued by the Regulator of Social Housing ('RSH'), limited assurances are taken from reports issued by the Regulator.

Strategic Report – Risk Management cont'd

The RSH set out its approach to the assessment of viability in the governance and financial standard of the HCA regulatory framework. The RSH completed their annual stability check and confirmed on 30th May 2018 the strapline for both governance and financial viability to be G1 and V2.

The stability check reaffirms the Regulatory Judgement which states that *the provider has an adequately funded business plan, sufficient security in place, and is forecast to continue to meet its financial covenants under a range of scenarios.*

Training & Personal Development

Training plans and personal development are key objectives of our approach to managing human resources; encompassing both staff training needs analysis and Board Members' training. Regular staff supervision and annual appraisals help to identify learning and development needs, which are addressed through an ongoing training programme.

Governance Report

Governance Report

The Board and Executive

Commissioner John Matear (H)	Chair, Independent	Appointed July 2012
Maggie Cameron-Ratchford (H)	Deputy Chair, Independent, Governance and HR Committee Chair	Appointed July 2011
Andrew Taylor (A)	Independent, Audit and Risk Committee Chair	Appointed May 2010
Peter Taylor (A)	Independent	Appointed December 2015
Jennifer Laurent-Smart (H)	Salvation Army Nominee	Appointed May 2014
Nigel Parrington	Chief Executive	Appointed September 2006
Rich Blake-Lobb	Independent	Appointed March 2017 Resigned February 2018
Alistair Heron	Independent	Appointed March 2017

(A) Audit and Risk Committee member

(H) Governance and HR Committee member

The Executive

Nigel Parrington, Chief Executive

Nigel Hills, Deputy Chief Executive and Director of Finance

Argiri Ppathos, Director of Corporate Services and Company Secretary

Geanna Bray, Director of Housing, Care and Support Services

Tony Bacon, Director of Asset Management

The Executive of the Association hold no interest in the Association's share capital. They act within the authority delegated by the Board.

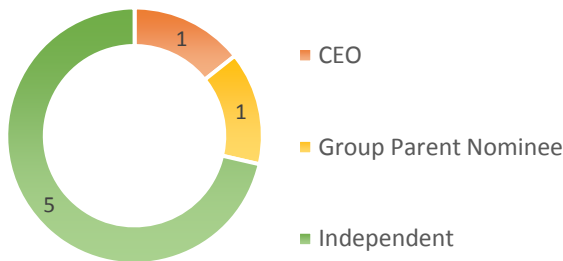
Governance Report cont'd

Board Governance

Board composition

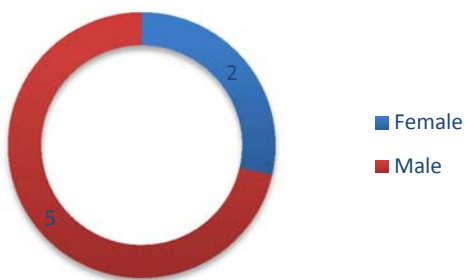
At the 31st March 2018, the Board comprised 7 members and one vacancy based on the composition set out below and in accordance with the Association’s agreed governance. The Board composition is kept under review to ensure that the skills, knowledge and experience of its members are, or will be, suitable to meet the current and longer term needs of the business and its strategic plans. Board members are drawn from a wide background bringing together professional, commercial and customer experience.

Board Composition



The Board values diversity and recognises the benefits of having a diverse Board and the positive impact on the quality of decision making. The Board is clear that its aspiration and intent is not only to have a balanced and diverse Board, but also a workforce that reflects the diversity of the communities that saha serves. This is consistent with the Association’s policy on Equality, Diversity and Inclusion.

Board Diversity



Governance report cont'd

The role of the Board

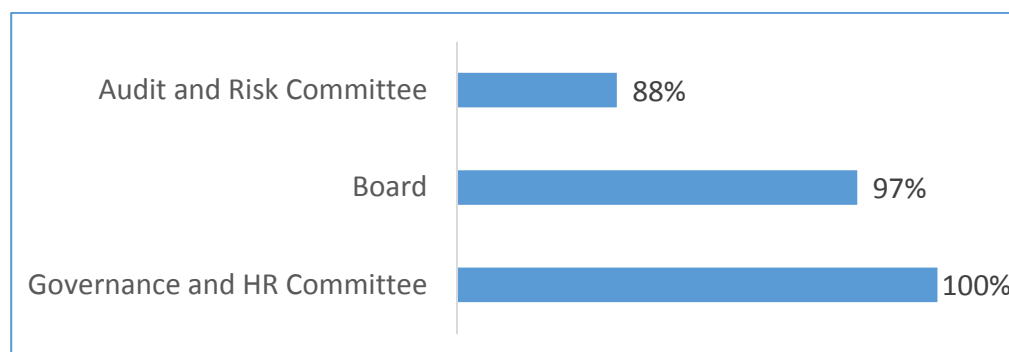
The role of the Board is to provide effective leadership of the Association within a framework of prudent and effective controls which enable risks to be assessed and managed well. It develops and promotes its collective vision of the Association's purpose, its culture, its values and the behaviours it wishes to promote in conducting its business. The Board is responsible for the Association's strategic planning and delegates the day-to-day management of the Association to the Chief Executive and the Executive Team. In particular, the Board:

- determines strategy and outcomes and provides direction for management to enable the Association to achieve its vision
- creates a performance culture that drives achievement without exposure to excessive risk
- makes well informed and high quality decisions based on a clear and accurate understanding of the business
- creates the right framework for supporting the Executive to meet statutory duties and regulatory obligations
- is accountable and transparent in all it does
- delegates day to day management to the Association's staff
- embraces regular evaluation of its effectiveness
- accepts diversity in its composition as an important driver of its effectiveness by creating a breadth of perspective

In respect of the recent merger, the Board have held two strategy days, in December 2017 and February 2018 to review scheme viability in the context of strategic priority.

During 2017 we undertook a comprehensive review of governance led by a third party specialist which included a review of Board skills, Board appraisals and corporate governance good practice.

Attendance record 2017/18



Governance report cont'd

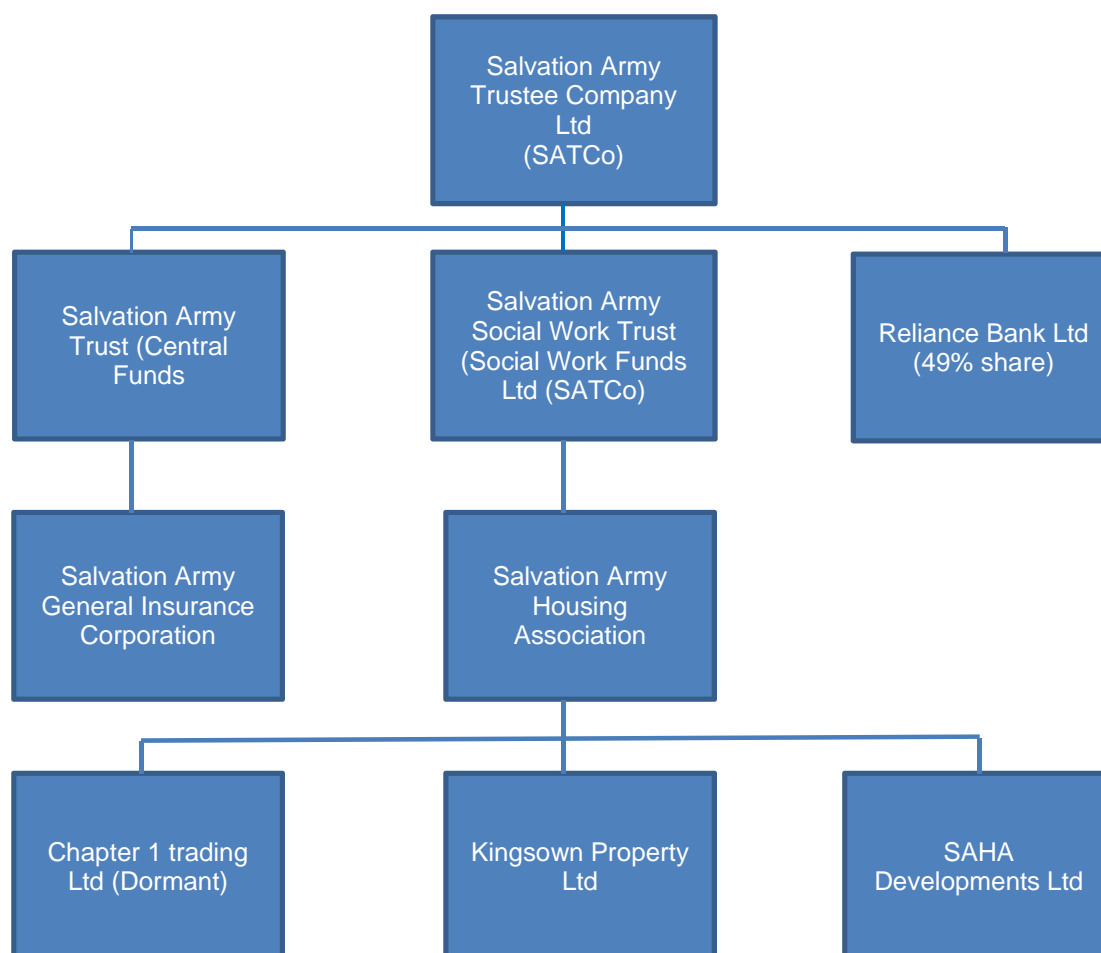
The target level of attendance for Board and Committee meetings is a minimum of 80%.

The Board met formally eight times during the year. The Audit and Risk Committee, comprising initially three members and two co-opted members met four times during the year, however as at the 31st March 2018 the Committee comprised two members and one co-opted member. The Governance and HR Committee, comprising three members and two co-opted members, met four times during the year.

Governance report cont'd

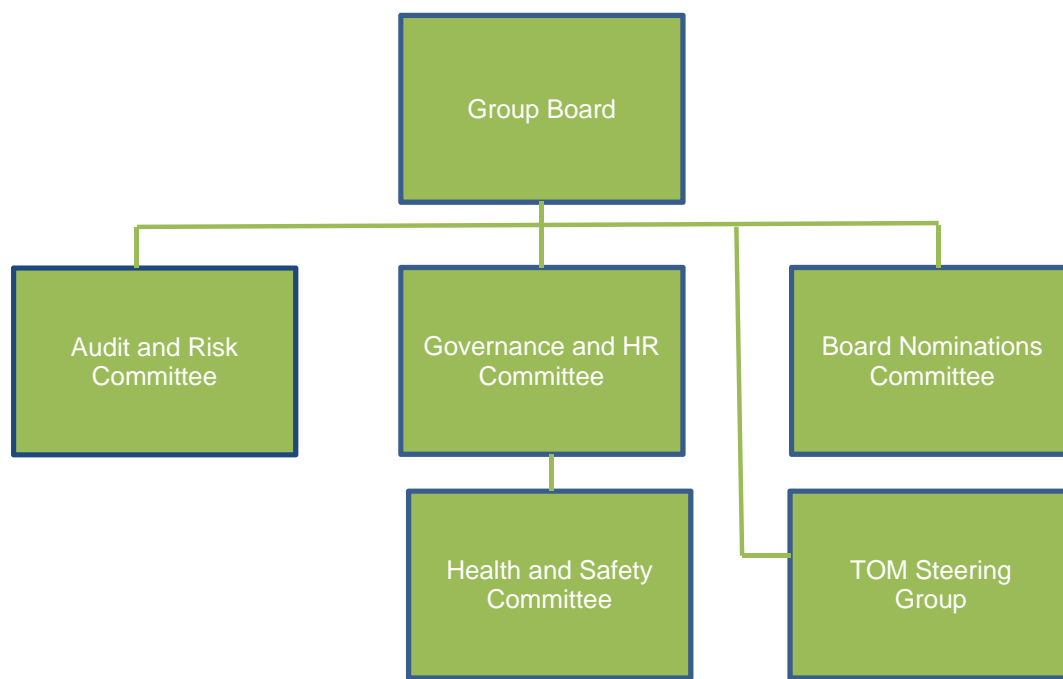
Group structure

The Association's governance structure and relationship within The Salvation Army group is set out below:



Governance report cont'd

The Governance and Committee Structure is as follows:



The Association's governance framework helps to ensure excellent leadership from the Board and makes accountability real to residents, the Regulator and other stakeholders. The framework helps to provide for:

- a) Effective relationships within saha, its Board, staff and residents that help the Board to monitor performance and make well-informed, well-judged and transparent decisions
- b) Effective intra group relationships with The Salvation Army and its other subsidiaries that help to deliver added value services both to saha and its residents
- c) Effective financial management, risk management and control to secure continued viability and growth

Governance report cont'd

Key areas of focus during the year

Strategic

- Transfer of Engagements of Chapter 1 Charity
- Business plan stress testing
- Strategic risk management and controls assurance
- Strategic review of assets and liabilities
- Annual budget
- Financial viability review

Governance and Compliance

- Compliance with service standards
- Value for Money self-assessment
- Governance compliance assessment
- Regulatory financial viability review
- Board appraisal and improvement planning
- Annual financial statements
- Financial forecast return
- Committee briefings

Key Policy Reviews

- Health & Safety
- Annual Financial Treasury Plan

Performance

- Management accounts
- Business plan and stress testing
- Operational performance
- Resident scrutiny reporting
- Development programme

Board appraisal

The Board commissions an externally facilitated appraisal of its effectiveness every three years with an internally facilitated review in other years.

The appraisal considered the balance of skills, experience, independence and knowledge of the Board, its diversity, how the Board, its committees, the Chair and individual Board members performed and worked together and other factors relevant to effectiveness.

The appraisal confirmed the Board to be performing well with no significant concerns expressed by members.

Governance report cont'd

Board learning and development

The Board receives business briefings on saha's activities and topical issues as required. Board members are encouraged to undertake visits to sites and schemes as part of their own learning and development. New Board members receive a tailored induction and general on-going training is arranged in accordance with identified learning needs or as Board members may request. Minutes of various meetings, reports and briefings are also made available to the Board on line. The Company Secretary briefs the Board on any changes to the code of governance or regulation. The Chief Executive provides a regular briefing report to the Board on the operating environment and any potential impact on the Association.

Code of governance compliance

The Association has adopted the NHF Code of Governance 2015 and the NHF Code of Conduct 2012 and it is committed to upholding these codes. The Chair is required to be a practising Christian and to have a good understanding of The Salvation Army. This is the only area that deviates from best practice within the NHF code.

The remuneration for our non-executives is shown below:

Role	£
saha Group Board Chair	12,000
Audit and Risk Committee Chair	6,000
Governance and HR Committee Chair	6,000
Board Nominations Committee Chair (ad hoc)	-
saha Group Board Member who is additionally a member of at least one subsidiary board or committee (with no additional payment for serving on 2 or more subsidiary boards or committees)	4,500
saha Group Board Member who is not a member of a subsidiary board or committee	4,000
Independent Audit and Risk Committee Member	1,500
Independent Governance and HR Committee Member	1,500

Governance report – Report of the Board

Report of the Board

The Board presents its report together with audited financial statements for the year ended 31 March 2018.

Statement of the Board's responsibilities

The Co-operative and Community Benefit Societies Act 2014 and housing legislation require the Board 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 of the Association for that period.

In preparing those financial statements the Board is required to:

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

The Board is responsible for maintaining an adequate system of internal control and 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, the Housing and Regeneration Act 2008 and The Accounting Direction for Private Registered Providers of Social Housing 2015.

The Board 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.

Operational framework

With effect from 1 April 2012, Registered Providers have been assessed against the framework introduced by the Localism Act 2011 and, in particular, specific standards in respect of economic and consumer regulation.

We have a fully funded financial business plan which is based on prudent assumptions. Sensitivity testing undertaken on the financial plan gives assurance that the plan is robust. This is noted in the Regulator's report.

Governance report – Report of the Board cont'd

The majority of the Supporting People funding shown in the financial statements is received by our preferred partner, The Salvation Army. Where operational deficits arise on this activity, The Salvation Army contributes to top up shortfalls in Supporting People funding grant on The Salvation Army agency managed activity.

We continue to review all controls identified in the risk controls assurance framework.

In respect of governance, the Regulator notes that the intra-group agreement with The Salvation Army allows sufficient autonomy to achieve strategic priorities and key objectives as set out in the corporate strategy.

Governance report – Report of the Board cont'd**Financial Performance in the year**

Turnover and operating surplus by activity is shown in note 2A and 2B of the financial statements.

The following table shows the turnover and surplus over the past two years:

	2018	2017
	£000's	£000's
Turnover	46,160	40,658
Operating costs	(43,504)	(35,703)
Net interest payable	(1,406)	(1,230)
Donation arising from acquisition	33,551	-
Surplus for the year	<u>34,801</u>	<u>3,725</u>

The following table shows the summary balance sheets for the past two years:

	2018	2017
	£000's	£000's
Total fixed assets	201,434	146,606
Net current assets	(1,205)	11,533
Loans and other long term creditors	(123,709)	(116,420)
Reserves	<u>76,520</u>	<u>41,719</u>

Communication to stakeholders

We communicate performance and other information through resident newsletters, via our website and using various social media. This report contains an assessment of performance on value for money. The report is located on our website and is signposted for relevant stakeholders, including residents, managing agents, consultants, suppliers, and lenders.

Governance report – Report of the Board cont'd

Investment for the future

The Board is committed to spending in line with the stock condition plan incorporated within the business plan each year to maintain and improve its existing housing stock. It endeavours to achieve an economic and pro-active approach to maintaining and investing in its stock through programmed major works such as replacements of roofs, windows, kitchens, bathrooms and heating systems. The Board previously committed £5m of investment from the major repairs fund to undertake specific energy efficiency improvement works to the Association's properties in the five years from April 2016.

Capital structure and treasury management policy

We have a Treasury Management Policy governing all of our borrowings and investments. It has been prepared in consultation with Link Asset Services (Treasury Advisers) and is based on guidance issued by The Chartered Institute of Public Finance and Accountancy (CIPFA). Our policy is to achieve a satisfactory return while minimising risk. The overriding principle is to avoid risk rather than to maximise return.

In the case of borrowing, the objective is to minimise cost consistent with ensuring the stability of our financial position by sound debt management techniques. Borrowings are within the limits set out in our Rules and by the RSH, and subject to a Policy and Strategy agreed annually by the Board.

We will not undertake currency risk and accordingly will not borrow or deposit funds denominated in foreign currencies.

Borrowings at the year-end were £37.4m (2017: £27.9m). This debt is borrowed wholly from banks in the UK and The Housing Finance Corporation (THFC).

Treasury management is the responsibility of the Director of Finance. The Treasury Management policy is reviewed annually and approved by the Board.

The current policy is to maintain between 60% and 80% of borrowings at fixed rates of interest. The actual level of fixed rate borrowings is currently 55%, a level approved by Board during the assimilation of the two associations and conclusion of current loan restructure.

An Annual Financial Plan is prepared by the Director of Finance as part of the Treasury Management Policy reporting requirements.

Governance report – Report of the Board cont'd

Maturity profile: the next table provides an analysis of when the Association's debt falls due for repayment:

	2018	2017
	£000's	£000's
< 1 year	11,239	2,012
1 - 2 years	1,595	1,681
3 - 5 years	4,640	4,224
> 5 years	19,885	20,019
	37,359	27,936

We do not use hedging instruments other than occasionally to fix variable rate debt at the time of drawdown, dependent on Treasury Management decisions. A rule change would be required to enable hedging to be undertaken at other times and it is not intended to seek such a change as it is considered by the Board that adequate control over interest rate arrangements currently exist.

Surpluses are invested in approved UK institutions meeting the credit rating criteria determined within the Treasury Management Policy.

Compliance against loan covenants is as follows:

Key loan covenants		2018	2017
Income cover	level	> £0	> £0
Surplus excluding property depreciation and donation	actual	£5.42m	£7.34m
Cashflow	level	> £1m	> £1m
	actual	£18.3m	£17.71m
Gearing	level	< 60%	< 50%
	actual	22%	22%

The updated 40 year financial business plan in respect of all lenders continues to demonstrate compliance with covenants.

Governance report – Report of the Board cont'd**Cashflows**

We experienced a net increase in cash and bank balances in the year of £0.6m (2017: £8.9m increase), and a net increase in loans of £9.4m (2016: £6.6m increase).

Current liquidity

Cash and bank balances at the year-end were £18.3m (2017: £17.7m). Net current assets were £1.2m (2017: £11.5m).

Going concern

The Board believes we have adequate resources to fulfil operational activity for the foreseeable future. For this reason, it continues to adopt the going concern basis in preparing the financial statements.

Statement of compliance

The Board confirms that this annual report and review have been prepared in accordance with the principles set out in Part 2 of the 2014 SORP for Registered Providers.

The Board completes an annual assessment of compliance with the Governance & Financial Viability standard and can confirm that the Association has complied with the requirements of this standard throughout the year.

As a result of an acquisition of another organisation, saha has inherited properties that are not fully compliant with the rent standard. However, we are working with the Regulator to ensure full compliance is achieved in relation to these properties.

Movement in fixed assets

Details of movements in fixed assets are set out in notes 10 and 11.

Governance report – Report of the Board cont'd

Policy on employment

Our aim to provide the highest possible service delivery is dependent upon a skilled, informed and committed workforce. We recognise employees as being a major strength and place great emphasis on adopting an Advantaged Thinking approach in coaching and supporting employees to realise their potential. Staff are appropriately trained and supported, through supervision, team meetings, appraisals and identifying training needs, all on a regular basis.

We are continually developing and expanding training opportunities for staff, with national training programmes, workshops, individual training courses and coaching.

We embrace diversity and foster inclusion through the implementation of inclusive working practices. All staff regularly undertake training in equality, diversity and inclusion.

We strive to ensure that staff are working in a safe environment and are adequately trained in Health & Safety to carry out their everyday tasks with minimal risk to themselves and others. A separate Health & Safety staff group reviews Health & Safety good practice and compliance.

Rent policy

We set rents in accordance with The Regulatory Framework for Social Housing – Rent Standard Guidance 2015 and the Welfare Reform and Work Act 2016 - social rent reduction. We have produced a rent plan which incorporates the principles of Rent Restructuring, as determined by the Regulators response to the December 2000 housing policy statement, 'Quality and Choice: a decent home for all – The way forward for housing'.

The plan provides details of current and future rent levels, which allows us to meet our obligations to residents, to maintain our stock and to continue to be financially viable, including meeting commitments to lenders.

Reserves policy

We retain any surplus over expenditure by making a transfer to reserves. The Association sets a minimum target of 2% surplus against annual turnover. The classification of reserves depends on the source of the surplus and whether any restriction is placed on its use.

Any surplus generated which is subject to external restrictions is held as a restricted reserve.

Governance report – Report of the Board cont'd**Long term stock and maintenance repair policy**

Our Asset Management Strategy is based on the stock condition information, and targets on-going compliance with statutory and regulatory standards and guidelines, as well as recognised industry best practice. The strategy achieves excellent customer service and value for money through the efficient procurement of goods, works and services, and economies of scale wherever possible.

Internal control

The Board's statement on the annual review of the effectiveness of the Association's internal control system appears in the Strategic Report section within this annual report.

Members of the Board Statement

The members of the Board have taken all of the necessary steps to make themselves aware of any information relevant to the audit.

The members of the Board confirm that they have given the Auditor, Grant Thornton UK LLP, all relevant information needed in connection with performing the audit.

Auditor

A resolution to appoint Grant Thornton as auditor for 2018/19 will be laid before the Annual General Meeting.

BY ORDER OF THE BOARD

Company Secretary
Ms A Ppathos
26 July 2018

Value for Money

Value for Money

What Value for Money means to saha

saha is committed to delivering high quality services to all of our customers and our focus is upon tackling homelessness and supporting the most vulnerable people in society. saha therefore seeks to apply its resources, experience and expertise to deliver optimal value from our activities for the benefit of residents.

saha's mission, values and priorities seek to maximise social value from our activities and investments. Our commitment to Transforming Lives through the provision of high quality accommodation, support and self-developmental opportunities for our customers is a core saha business driver. Value delivered therefore, through a combination of efficiency, effectiveness and 'Transforming Lives' outcomes, defines our success as a provider.

Value for Money (VfM) is key to delivering key business outcomes outlined in saha's Corporate Strategy 2016-21, and its associated annual updates and Annual Plans. The Value for Money Strategy underpins saha's commitment to optimising value and positive impacts across its activities, alongside our commitment to embed VfM principles in all that we do.

The VfM Strategy supports corporate objectives and delivery plans, and should be read in conjunction with these and other corporate documents.

Value for Money cont'd**What Value for Money Savings did we achieve in 2017/18?**

The Value for Money Standard 2018 requires saha to report against the financial metrics set out within this statement. As we look to develop our own social purpose metrics which can clearly evidence deliverability against our 'Transforming Lives' mission we will look to set challenging targets in this area as well as continue to aim for financial efficiency

It is important to recognise some of the areas where we continue to achieve cashable efficiencies that have been realised and evidenced during the year. These primarily relate to Asset Management energy efficiency work and are detailed for the 2017/18 financial year as follows:

Efficiency/Improvement	Description	Saving £
Gas mains installation at various properties	Grant Funding	120,000
Gas mains at Margaret House	Free installation	5,000
Disposal of Property valued at £230k for £238k	Excess of valuation income received	8,000
Energy contract renegotiation at Edward Alsop	Utility savings	8,000
Renegotiating all Chapter 1 gas contracts and bringing into the overall saha contract	Utility savings	71,000
Renegotiating all Chapter 1 electric supply contracts and bringing into the overall saha contract	Utility savings	24,000
Funding towards gas mains installation at Olive, Gaul and Monyash properties	Funding received for installations	41,000
TOTAL SAVINGS		277,000

Value for Money cont'd

Our annual appraisal review of our maintenance contractors assesses performance against our corporate objectives of financial viability, value for money and managing risk. We adopt a 'Right first time' culture and expect our contractors to have this approach in their service delivery. Each contractor's performance is analysed against other providers and benchmarked to ensure service delivery is not only maintained but continually improved.

In terms of Finance, effective treasury management of our cash balances and loan portfolio is another key area in ensuring financial viability. During the year we performed a loan portfolio review, and the current status of our arrangements across lenders was viewed to be efficient and fit for purpose as we assimilated Chapter 1 into the saha operation.

The historic element of our loan portfolio incurs an average 0.8% margin fee against the market rate of circa 1.5%. Current negotiations with Barclays will address the immediate loan requirements of the merged organisation. Our day to day banking operations are also reviewed regularly against the market and we identified an annual saving of £8k by relaying this market information to our provider in our review meetings.

saha's development programme is managed through saha Development Company and this continues to achieve VAT efficiency with a further saving to the sum of £16k during 2017/18.

The Finance Department has also piloted the 'refer a friend' recruitment initiative which has successfully seen recruitment into the department enabling savings on agency and advertisement fees to the sum of £13k during the year.

Efficiency/Improvement	Description	Saving £
Treasury Management	Loan margin cost	170,000
VAT	On design and build professional fees	16,291
Staff recruitment	Agency fees	13,000
Banking charges	Market review	6,000
Total		205,291

Value for Money cont'd**Chapter 1 Merger**

The business case for merger identified eventual efficiency savings to the sum of £1.5m. To date we have generated £750k per annum and are looking to realise the remainder of this on an annual basis as we progress the assimilation of the merged entity through further staffing and structural improvements.

Chapter 1 Efficiency	£
Executive Team	320,000
Senior Management	124,000
Other Staff	184,000
Other Central Services Staff	104,000
Total	732,000

One immediate consequence of the recent merger is the decision to maximise the value of an asset - a former administration office, based within the student accommodation facility at the Waterloo site - by converting the accommodation into an additional 18 residential units of accommodation, thereby increasing the total capacity to 159 units, which will enable additional funds to be generated. The optimisation of this asset will enable saha to then address the remaining efficiency savings of £750K required as part of the merger business case.

This approach is being utilised by saha in terms of its asset management strategy in order to optimise the use of our assets to enable the organisation to continue 'Transforming Lives' into the future.

What did we do with these savings?

The savings identified have been utilised to secure additional service installations and will also result in service charge efficiency for tenants both in delivery of energy efficient utilities as well as lower service charge costs.

We continue to budget to achieve a 2% operating margin (net surplus as a percentage of turnover) and our financial forecast recognises an aim to increase this over time to 4%. This level of surplus enables full funding of the stock condition survey requirements and such has been validated by external advisers.

It has been recognised that this assimilation process of a merged entity will take time to enable service delivery enhancements. This is due to the investment needed in term of the quality of the service and the cost of updating asset condition, ensuring service contracts are in place and dealing with many of the liabilities which had a significant impact upon expenditure requirements. This has been assessed and validated by external advisors and the business plan incorporates these factors, acknowledging that such mergers require investment before full efficiency can be achieved.

Value for Money cont'd

We aim to continue to achieve the efficiencies detailed within the business case in the knowledge that there will be an ongoing cost to restructure the merged organisation. This has been fully recognised within the financial plan.

The efficiency savings created by the additional accommodation at Waterloo will not only address the efficiency target as directed by the business case but there will be a resulting ongoing surplus which will be used by the saha Board to cross subsidise services or supplement the Transforming Lives programme with additional incentive's.

How our Costs compare to others

We have benchmarked our financial metrics against the group of supported housing organisations using the global account data for 2017. This supported housing group comprises:

- Advance
- Bournemouth Churches
- Christian Action
- Central and Cecil
- Chapter 1
- Habinteg
- Look Ahead
- St Mungos

It is important that we understand why our CPU are different to other organisations and we recognise the above group consists of many differing support providers both in percentage and type of support provision. This group, identified for benchmarking, by the Regulator, will each need to prove efficiency and effectiveness in fulfilling their many different mission aims and objectives.

Value for Money cont'd

How Our VfM Metrics and KPI's compare to others

VfM Metric	Description	saha 2017	saha 2018	Peer Group 2017
	Social Housing Units	3,423	3,996	19,282
	Non Social Housing Units	-	141	929
	Total Unit Numbers	3,423	4,137	20,211
1	Reinvestment	2.6%	1.6%	4.1%
2A	New Supply Delivered (Social Housing Units)	1.6%	0.9%	1.0%
2B	New Supply Delivered (Non Social Housing Units)	0.0%	0.0%	0.4%
3	Gearing (Net Book Value of Housing Properties)	7.0%	9.5%	15.5%
4	EBITDA MRI (Interest Cover)	361.0%	182.5%	216.0%
5	Headline Social Housing Cost Per Unit	£9,424	£9,363	£11,779
6A	Operating Margin (Social Housing Lettings only)	22.8%	38.2%	11.1%
6B	Operating Margin	12.3%	5.5%	7.2%
7	Return on Capital Employed (ROCE)	3.1%	1.3%	2.1%

What the Metrics Show Us

This is an interesting transitional period for saha. The transfer of engagements took place on 30th September 2017 and the VfM metrics are calculated on financial statements ended 31st March 2018. This includes assets and liabilities transfer values at fair value effective on that date and operational activity for a six month period from the transfer of engagements.

Results for 2018/19 will be a reflection of the first full year of combined operations and will enable a trend to be commenced as we work toward the forecast efficiency savings.

The above table details saha results for 2016/17 against 2017/18 as well as the overall peer group results for last year.

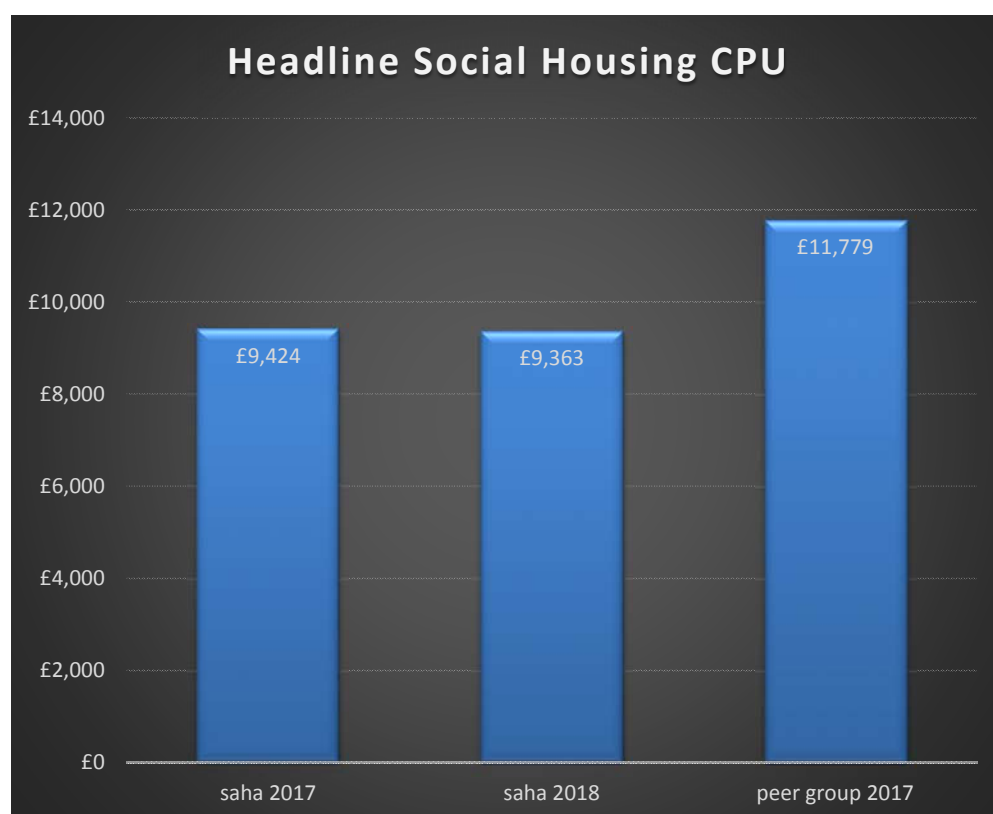
Value for Money cont'd

The headline social housing cost per unit is impacted by the level of service and support costs inherent in the provision of such accommodation and programmes for our customers however, saha compares favourably with other members of the peer group. This position does not affect our desire to demonstrate efficiencies year on year.

saha review each business stream and are able to analyse cost per unit for each activity.

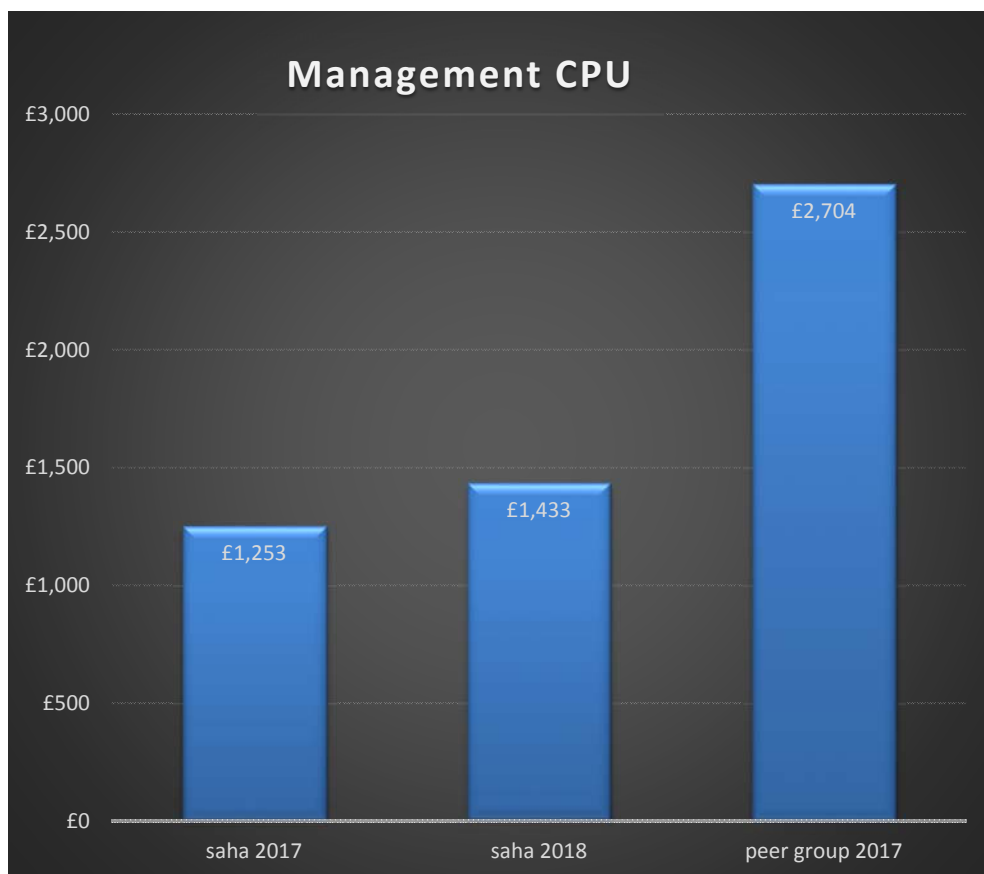
The following graphs also detail future targets to ensure we are in line with Board requirements to achieve future savings post an initial period of 2 years investment in the organisation in order to improve the quality of provision and service in the former Chapter 1 services

Graphs showing CPU benchmarking data



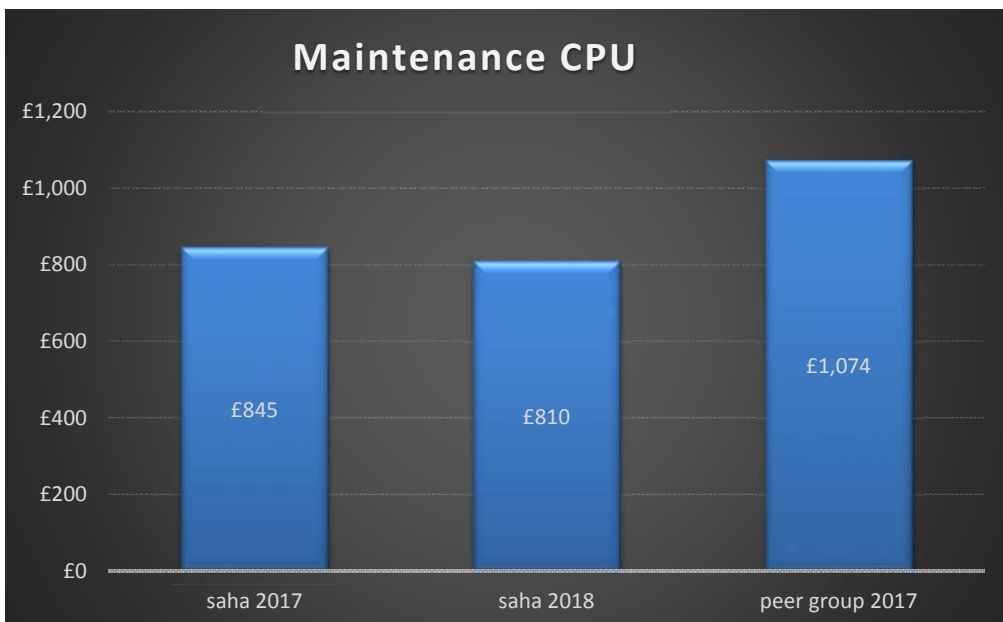
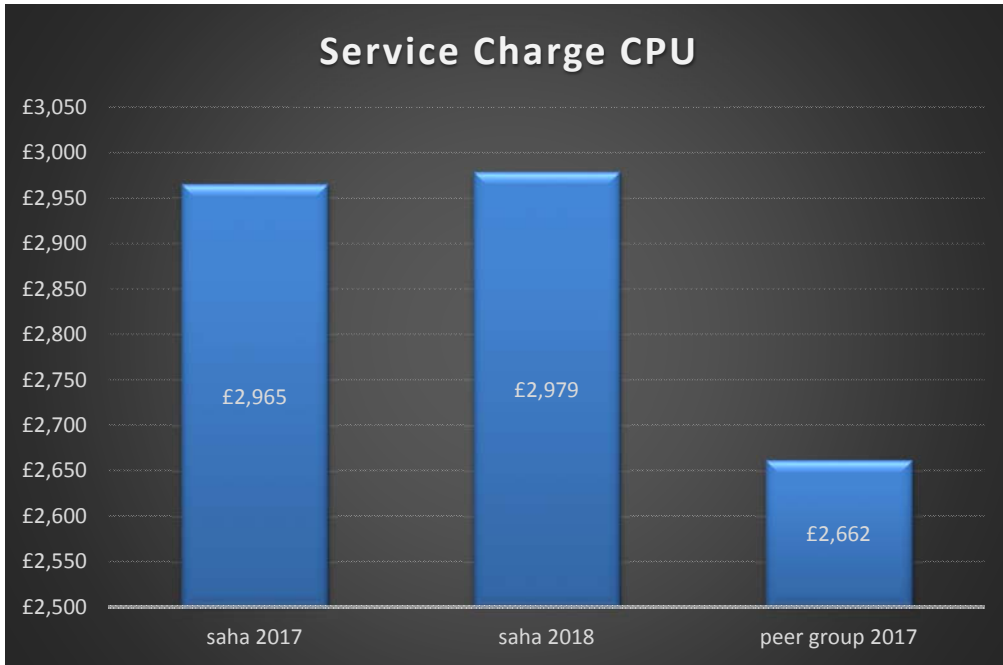
Value for Money cont'd

Graphs showing CPU benchmarking data

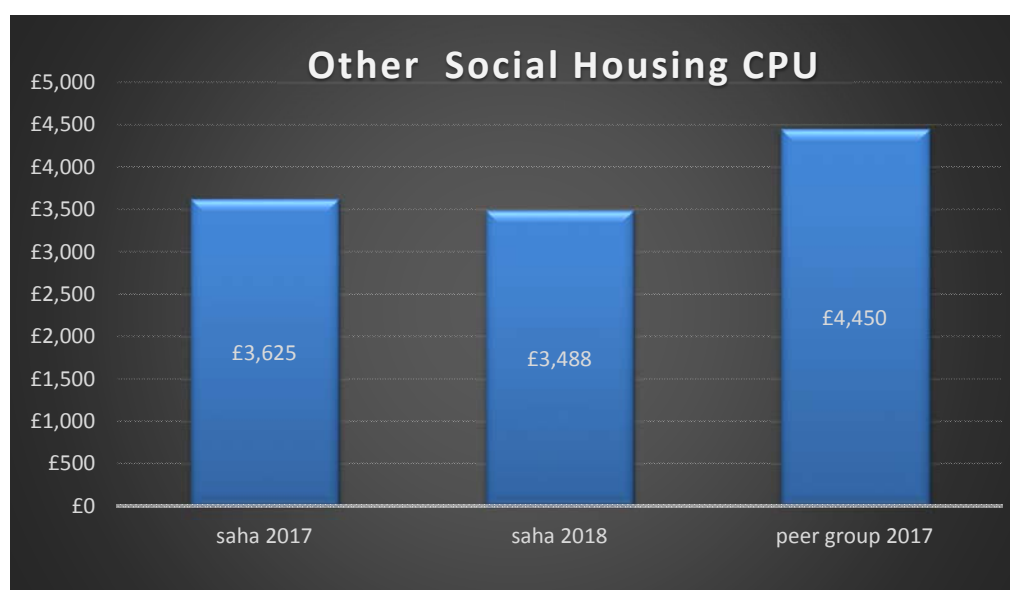
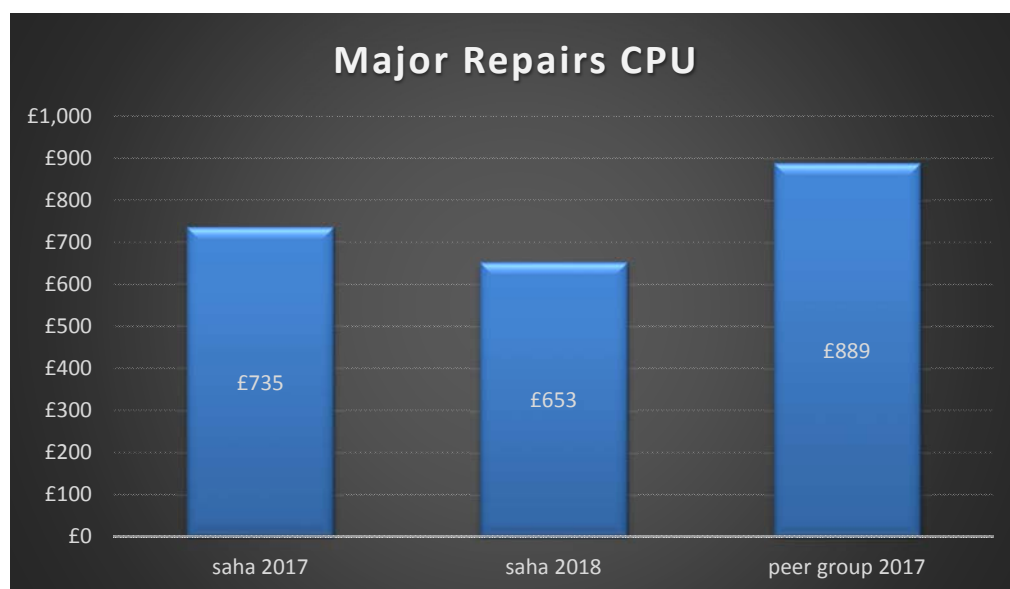


Value for Money cont'd

Graphs showing CPU benchmarking data cont'd



Value for Money cont'd

Graphs showing CPU benchmarking data cont'd

The overall cost per unit for 2017/18 is £9,363 on par with 2016/17. The cost is lower than the benchmark peer group.

The cost comparisons for the maintenance and major repair comparisons will further improve against the peer group when a full year spend is reported in 2018/19 against the combined units.

In respect of management, saha perform well against the peer group even though we have subsumed the Chapter 1 operation during the year.

Value for Money cont'd

What Our Projected Metrics Reveal

The following table is an extract from the current business plan

VFM Metric – Forecast for 31 March	2018	2019	2020	2021
Business Year	Actual	1	2	3
Social Housing Units	3,996	4,026	3,986	4,051
Non Social Housing Units	141	159	159	161
Unit Numbers	4,137	4,185	4,145	4,212
1 Reinvestment	1.6%	2.5%	5.4%	2.7%
2A New Supply Delivered (Social Housing Units)	0.9%	0.8%	0.6%	1.7%
2B New Supply Delivered (Non Social Housing Units)	0.0%	0.4%	0.0%	0.1%
3 Gearing (Net Book Value of Housing Properties)	9.5%	10.2%	13.9%	14.2%
4 EBITDA MRI (Interest Cover	182.5%	202.7%	171.5%	225.8%
5 Headline Social Housing Cost Per Unit	£9,363	£10,585	£10,753	£10,430
6A Operating Margin (Social Housing Lettings only)	38.2%	34.0%	32.8%	33.9%
6B Operating Margin	5.5%	7.3%	5.9%	8.6%
7 Return on Capital Employed (ROCE)	1.3%	1.9%	1.6%	2.3%

The financial plan details a level of social housing supply aimed at continuing to fulfil and achieve the mission objectives. The plan demonstrates that saha has a financially viable base from which to continue successfully delivering its mission objectives.

The plan also details efficiency targets to be achieved through fulfilling the objectives outlined in the business case for the recent merger.

Value for Money cont'd

Value for Money Social Purpose Metrics

Our mission is '*Transforming Lives by providing solutions to homelessness and enabling customers to develop their own potential*'

The saha Board has approved the following social purpose areas from which to develop metrics based on:

- Social networks and relationships
- Emotional and mental health
- Meaningful use of time, and
- Managing tenancy and accommodation

The four metrics above have been selected as the most relevant for the following reasons:

- Strong relationships are the most significant factor in promoting life satisfaction (Economic and Social Research Council 2013)
- Emotional and mental health are key determinants of one's future ability to have a sense of coherence.
- Meaningful use of time is a key determinant in ensuring residents develop a future strategy for sustainment of the life changes they have developed within a service
- Managing a tenancy is key to sustaining independent living after leaving a saha service

The Audit & Risk Committee will receive VfM updates on both the financial and social purpose metrics. The social purpose metrics will be developed during the current year to provide a more comprehensive overview and provide assurance of how saha optimises VfM in its mission of "Transforming Lives".

Financial Statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SALVATION ARMY HOUSING ASSOCIATION

Opinion

We have audited the financial statements of salvation army housing association (the 'society') for the year ended 31 March 2018 which comprise statement of comprehensive income, statement of changes in equity and reserves, statement of financial position and statement of cash flows and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including Financial Reporting Standard 102; The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the society's affairs as at 31 March 2018 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008, and the Accounting Direction for Private Registered Providers of Social Housing 2015.

Basis for opinion

We have been appointed as auditor under the Co-operative and Community Benefit Societies Act 2014 and report in accordance with regulations made under that Act. We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the society's members, as a body, in accordance with regulations made under Section 87 of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the society's members those matters we are required to state to them 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 society and the society's members as a body, for our audit work, for this report, or for the opinions we have formed.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SALVATION ARMY
HOUSING ASSOCIATION (CONTINUED)****Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the board's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the board has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the society's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The board is responsible for the other information. The other information comprises the information included in the Annual Report, set out on pages 3 to 51 other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Co-operative and Community Benefit Societies Act 2014 requires us to report to you if, in our opinion:

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SALVATION ARMY HOUSING ASSOCIATION (CONTINUED)**Responsibilities of the board for the financial statements**

As explained more fully in the Statement of Board's Responsibilities set out on pages 32, the board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the board is responsible for assessing the society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the board either intend to liquidate the society or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
30 Finsbury Square
London
EC2A 1AG

Date:

STATEMENT OF COMPREHENSIVE INCOME for the year ended 31 MARCH 2018

	Notes	2018 £	2017 £
Turnover	2A/2B	46,160,033	40,658,190
Operating expenditure	2A/2B	(43,504,318)	(35,702,945)
Operating surplus		2,655,715	4,955,245
Donation arising on acquisitions	8	33,550,739	-
Interest receivable	5	47,523	57,471
Interest and financing costs	6	(1,453,336)	(1,286,981)
Surplus for the financial year and total comprehensive income for financial year	7	34,800,641	3,725,735

All amounts relate to continuing operations.

The accompanying notes on pages 59-98 form part of these financial statements.

These financial statements were approved and authorised by the Board on 26 July 2018

Chairman
Commissioner John Matear

Board Member
Andrew Taylor

Company Secretary
Argiri Papathos

STATEMENT OF CHANGES IN EQUITY AND RESERVES for the year ended 31 MARCH 2018

	Share Capital	Revenue Reserve	Restricted Reserves	Total
	£	£	£	£
Balance at 31 March 2016	10	31,543,956	6,449,574	37,993,540
Surplus for the year	-	3,725,735	-	3,725,735
Transfers from restricted reserves to revenue reserves	-	2,503	(2,503)	-
Shares issued/(cancelled) (net)	(2)	-	-	(2)
Balance as at 31 March 2017	8	35,272,194	6,447,071	41,719,273
Surplus for the year	-	34,800,641	-	34,800,641
Transfers from restricted reserves to revenue reserves	-	82,603	(82,603)	-
Shares issued/ (cancelled) (net)	(1)	-	-	(1)
Balance as at 31 March 2018	7	70,155,438	6,364,468	76,519,913

The accompanying notes on pages 59-98 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION as at 31 MARCH 2018

	Notes	2018 £	2017 £
Fixed assets			
Housing properties	10	200,028,546	145,554,354
Property, plant and equipment	11	1,405,300	1,051,811
Investments	12	51	51
		<hr/>	<hr/>
		201,433,897	146,606,216
Current assets			
Debtors	14	2,665,543	1,978,745
Cash and cash equivalents	15	18,276,350	17,706,107
		<hr/>	<hr/>
		20,941,893	19,684,852
Creditors: amounts falling due in less than one year	16	(22,147,043)	(8,151,999)
		<hr/>	<hr/>
Net current (liabilities)/assets		(1,205,150)	11,532,853
		<hr/>	<hr/>
Total assets less current liabilities		200,228,747	158,139,069
Creditors: amounts falling due after more than one year	16	(123,708,834)	(116,419,796)
		<hr/>	<hr/>
Net assets		76,519,913	41,719,273
		<hr/>	<hr/>
Capital and reserves			
Called up share capital	20	7	8
Restricted reserves	21	6,364,468	6,447,071
Revenue reserve	21	70,155,438	35,272,194
		<hr/>	<hr/>
		76,519,913	41,719,273
		<hr/>	<hr/>

The accompanying notes on pages 59-98 form part of these financial statements.

The financial statements were approved by the Board on 26 July 2018 and signed on its behalf by:

Chairman
Commissioner John Matear

Board Member
Andrew Taylor

Company Secretary
Argiri Papatthos

STATEMENT OF CASH FLOWS for the year ended 31 MARCH 2018

	Notes	2018 £	2017 £
Operating surplus	2A	2,655,715	4,955,245
Amortisation of grants	18	(2,727,633)	(2,553,664)
Depreciation charges	7	4,505,867	3,789,937
Accelerated depreciation	7/2B	110,441	194,783
Gain on disposal of tangible fixed assets	2A/4	(161,802)	(332,813)
Abortive development costs		-	16,507
Decrease in debtors		144,940	(490,381)
Increase in creditors		1,749,975	(837,186)
(Deduct)/Add pension adjustment		(358,886)	(228,265)
Net cash generated from operating activities		5,918,617	4,514,163
Corporation Tax paid		-	-
Net cash generated from operating activities		5,918,617	4,514,163
Acquisitions and disposals			
Net cash balance acquired with Chapter 1	8	2,018,687	-
		2,018,687	-
Investing activities			
Interest received		47,523	55,513
Grants received		-	679,628
Additions to PPE		(4,596,110)	(4,080,141)
Proceeds on disposal of PPE	4	734,500	882,000
Net cash generated used in financing activities		(3,814,087)	(2,463,000)
Financing activities			
Interest paid		(1,385,897)	(1,166,748)
New loans		-	10,000,000
Loans repaid		(2,167,076)	(1,999,954)
Share issue	20	(1)	(2)
Net cash (used in)/ generated from financing activities		(3,552,974)	6,833,296
Increase in cash and cash equivalents		570,243	8,884,459
Cash and cash equivalents at beginning of the year	15	17,706,107	8,821,648
Net cash and cash equivalents at 31 March	15	18,276,350	17,706,107

The accompanying notes on pages 59-98 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS – Year ended 31 March 2018**1. Legal status and accounting policies****Legal Status**

Salvation Army Housing Association is registered with the Regulator for Social Housing (RSH) LH2429 and under the Co-operative and Community Benefit Societies Act 2014. The Association is incorporated and registered in England. The address of the registered office is 3rd Floor, St Olaves House, 10 Lloyd's Avenue, London EC3N 3AJ.

Accounting policies

The principal accounting policies of the Association are set out below.

Basis of accounting

These financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 – 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' ('FRS 102'). The financial statements have also been prepared in accordance with the Statement of Recommended Practice Accounting by registered social housing providers (Housing SORP 2014) and comply with the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015 ("the Direction").

In accordance with FRS 102 (3.3A) the Association is a public benefit entity that has applied the "PBE" prefixed paragraphs.

The financial statements have been prepared on the historical cost basis except for the modification to a fair value basis for certain financial instruments as specified in the accounting policies below.

These financial statements of the Association have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland". The first date at which FRS 102 was applied was 1 April 2014.

The financial statements are those of the Association only but with 6 months of results included for Chapter1 schemes acquired through a Transfer of Engagements on 30 September 2017 and have not been consolidated to include the results of its subsidiaries, Kingsown Property Limited, SAHA Developments Limited, The Christian Alliance Housing Association Charitable Trust and Chapter1 Trading Limited - a dormant Company. This is because the results of the Association and its subsidiaries are included within the consolidated financial statements of The Salvation Army Social Work Trust (SASWT), charity registration number 215174. The financial statements of SASWT are publicly available from The Salvation Army website www.salvationarmy.org.uk or from the Company Secretary on request. The address of the registered office is 101 Newington Causeway, London SE1 6BN.

NOTES TO THE FINANCIAL STATEMENTS – Year ended 31 March 2018 continued**1. Accounting policies (continued)**

These financial statements are prepared in pounds sterling, which is the functional currency of the Association.

Going concern

After reviewing the Association's forecasts and projections, the Board has a reasonable expectation that the Association has adequate resources to continue in operational existence for the foreseeable future. The Association therefore continues to adopt the going concern basis in preparing its financial statements.

Key sources of estimation uncertainty and judgements

The preparation of financial statements in conformity with generally accepted accounting practice requires management to make estimates and judgements that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period.

Significant management judgements

The following are the significant management judgements made in applying the accounting policies of the Association that have the most significant effect on the financial statements.

Financial instruments classification

The classification of financial instruments as "basic" or "other" requires judgement as to whether all applicable conditions as basic are met. This includes consideration of the form of the instrument and its return. On acquiring the Chapter1 loan portfolio of £11,590k consisting of several lenders with all loans being treated as basic financial instruments within the financial statements of Chapter1, therefore these financial instruments have been amalgamated within the saha loan portfolio on the same basis.

Categorisation of housing properties as investment properties or property, plant and equipment

After initial recognition investment property is measured at its fair value based on the valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and class of the investment property valued. None of the properties held were classed as investment properties.

Properties rented to provide social housing and properties used for the production or supply of goods and services or for administrative purposes are classified as property, plant and equipment.

NOTES TO THE FINANCIAL STATEMENTS – Year ended 31 March 2018 continued**1. Accounting policies – significant management judgements (continued)***Capitalisation of property development costs*

Distinguishing the point at which a project is more likely to continue, allowing capitalisation of associated development costs requires judgement. After capitalisation of development costs management monitors the asset and considers whether changes indicate that impairment is required.

Housing property impairments

Social housing properties are held for their service potential and are not held solely for the cash inflows generated. Therefore if an impairment indicator exists or is triggered by events outlined in the SORP an assessment process is utilised to determine whether or not an impairment provision should be accounted for. There was no indicator of impairment for 2018.

Schemes managed by agents

saha has a number of management agreements in place where judgement is required in respect of whether in substance a transfer of risks and benefits is judged to have taken place.

The measurement of the recoverable amount of assets for impairment and the calculation of depreciation replacement cost

Impairments are recognised where management believes there is an indication of impairment, for example the decline in the future economic benefits or the service potential of an asset, over and above the depreciation charged for that asset's use and therefore the carrying amount of an asset exceeds its recoverable amount or replacement cost. During the year assessment of impairment carried out by management did not give rise to an impairment provision.

*Estimation uncertainty**Useful lives of property, plant and equipment (PPE)*

Management reviews its estimate of the useful lives of depreciable assets at each reporting date based on the expected utility of the assets. Uncertainties in these estimates relate to 'technological obsolescence' with regard to IT equipment/software and any changes to Decent Homes Standard requiring frequent replacement of components. The accumulated depreciation at 31 March 2018 was £48,797k.

The main components of housing properties and their useful lives

Housing property depreciation is calculated on a component by component basis. The identification of such components is a matter of judgement and may have a material impact on the depreciation charge. The components selected are those which reflect how the major repairs to the property are managed.

NOTES TO THE FINANCIAL STATEMENTS – Year ended 31 March 2018 continued**1. Accounting policies – estimation uncertainty (continued)***Bad debt provision*

The gross trade debtors balance of £1,142k is recorded in the Association's Statement of Financial Position comprising a relatively large number of small balances. A full line by line review of trade debtors is carried out at the end of each month. Whilst every attempt is made to ensure the bad debt provisions are as accurate as possible, there remains a risk that the provisions do not match the level of debts that ultimately prove to be uncollectible.

Amortisation of government grants

Government grants received for housing properties are recognised in income over the useful life (as identified for the depreciation charge) of the housing property structure (excluding land), on a straight line basis under the accrual model.

Multi-employer pension obligation

The Association has entered into a contractual agreement with the Social Housing Pension Scheme (SHPS) to determine how the deficit will be funded. Contributions not expected to be settled within 12 months after the reporting date are measured at the present value of the contributions payable by using a discounted rate (discounted present value basis). The rate used is determined by reference to market yields at the reporting date on high quality bonds. A liability of £2,339k is recorded in the Statement of Financial Position at 31 March 2018.

Financial instruments

Financial assets and financial liabilities are recognised in the Statement of Financial Position when the Association becomes a party to the contractual provisions of the instrument.

Trade (including rental) and other debtors and creditors that are due for payment within the normal business terms are initially recognised at transaction/undiscounted price. Debtors and creditors that are due in more than one year and are material are subsequently measured at amortised cost using the effective interest rate method. A provision is established when there is objective evidence that the Association will not be able to collect all amounts due.

Loans to subsidiaries are classified as basic financial instruments, these are provided at an arm's length on commercial terms and are repayable on demand. These are therefore recognised at the original transaction price and are not considered to be material.

Cash and cash equivalents are classified as basic financial instruments and comprise cash in hand and at bank, short-term bank deposits with an original maturity of three months or less and bank overdrafts, which are an integral part of the Association's cash management.

NOTES TO THE FINANCIAL STATEMENTS – Year ended 31 March 2018 continued**1. Accounting policies *(continued)***

Bank deposits with a maturity of more than three months are classed as current asset investments

Interest bearing bank loans, overdrafts and other loans which meet the criteria to be classified as basic financial instruments are initially recorded at the present value of cash payable to the bank, which is ordinarily equal to the proceeds received net of direct issue costs. These liabilities are subsequently measured at amortised cost, using the effective interest rate method.

The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or liability or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Employee benefits

Short term employee benefits including holiday pay and annual bonuses are accrued as services rendered. Contributions to defined contribution pension schemes are charged to profit or loss as they become payable in accordance with the rules of the scheme. Differences between contributions payable in the year and those actually paid are shown as either accruals or prepayments in the Statement of Financial Position.

The Association is party to a multi-employer defined benefit (final salary) contributory pension scheme administered independently. The Association is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis.

As there is a contractual agreement between the scheme and the Association that determines how the deficit will be funded, the contributions payable that arise from the agreement to the extent that they relate to the deficit is recognised as a liability in the Statement of Financial Position, and the resulting expense in the Statement of Comprehensive Income. When the contributions are not expected to be settled within 12 months after the reporting period, the liability is measured at the present value of the contributions payable by using a discounted rate (discounted present value basis). The rate used is determined by reference to market yields at the reporting date on high quality bonds.

The Association also contributes to the auto-enrolment SHPS defined contribution pension scheme. Contributions are charged to the Statement of Comprehensive Income as they become payable in accordance with the rules of the scheme. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the Statement of Financial Position.

NOTES TO THE FINANCIAL STATEMENTS – Year ended 31 March 2018 continued**1. Accounting policies (continued)****Turnover and revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for rental and service charge income, contributions and management fees and miscellaneous donations from agencies, fees and revenue grants receivable from local authorities and government grants received for housing properties recognised in income on a systematic basis.

Turnover is recognised as follows:

- Rental and service charge income is recognised in the period to which it relates net of rent and service charge losses from voids
- Contributions, management fees and miscellaneous donations from agencies are recognised in the period to which they relate to
- Revenue grants are credited to and recognised in the Statement of Comprehensive Income in the same period as the expenditure to which they relate.
- Capital grants received are initially deferred and then credited to turnover in the Statement of Comprehensive Income on a straight line basis over the expected life of the asset which they have funded
- Charges for support services funded under Supporting People are recognised as they fall due under the contractual agreement with Administering Authorities
- Gift aid income is received from the two subsidiaries on a retrospective basis and recognised in the period in which it is received.

Interest payable

Interest on loans specifically financing development is capitalised on a weighted average cost basis for the period from start of works up to the date of practical completion or acquisition of legal title, whichever is later. Other interest payable is charged to the Statement of Comprehensive Income in the period in which it is incurred at an effective rate of interest.

NOTES TO THE FINANCIAL STATEMENTS – Year ended 31 March 2018 continued**1. Accounting policies (continued)**Tangible assets: Property, plant and equipmentHousing properties

Housing properties are properties held for the provision of social housing or to otherwise provide social benefit. Housing properties are principally properties available for rent and stated at cost less accumulated depreciation and any recognised impairment losses. The cost of properties is their purchase price plus any incidental costs of acquisition, or where the properties are acquired through acquisitions or transfer of engagements, then the cost is the “existing use value” valuation as provided by a professionally qualified valuer. Additions to housing properties under construction as a result of development expenditure are shown as “additions” and are transferred to completed properties when they are ready for letting. Cost includes the cost of acquiring land and buildings, development costs, interest charges incurred during the development period and expenditure in respect of capital improvements.

Properties in the course of construction are not depreciated. Freehold land is not depreciated.

The Association accounts for its expenditure on housing properties using component accounting. Under component accounting, the housing property is divided into those major components which are considered to have substantially different useful lives. Depreciation is charged on major components so as to write off the cost of the components to their residual values, over their estimated useful lives, using the straight-line method, as follows:

Freehold Land	Not depreciated
Building – Main Fabric (structure)	50 years
<u>Major Components</u>	
Roof	50 years
Bathrooms	30 years
Lifts	25 years
Mechanical and Electrical Systems	25 years
Windows and External Doors	25 years
Kitchens	20 years

Where a separate identified and depreciated component of an existing property is replaced, the carrying value of the component is expensed and the cost of the replacement component capitalised.

NOTES TO THE FINANCIAL STATEMENTS – Year ended 31 March 2018 continued**1. Accounting policies (continued)**

Where a repair involves replacement, renewal or repair of items within the fabric of existing buildings which have not been assigned separate component lives, the repair is treated as a revenue item whether or not major repair Social Housing Grant (SHG) is payable for such items. Where applicable, the related SHG receivable is also treated as a revenue item.

For any replacement, renewal or repair to the fabric of a building or replacement of an existing component which enhances the net rental income generated from the property, a useful economic life is assigned to that component (as per policy) and depreciated.

Impairment of housing properties

For the purposes of impairment assessments, housing properties are grouped together into schemes, each scheme typically comprising one or more buildings in an immediate locality, and each building consisting of one or more accommodation units. Schemes are typically developed or acquired as one. The exception is street properties, which are geographically diverse and where individual properties may have been acquired piecemeal.

At each Statement of Financial Position date, housing schemes are assessed to determine if there are indicators that the scheme may be impaired in value; if there are such indicators of impairment, then a comparison of the scheme's carrying value to its recoverable amount is undertaken.

Any excess over the recoverable amount is recognised as an impairment loss and charged as expenditure in the Statement of Comprehensive Income; the carrying value is reduced appropriately.

The recoverable amount of a scheme is the higher of its fair value less costs to sell and its value in use. Value in use for housing schemes which are able to be let in their current condition and which are fulfilling the social purpose for which they were acquired is based on the depreciated replacement cost of the asset. For other schemes, value in use is defined as the net present value of the future cash flows before interest generated from the scheme.

When an impairment loss is subsequently reversed, the carrying amount of the scheme is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the Statement of Comprehensive Income.

NOTES TO THE FINANCIAL STATEMENTS – Year ended 31 March 2018 continued**1. Accounting policies (continued)**Other property, plant and equipment

Other property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is charged on a straight line basis over the expected useful lives of the assets at the following rates:

Office Equipment	Hardware & Software	33% per annum
	New Business Systems	10% - 20% per annum
Office Furniture	20%	per annum
Scheme Furniture	25%	per annum
Vehicles	33%	per annum

Sales of housing properties

Where housing properties are disposed of during the year, the surplus or deficit is accounted for on the face of the statement of comprehensive income. The sale of the property is recognised upon completion rather than on exchange of contracts.

Investments

Fixed asset investments are held and stated at cost less any provision for impairment.

Government grants

Government grants include grants receivable from Homes England, local authorities, and other government organisations. Government grants received for housing properties are recognised in income over the useful life of the housing property structure (excluding land), on a pro rata basis under the accrual model. The unamortised element of the government grant is recognised as deferred income in creditors.

Grants relating to revenue are recognised in the Statement of Comprehensive Income over the same period as the expenditure to which they relate. Until the revenue grants are recognised as income they are recorded as liabilities.

Government grants released on sale of the property may be repayable, but are normally available to be recycled and are credited to a Recycled Capital Grant Fund and are included in the Statement of Financial Position in creditors due after more than one year.

If there is no requirement to recycle or repay the grant on disposal of the asset, any unamortised grant remaining within creditors is released and recognised as income in the Statement of Comprehensive Income.

NOTES TO THE FINANCIAL STATEMENTS – Year ended 31 March 2018 continued**1. Accounting policies (continued)**Other grants

Grants received from non-government sources are recognised using the performance model. A grant which does not impose a specific future performance condition is recognised as revenue when the grant proceeds are receivable. A grant that imposes specific future performance related conditions on the Association is recognised only when these conditions are met. A grant received before the revenue recognition criteria are satisfied is shown as a liability in the Statement of Financial Position.

Capitalisation of interest

Interest on the loans financing a development is capitalised up to the date of practical completion of the scheme or acquisition of legal title, whichever is later. Interest on the loans after this date is charged to the Statement of Comprehensive Income.

Capitalisation of development overheads

Development overheads are capitalised to the extent that they are identified as incremental costs to the Association and would have been avoided only if the property / development had not been constructed or acquired.

Leases

Leases are classified as finance leases where the terms of the leases transfer substantially all the risks and the rewards incidental to ownership of the leased asset. All other leases are classified as operating leases.

Assets held under finance leases are measured initially at the fair value of the leased asset and the corresponding lease liability. Assets held under finance leases are included in tangible fixed assets and depreciated in the same way as owned assets.

Rentals payable under operating leases are charged to Statement of Comprehensive Income on a straight line basis over the lease term.

The aggregate benefits of any lease incentive are recognised as a reduction in expenses over the term of the lease.

Provisions for liabilities

Provisions are recognised when the Association has a present obligation (legal or constructive) as a result of a past event and it is probable that the Association will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

NOTES TO THE FINANCIAL STATEMENTS – Year ended 31 March 2018 continued**1. Accounting policies (continued)**Taxation

The Association has charitable status and therefore is not subject to Corporation Tax on surpluses derived from charitable activities, provided that the surpluses are applied to the charitable objects of the Association.

The Association and its subsidiary Kingsown Property Limited are registered as part of the VAT Group with its parent The Salvation Army. VAT is accounted for to HMRC for any taxable supplies made outside the VAT Group by the Association and its subsidiary. Expenditure is therefore shown inclusive of VAT. SAHA Developments Limited is a stand-alone company for VAT purposes.

Schemes managed by agents

The Association has a number of agreements with third parties to manage schemes on its behalf and has assessed that in certain circumstances, in substance, and on balance a transfer to the managing agents of the risks and benefits attached to schemes has not taken place. These financial statements are therefore drawn up on the basis that it is appropriate to include the transactions managed by the agents. The values of the transactions associated with agency managed schemes are included in the Statement of Comprehensive Income. Debtors and creditors of Agency Managed schemes held in the books and records of the agent have not been included in these financial statements.

The Association also has a number of management agreements in place with other agencies where in substance a transfer of risks and benefits is judged to have taken place. In these circumstances, the transactions managed by these agents are not included in these financial statements.

With respect to the Agency Managed schemes, the total turnover for the year included in these financial statements amounted to £26.7m (2017: £26.3m) and total operating costs amounted to £25.5m (2017: £24.3m).

NOTES TO THE FINANCIAL STATEMENTS – Year ended 31 March 2018 continued**1. Accounting policies (continued)**Management expenses

Management expenses are allocated to activities either directly or on the basis of staff time spent on the activity.

Restricted reserves

Restricted reserves relate to funds received by the Association for specific purposes and these are held and used for that purpose. These include Catherine Baird Court, Property Reserve and Other Reserves (see note 21 for detailed explanations and purpose of the reserves).

Revenue reserves

Revenue reserves relate to the cumulative surpluses less amounts transferred to designated and restricted reserves.

NOTES TO THE FINANCIAL STATEMENTS – Year ended 31 March 2018 continued

2A. Particulars of turnover, operating expenditure and operating surplus / (deficit) for the year

	2018			2017		
	Turnover £	Operating Expenditure £	Operating Surplus / (Deficit) £	Turnover £	Operating Expenditure £	Operating Surplus / (Deficit) £
Social housing lettings (Note 2B):						
General Needs accommodation	7,608,693	(5,969,991)	1,638,702	7,296,342	(5,422,678)	1,873,664
Supported Housing and Housing for Older People	22,736,596	(18,808,316)	3,928,280	19,722,750	(15,603,974)	4,118,776
Other – Foyers	1,439,991	(1,434,394)	5,597	1,352,963	(1,205,513)	147,450
	<u>31,785,280</u>	<u>(26,212,701)</u>	<u>5,572,579</u>	<u>28,372,055</u>	<u>(22,232,165)</u>	<u>6,139,890</u>
Other social housing activities:						
Charges for support services	7,807,578	(12,560,779)	(4,753,201)	7,584,857	(10,802,773)	(3,217,916)
Gift Aid	289,862	-	289,862	52,607	-	52,607
Contributions from Agencies	2,603,602	-	2,603,602	1,726,890	-	1,726,890
Other income: Managing Agents	462,360	-	462,360	271,993	-	271,993
Association	1,041,977	(1,198,953)	(156,976)	1,329,824	(1,492,077)	(162,253)
Merger Costs	-	(1,099,447)	(1,099,447)	-	-	-
Gain on disposal of tangible fixed assets	161,802	-	161,802	332,813	-	332,813
	<u>44,152,461</u>	<u>(41,071,880)</u>	<u>3,080,581</u>	<u>39,671,039</u>	<u>(34,527,015)</u>	<u>5,144,024</u>
Activities other than social housing activities:						
Registered Care	1,100,703	(1,271,881)	(171,178)	987,151	(1,175,930)	(188,779)
Student Accommodation	717,391	(742,375)	(24,984)	-	-	-
Social Enterprise	189,478	(418,182)	(228,704)	-	-	-
	<u>46,160,033</u>	<u>(43,504,318)</u>	<u>2,655,715</u>	<u>40,658,190</u>	<u>(35,702,945)</u>	<u>4,955,245</u>

NOTES TO THE FINANCIAL STATEMENTS – Year ended 31 March 2018 continued**2B. Particulars of turnover and operating expenditure from social housing lettings**

	General Needs Housing	Supported Housing and Housing for Older People – Agency Managed	Supported Housing and Housing for Older People – Direct Managed	Other - Foyers	2018 Total	2017 Total
	£	£	£	£	£	£
Income						
Rent receivable net of identifiable service charges and voids	6,146,682	6,165,668	3,025,910	523,029	15,861,289	14,469,660
Service charge income	741,399	9,067,432	2,229,319	784,635	12,822,785	11,112,578
Support income	-	-	174,780	-	174,780	163,986
Amortised government grants	720,612	1,576,818	357,862	52,983	2,708,275	2,539,526
Other revenue grants	-	-	138,807	79,344	218,151	86,305
Turnover from social housing lettings	7,608,693	16,809,918	5,926,678	1,439,991	31,785,280	28,372,055
Expenditure						
Management	1,604,485	2,597,280	1,215,334	312,591	5,729,690	4,288,569
Service charge costs	838,678	8,071,209	2,148,851	848,354	11,907,092	10,150,261
Routine maintenance	1,454,995	988,426	592,283	95,263	3,130,967	2,894,500
Planned maintenance	24,999	9,433	72,975	-	107,407	246,402
Major repairs expenditure	338,211	262,189	209,725	3,289	813,414	793,026
Bad debts	149,430	8,854	259,014	15,618	432,916	130,945
Depreciation of housing properties	1,530,584	1,641,939	561,875	67,616	3,802,014	3,419,608
Additional depreciation on components replaced / planned demolition.	22,440	72,895	15,106	-	110,441	194,784
Other costs	6,169	-	80,928	91,663	178,760	114,070
Operating costs on social housing lettings	5,969,991	13,652,225	5,156,091	1,434,394	26,212,701	22,232,165
Operating surplus on social housing lettings	1,638,702	3,157,693	770,587	5,597	5,572,579	6,139,890
Void losses (being rental income lost as a result of property not being let, although it is available for letting)	(210,253)	(1,848,980)	(329,746)	(13,055)	(2,402,034)	(1,419,902)

NOTES TO THE FINANCIAL STATEMENTS – Year ended 31 March 2018 continued**3. Key management personnel and employee information**

Key management personnel are defined for the purpose of this note as the members of the Board, the Chief Executive and any other person who is a member of the Executive Management Team. The emoluments of the board members and the executive directors including the Chief Executive were as follows:

	2018	2017
	£	£
Aggregate emoluments (including pension contributions and benefits in kind) paid to key management personnel are made up as follows:		
Board and Committee members – Including employers NI contributions (see page 74*)	40,402	15,611
Executive Management Team – Excluding employers NI contributions	636,266	604,606
	676,668	620,217
Total employer's pension contributions in respect of directors	113,421	99,666
Emoluments of highest paid director, the Chief Executive (excluding pension contributions, including benefits in kind)	134,353	142,609
Employer's pension contributions in respect of the Chief Executive	28,989	26,913

The Chief Executive is a member of the Social Housing Pension Scheme. He is an ordinary member of the pension scheme and no enhanced or special terms apply.

NOTES TO THE FINANCIAL STATEMENTS – Year ended 31 March 2018 continued

3. Key management personnel and employee information (continued)

Salaried Board and Committee members*

	2018	2017
	£	£
Mr J Matear	12,247	10,662
Mr R Parker (resigned)	-	2,399
Mr J Shearer (resigned)	-	2,550
Mr A Taylor	5,044	-
Mrs M Cameron-Ratchford	5,044	-
Mrs J Laurent-Smart	3,760	-
Mr P Taylor	3,760	-
Mr R Blake-Lobb (resigned)	3,333	-
Miss S Bissell	1,324	-
Mr S Iqbal	1,307	-
Mr J Upsher	1,250	-
Mr A Heron	3,333	-
	40,402	15,611

Employee information

	Number Full-time equivalent	Number Full-time equivalent
	2018	2017
Average number of employees:		
Staff engaged in managing or maintaining housing stock	58	39
Staff providing central administration services	35	24
Staff providing support & services	132	72
	225	135

NOTES TO THE FINANCIAL STATEMENTS – Year ended 31 March 2018 continued**3. Key management personnel and employee information (continued)**

Full-time equivalent is calculated on the basis of the total number of hours worked by each employee divided by the standard 35 hour week. The above employee numbers do not include temporary agency staff.

	2018	2017
	£	£
Staffing costs:		
Wages and salaries	6,917,313	4,444,208
Social security costs	582,161	413,101
Other pension costs (see note 23)	506,821	412,976
	<u>8,006,295</u>	<u>5,270,285</u>
Temporary agency staff costs	732,506	169,383
	<u><u>732,506</u></u>	<u><u>169,383</u></u>

The full-time equivalent number of directors and staff whose remuneration (including compensation for loss of office) is payable in relation to the period of account and falling within each band of £10,000 from £60,000 in upwards is as follows:

	2018	2017
	No.	No.
£60,001 to £70,000	2	7
£70,001 to £80,000	2	1
£90,001 to £100,000	3	1
£100,001 to 110,000	1	1
£110,001 to £120,000	-	1
£120,001 to £130,000	1	-
£130,001 to £140,000	-	1
	<u>9</u>	<u>12</u>

NOTES TO THE FINANCIAL STATEMENTS – Year ended 31 March 2018 continued**4. Gain on disposal of tangible fixed assets – housing property**

	2018	2017
	£	£
Proceeds from disposal of housing property	734,500	882,000
Costs of sale	(565,010)	(548,973)
Incidental selling costs	(7,688)	(214)
	<hr/>	<hr/>
Gain on disposal of housing property	161,802	332,813
	<hr/> <hr/>	<hr/> <hr/>

5. Interest receivable

	2018	2017
	£	£
Bank deposit interest	47,523	57,471
	<hr/>	<hr/>

6. Interest and financing costs

	2018	2017
	£	£
Interest payable on borrowings	(1,419,099)	(1,235,586)
Unwinding of discount on multi-employer pension scheme liability	(34,237)	(51,395)
	<hr/>	<hr/>
	(1,453,336)	(1,286,981)
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS – Year ended 31 March 2018 continued**7. Surplus for the year**

	2018	2017
	£	£
This is stated after charging/(crediting):		
Depreciation – housing properties	4,063,577	3,419,608
– additional property depreciation on components replaced / planned demolition	110,441	194,783
Depreciation – property, plant and equipment	442,289	370,329
Auditor’s remuneration excluding subsidiaries:		
– Audit services by Grant Thornton (excluding VAT)	30,000	25,390
Management fee and administration charge to Kingsown Property Ltd	(118,429)	(106,566)
Management fee and administration charge to SAHA Developments Ltd	(26,000)	(26,000)
Operating lease rentals		
– land and buildings	543,389	157,222
– other	356,143	290,291
Hire charges on rental of equipment	916,062	916,317
Donation arising on acquisition	33,550,739	-

NOTES TO THE FINANCIAL STATEMENTS – Year ended 31 March 2018 continued**8. Chapter 1 Charity Ltd – Acquisition**

	Book Value of Net Assets Acquired	Fair Value Adjustment	Fair value of Net assets Acquired
	£	£	£
Housing Properties	40,197,384	15,260,828	55,458,212
Depreciation	(11,419,297)	11,134,567	(284,730)
Property, plant and equipment	525,223	-	525,223
Debtors	1,052,554	-	1,052,554
Cash and cash equivalent	2,018,687	-	2,018,687
Creditors- amounts falling due within one year	(1,778,193)	-	(1,778,193)
Housing Loans	(11,428,406)	-	(11,428,406)
Capital Grants	(9,722,964)	-	(9,722,964)
Recycled Grant	(582,541)	-	(582,541)
Provision for Pension scheme	(210,512)	-	(210,512)
Other Provisions (these include adjustments to align to saha policies and regulatory compliance)	(1,496,591)	-	(1,496,591)
Sub-total	7,155,344	26,395,395	33,550,739
Consideration Paid			-
Fair Value of the Excess Donated Net Assets over Consideration			33,550,739

9. Taxation

The Association is registered with the Regulator of Social Housing and is exempt from liability to taxation on its income and capital gains arising from charitable activities. All activities were charitable during the year.

NOTES TO THE FINANCIAL STATEMENTS – Year ended 31 March 2018 continued**10. Housing properties**

	Completed housing properties	Housing properties under construction	2018 Total
	£	£	£
Cost			
At 1 April 2017	189,958,257	676,994	190,635,251
Additions during the year	1,090,191	2,996,597	4,086,788
On transfer of engagements	55,173,482	-	55,173,482
Replacements of components	(287,841)	-	(287,841)
Disposals during the year	(782,101)	-	(782,101)
Transferred during the year	-	-	-
At 31 March 2018	245,151,988	3,673,591	248,825,579
Depreciation			
At 1 April 2017	45,080,897	-	45,080,897
Charge for the year	4,063,577	-	4,063,577
Additional depreciation charged on components replaced/planned demolitions	110,441	-	110,441
Disposals during the year	(170,041)	-	(170,041)
Released on components replaced	(287,841)	-	(287,841)
At 31 March 2018	48,797,033	-	48,797,033
Net book value at 31 March 2018	196,354,955	3,673,591	200,028,546
Net book value at 31 March 2017	144,877,360	676,994	145,554,354
Housing properties at net book value comprise:		2018	2017
		£	£
Freeholds		129,999,618	75,956,327
Long leaseholds		59,143,611	59,135,267
Short leaseholds		10,885,317	10,462,760
		200,028,546	145,554,354

Additions to properties included £Nil (2016: £Nil) for administrative, direct and other indirect costs.

NOTES TO THE FINANCIAL STATEMENTS – Year ended 31 March 2018 continued**Works to existing properties:**

	2018	2017
	£	£
Works to existing properties	2,640,453	2,270,431
Less: Amounts capitalised in housing properties components	(1,795,708)	(1,476,117)
	<hr/>	<hr/>
Amounts charged to the Statement of Comprehensive Income	844,745	794,314
	<hr/>	<hr/>
Social Housing Activity - Note 2B	813,414	793,026
Activities other than Social Housing – Student Accommodation	31,331	1,288
	<hr/>	<hr/>
Amounts charged to the Statement of Comprehensive Income	844,745	794,314
	<hr/>	<hr/>

Housing loans are from private finance raised through UK banks and financial institutions, these are secured by charges on the Association's specific housing properties, and are repayable between 2018 and 2043.

NOTES TO THE FINANCIAL STATEMENTS – Year ended 31 March 2018 continued

11. Tangible Fixed Assets – Property, plant and equipment

	Office Equipment £	Office Furniture £	Scheme Furniture £	Vehicle £	2018 Total £
<u>Cost</u>					
At 1 April 2017	2,697,190	49,118	909,181	-	3,655,489
Additions during the year	327,403	88,603	93,316	-	509,322
On transfer of engagements	234,900	10,578	35,534	5,444	286,456
Disposals during the year	(156,237)	(9,714)	(50,934)	-	(216,885)
At 31 March 2018	3,103,256	138,585	987,097	5,444	4,234,382
<u>Depreciation</u>					
At 1 April 2017	1,886,135	31,491	686,052	-	2,603,678
Charge for the year	311,491	16,899	112,177	1,722	442,289
Eliminated on disposals during the year	(156,237)	(9,714)	(50,934)	-	(216,885)
At 31 March 2018	2,041,389	38,676	747,295	1,722	2,829,082
<u>Net book value</u>					
At 31 March 2018	1,061,867	99,909	239,802	3,722	1,405,300
At 31 March 2017	811,055	17,627	223,129	-	1,051,811

NOTES TO THE FINANCIAL STATEMENTS – Year ended 31 March 2018 continued**12. Investments**

	2018	2017
	£	£
Cost of shares in wholly owned subsidiaries (see notes a & b below)	51	51
	51	51
	51	51

- a) Kingsown Property Limited, a wholly owned subsidiary of Salvation Army Housing Association, is a company registered in England and Wales – Registered No. 02304488. The company is not a Registered Provider.

Authorised share capital: 500,000 ordinary shares of £1 each
 Issued share capital: 200,000 ordinary shares of £1 each

The issued share capital is held by Salvation Army Housing Association. Under section 98 Paragraph 2 of the Co-operative and Community Benefit Societies Act 2014, Salvation Army Housing Association is exempt from preparing Group Financial statements, including Kingsown Property Limited.

saha originally purchased 50 shares in Kingsown Property Limited. As a result of a bonus issue this increased to 200,000 issued share capital.

	2018	2017
	£	£
<u>Kingsown Property Limited</u>		
Profit for the year before tax	211,493	258,998
Net assets	1,620,115	1,571,133
Revenue reserves	1,420,115	1,371,133
	1,420,115	1,371,133

Operating lease payments made to the subsidiary for the year amounted to £916,062 (2017: £916,317) At 31 March 2018 the amount owed by Kingsown to the Association was £23,675 (2017: £31,339); the amount due to Kingsown from the Association was £10,383 (2017: £Nil).

NOTES TO THE FINANCIAL STATEMENTS – Year ended 31 March 2018 continued**13. Investments (continued)**

- b) SAHA Developments Limited, a wholly owned subsidiary of Salvation Army Housing Association, is a company registered in England and Wales – Registered No. 07552040. The company is not a Registered Provider.

Authorised share capital: 100 ordinary shares of £1 each
 Issued share capital: 1 ordinary share of £1 each

The issued share capital is held by Salvation Army Housing Association. Under section 98 Paragraph 2 of the Co-operative and Community Benefit Societies Act 2014, Salvation Army Housing Association is exempt from preparing Group Financial statements, including SAHA Developments Limited.

	2018	2017
	£	£
<u>SAHA Developments Limited</u>		
Profit/(loss) for the year before tax	49,912	67,788
Net assets	58,836	62,684
Revenue reserves	58,365	62,683

saha made payments to SAHA Developments for property works £1,591,618 (2017: £2,926,468), SAHA developments raised invoices to saha at cost plus an agreed mark up of 5%. At 31 March 2018 the amount owed by SAHA Developments to the Association was £2,400 (2017: £5,700); the amount due to SAHA Developments from the Association was £226,158 (2017: £5,767). The Association also received a gift aid donation of £67,788 (2017: £52,607) from SAHA Developments.

NOTES TO THE FINANCIAL STATEMENTS – Year ended 31 March 2018 continued

14. Debtors

Amounts falling due in less than one year:

	2018	2017
	£	£
Rent and service charges receivable	1,141,812	574,193
Provision for bad debts	(834,318)	(365,780)
	<hr/>	<hr/>
Net rental and service charge debtors	307,494	208,413
Prepayments and accrued income	766,914	241,076
Other debtors	223,539	237,689
Loans due from subsidiary undertakings	249,999	249,999
Amounts due from subsidiary undertakings	26,075	37,039
Amounts due from parent undertaking	1,091,522	1,004,529
	<hr/>	<hr/>
	2,665,543	1,978,745
	<hr/> <hr/>	<hr/> <hr/>

15. Cash and cash equivalents

	2018	2017
	£	£
Cash at bank and in hand	13,613,218	11,513,395
Short term deposits	4,663,132	6,192,712
	<hr/>	<hr/>
	18,276,350	17,706,107
	<hr/> <hr/>	<hr/> <hr/>

16. Creditors

Amounts falling due within one year:

	2018	2017
	£	£
Trade creditors	3,135,091	1,295,265
Prepayment for rent and service charges	659,021	313,539
Deferred income and accruals	3,573,526	1,631,709
Other creditors	84,626	3,673
Housing loans (see note 17)	11,238,939	2,012,307
Amounts due to subsidiary undertakings	236,541	5,767
Amounts due to parent undertaking	10,586	11,005
Multi-employer pension scheme creditor (see note 23)	349,190	312,126
Deferred capital grants (see note 18)	2,859,523	2,566,608
	<hr/>	<hr/>
	22,147,043	8,151,999
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS – Year ended 31 March 2018 continued

16. Creditors (continued)

Amounts falling due after more than one year:

	2018	2017
	£	£
<u>Housing loans</u>		
Loans repayable between 1 and 2 years by instalments	1,595,462	1,681,272
Loans repayable between 3 and 5 years by instalments	4,639,608	4,223,604
Repayable after five years by instalments and a bullet repayment	19,885,035	20,018,530
	<hr/>	<hr/>
Total housing loans (see note 17)	26,120,105	25,923,406
	<hr/>	<hr/>
<u>Deferred capital grants</u>		
Social housing grants	82,847,937	86,071,654
On transfer of engagements	9,722,964	-
Other public grants	1,307,496	1,307,496
	<hr/>	<hr/>
Total deferred capital grants (see note 18)	93,878,397	87,379,150
	<hr/>	<hr/>
Recycled capital grant fund (see note 19)	1,720,529	976,236
	<hr/>	<hr/>
Multi-employer pension scheme (see note 23)	1,989,803	2,141,004
	<hr/>	<hr/>
	123,708,834	116,419,796
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS – Year ended 31 March 2018 continued**17. Housing loans**

Housing loans are from private finance raised through UK banks and financial institutions, these are secured by charges on the Association's specific housing properties, and are repayable between 2018 and 2043, and interest charged at varying rates between 0.92% and 11.50% as follows:

	2018	2017
	£	£
<u>Housing loans</u>		
Loans at 0.92%	-	1,284,000
Loans at 1.05%	501,000	-
Loans at 1.35%	273,078	-
Loans at 2.00%	216,823	231,246
Loans at 2.40%	1,945,936	2,046,871
Loans at 2.42%	-	335,451
Loans at 2.75%	9,390,000	4,657,419
Loans at 3.00%	4,446,517	-
Loans at 4.10%	4,720,149	4,944,030
Loans at 4.13%	1,989,655	-
Loans at 5.20%	3,000,000	3,000,000
Loans at 5.35%	1,950,000	2,100,000
Loans at 6.11%	8,151,753	8,533,424
Loans at 6.15%	-	-
Loans at 9.20%	717,351	803,272
Loans at 9.38%	5,094	-
Loans at 9.50%	33,543	-
Loans at 10.50%	7,011	-
Loans at 11.50%	11,134	-
	-----	-----
Total Housing Loans	37,359,044	27,935,713
	-----	-----
	2018	2017
	£	£
<u>Housing loans</u>		
Housing loans due after more than one year	26,120,105	25,923,406
Housing loans due within one year	11,238,939	2,012,307
	-----	-----
Total housing loans	37,359,044	27,935,713
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS – Year ended 31 March 2018 continued

18. Deferred capital grants

Analysis of deferred capital grants

	2018	2017
	£	£
Opening balance at 1 April	89,945,758	91,597,992
Additions in the year	-	679,628
On transfer of engagements	9,722,964	-
Released to income in the year	(2,727,633)	(2,553,664)
Moved to recycled capital grant fund (see note 19)	(156,900)	(146,815)
Moved from recycled capital grant fund (see note 19)	-	351,000
Released on disposal of property	(46,269)	17,617
	<hr/>	<hr/>
Closing balance at 31 March	96,737,920	89,945,758
	<hr/>	<hr/>
	2018	2017
	£	£
Classified as:		
Amounts to be released within one year (note 16)	2,859,523	2,566,608
Amounts to be released in more than one year (note 16)	93,878,397	87,379,150
	<hr/>	<hr/>
Closing balance at 31 March	96,737,920	89,945,758
	<hr/>	<hr/>

The total Social Housing Grant or Financial Assistance received and receivable, both capital and revenue, for the year was £nil (2017: £679,628). The cumulative amount of Social Housing Grant or Financial Assistance receivable at 31 March 2018 is £132,161,901 (2017: £132,161,901).

19. Recycled capital grant fund (RCGF)

	2018
	£
Opening balance at 1 April	976,236
Inputs to RCGF:	
Grants recycled	156,900
On transfer of engagements	582,541
Interest accrued during the year	4,852
Recycling of grant:	
Properties developed	-
	<hr/>
Closing balance at 31 March 2018	1,720,529
	<hr/>
Amounts 3 years old or where repayment may be required	-
	<hr/>

NOTES TO THE FINANCIAL STATEMENTS – Year ended 31 March 2018 continued**20. Called up share capital**

Each member of the Association holds one share of £1 each in the Association.

	2018	2017
	£	£
Allotted, issued and fully paid:		
At 1 April	8	10
Issued during the year	-	2
Surrendered in the year	(1)	(4)
	<hr/>	<hr/>
At 31 March	7	8
	<hr/>	<hr/>

The shares have limited rights. They carry no entitlement to dividend, interest or bonus, they are not repayable and do not participate in winding up. The voting rights of the shares are entitlement to vote at the Annual General Meeting and Special General Meetings of Salvation Army Housing Association.

NOTES TO THE FINANCIAL STATEMENTS – Year ended 31 March 2018 continued

21. Reserves

Restricted reserves

	Catherine Baird Court reserve	Property reserve	Other reserves	Total
	£	£	£	£
At 1 April 2017	66,384	6,213,124	167,563	6,447,071
Transfer to revenue reserve	(4,763)	(75,445)	(19,420)	(99,628)
Transfer from revenue reserve	225	-	16,800	17,025
At 31 March 2018	61,846	6,137,679	164,943	6,364,468

Catherine Baird Court reserve

This represents funds left by way of a specific legacy for the benefit of Catherine Baird Court. The reserve will be utilised to fund both capital and revenue expenditure under the direction of the Resident / Association Joint Committee.

Property reserve

This represents the proportion of the cost of properties that was financed by charitable donations with on-going legal or constructive obligations to restrict the use of the funds.

Other reserves

Other restricted reserves are subject to specific restrictions imposed by the donor or by the nature of the appeal or grant. The Association holds these funds based on terms outlined when they were initially transferred. Where donor restrictions are for revenue purposes for activities normally carried out by the Association, transfers are made from restricted funds to offset the costs as they are incurred.

Revenue reserve

Revenue reserves as shown in the statement of changes in equity and reserves on page 56 is the accumulation of the surpluses and deficits of the Association since formation. The retained revenue reserves of £70,155,438 (2017: £35,272,194) are maintained to ensure the continued financial strength and viability of the Association on a going concern basis.

NOTES TO THE FINANCIAL STATEMENTS – Year ended 31 March 2018 continued**22. Capital commitments**

	2018	2017
	£	£
Capital expenditure that has been contracted for but has not been provided for in these financial statements	2,564,503	3,145,061
Capital expenditure that has been authorised by the Board but has not been contracted for	3,557,881	-
	<hr/>	<hr/>
	6,122,384	3,145,061
	<hr/>	<hr/>

This commitment will be financed from:

Social Housing Grant & other grants £Nil (2017: £0.771m)

Private finance and internal funding £6.122 (2017: £2.374m)

The capital commitments listed above are for construction work contracted by saha with SAHA Developments Limited relating to the development of two schemes currently under construction:

- Backchurch Street, Bolton Backchurch Street, Bolton
- Royal Wootton Bassett, Swindon

NOTES TO THE FINANCIAL STATEMENTS – Year ended 31 March 2018 continued**23. Pension obligations**

Social Housing Pension Scheme (SHPS)

The Association participates in SHPS, a multi-employer scheme which provides benefits to some 500 non-associated employers. The scheme is a defined benefit scheme in the UK. It is not possible for the company to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme. Therefore it accounts for the scheme as a defined contribution scheme.

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

The scheme is classified as a 'last-man standing arrangement'. Therefore the Association is potentially liable for other participating employers' obligations if those employers are unable to meet their share of the scheme deficit following withdrawal from the scheme. Participating employers are legally required to meet their share of the scheme deficit on an annuity purchase basis on withdrawal from the scheme.

A full actuarial valuation for the scheme was carried out with an effective date of 30 September 2014. This actuarial valuation was certified on 23 November 2015 and showed assets of £3,123m, liabilities of £4,446m and a deficit of £1,323m. To eliminate this funding shortfall, the trustees and the participating employers have agreed that additional contributions will be paid, in combination from all employers, to the scheme as follows:

Deficit contributions

Tier 1 From 1 April 2016 to 30 September 2020	£40.6m per annum (payable monthly and increasing by 4.7% each year on 1 April)
Tier 2 From 1 April 2016 to 30 September 2023	£28.6m per annum (payable monthly and increasing by 4.7% each year on 1 April)
Tier 3 From 1 April 2016 to 30 September 2026	£32.7m per annum (payable monthly and increasing by 3.0% each year on 1 April)
Tier 4 From 1 April 2016 to 30 September 2026	£31.7m per annum (payable monthly and increasing by 3.0% each year on 1 April)

The scheme's previous valuation was carried out with an effective date of 30 September 2011; this valuation was certified on 17 December 2012 and showed assets of £2,062m, liabilities of £3,097m and a deficit of £1,035m. To eliminate this funding shortfall, payments consisted of the Tier 1, 2 & 3 deficit contributions.

NOTES TO THE FINANCIAL STATEMENTS – Year ended 31 March 2018 continued**23. Pension obligations (continued)****23A. Deficit provision for defined benefit scheme**

	2018 £000s	2017 £000s
Pension provision		
Present value of provision for defined benefit scheme - SHPS	2,124	2,434
Present value of provision for growth plan - saha	17	19
Present value of provision for growth plan- Chapter1	198	-
Total provision	2,339	2,453

23B. Deficit provision for defined benefit scheme due within one year and greater than one year

	2018 £000s	2017 £000s
Pension provision - including the transfer of Chapter1		
Due within one year	349	312
Due after more than one year	1,990	2,141
Total provision	2,339	2,453

Where the scheme is in deficit and where the Association has agreed to a deficit funding arrangement, the Association recognises a liability for this obligation. The amount recognised is the net present value of the deficit reduction contributions payable under the agreement that relates to the deficit. The present value is calculated using the discount rate detailed in these disclosures. The unwinding of the discount rate is recognised as a finance cost.

Present values of provision

	2018 £000s	2017 £000s
Reconciliation of opening and closing provisions		
Provision at the start of period	2,453	2,630
Chapter1 - on transfer of engagement	211	
Unwinding of the discount factor (interest expense)	34	51
Deficit contribution paid	(325)	(301)
Re-measurements - impact of any change in assumptions	(34)	73
Total provision	2,339	2,453
Impact on statement of comprehensive income		
	2018 £000s	2017 £000s
Total charge / (credit)	(325)	(177)
	(325)	(177)

NOTES TO THE FINANCIAL STATEMENTS – Year ended 31 March 2018 continued**23. Pension obligations (continued)**

Assumptions

	2018 % per annum	2017 % per annum	2016 % per annum
Rate of discount			
Growth plan	1.71	1.32	2.07
Defined benefit scheme	1.72	1.33	2.06

The discount rates shown above are the equivalent single discount rates which, when used to discount the future recovery plan contributions due, would give the same results as using a full AA corporate bond yield curve to discount the same recovery plan contributions.

Employer debt

Salvation Army Housing Association has been notified by The Pensions Trust of the estimated employer debt on withdrawal from the Social Housing Pension Scheme based on the financial position of the Scheme as at 30 September 2016. As of this date the estimated employer debt for the Association was £20,642,063 (2015:£15,742,512) and for the defined contribution scheme (AVCs) the employer debt was £40,656 (2015:£34,999).

Employer pension contributions

	2018 £	2017 £
Defined benefit employer contributions including deficit contributions	400,852	391,015
Growth Plan deficit contributions	14,529	2,064
Auto-enrolment & SHPS Defined contribution including deficit contribution	91,440	19,897
	506,821	412,976

The defined benefit pension costs for Salvation Army Housing Association was £400,852 (2017: £391,015) covering 36 employees (2017: 33 employees). The pension cost is assessed in accordance with the advice of a qualified actuary using the Projected Unit Fund Method and is not materially different from that arising from the current employer's contribution rate.

Auto-enrolment (SHPS)

The Association also allows the employees to pay additional voluntary contributions (AVCs) into their pension scheme. The amount charged to the Statement of Comprehensive Income represents the contributions payable to the scheme in respect of the financial year. The contributions due in the year were £Nil (2017: £Nil). Deficit contributions of £14,529 (2017: £2,064) were paid during the year in respect of the AVCs.

NOTES TO THE FINANCIAL STATEMENTS – Year ended 31 March 2018 continued**23. Pension obligations (continued)**

As a result of the introduction of pensions “auto-enrolment” by the Government, the cost of the new defined contribution scheme was £91,440 (2017: £19,897) covering 355 employees (2017: 102 employees). The increase in the number of employees is due to staff transferring from Chapter1 to the saha pension scheme.

24. Operating leases

The Association has lease arrangements in respect of land and buildings and equipment. The future minimum lease payments of these leases are set out below:

	2017	2017
	£	£
<u>Land and Buildings – Leases expiring</u>		
Not later than one year	512,218	153,803
Later than one year and not later than five years	911,402	825,143
Later than five years	275,416	273,327
	1,699,036	1,252,273
	1,699,036	1,252,273
<u>Other operating leases – Leases expiring</u>		
Not later than one year	338,892	244,040
Later than one year and not later than five years	349,584	368,324
Later than five years	123,346	28,855
	811,822	641,219
	811,822	641,219

NOTES TO THE FINANCIAL STATEMENTS – Year ended 31 March 2018 continued**25. Accommodation in management and development**

The number of units of housing, lifehouses and foyer accommodation under development and in management at 31 March 2018 was:

	Number of Units in development		Number of Units in management	
	2018	2017	2018	2017
Housing accommodation for letting:				
General Needs:				
Owned and managed	-	-	1,011	1,051
Affordable:				
Owned and managed	115	30	298	195
Supported Housing and Housing for Older People:				
Owned and managed	-	-	783	326
Owned but not managed	-	-	1,723	1,652
Managed but not owned	-	-	11	10
Other – Foyer Accommodation:				
Owned and managed	-	-	112	112
Registered care bed spaces:				
Owned but not managed	-	-	58	77
Student Accommodation				
Owned and managed	-	-	141	-
Total owned and managed	115	30	4,137	3,423
Housing stock summary:				
	Number of Units in development		Number of Units in management	
	2018	2017	2018	2017
Owned and managed	115	30	2,345	1,684
Owned but not managed	-	-	1,781	1,729
Managed but not owned	-	-	11	10
Total owned and managed	115	30	4,137	3,423

NOTES TO THE FINANCIAL STATEMENTS – Year ended 31 March 2018 continued**26. Financial instruments**

The Association's financial instruments comprise non-listed equity securities, cash and cash equivalents, bank borrowings and items such as trade creditors and trade debtors which arise directly from its operations. The main purpose of these financial instruments is to provide finance for the Association's operations.

The Association's operations expose it to a variety of financial risks, including credit risk, liquidity risk, and interest rate risk. Given the size of the Association, the Board have not delegated the responsibility of monitoring financial risk management to a sub-committee of the Board. The policies set by the Board of Directors are implemented by the Association's finance department.

Credit risk

The Association's credit risk is primarily attributable to its rental arrears (including rent arrears). The Association has implemented policies that require appropriate pre-tenancy checks on potential new tenants before a property is let. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed annually by the Board.

The carrying amount of financial assets represents the maximum credit exposure.

Liquidity risk

The Association actively maintains a mixture of long term and short term debt finance as well as maintaining a minimum cash level amount of £3m, which is all designed to ensure it has sufficient available funds for operations and planned expansion. The Association monitors its levels of working capital to ensure it can meet its operational liabilities and debt repayments as they fall due.

The Association's financial liabilities (none of which are derivative financial liabilities) comprise trade creditors and bank borrowings which are measured at amortised cost. The contractual maturity of the bank borrowings are shown in note 15. The trade creditors are all payable within six months.

Interest rate risk

The Association has both interest bearing assets and interest bearing liabilities. Interest bearing assets comprise only cash and cash equivalents which earn interest at a variable rate. The Association has a policy of maintaining debt at fixed and floating rates to manage future interest cash flows effectively. The Board will revisit the appropriateness of this policy should the Association's operations change in size or nature.

The Association's cash and cash equivalents earned interest at a variable rate of 0.26% during the year (2017: 0.36%)

Details of the terms of the Association's borrowings are disclosed in notes 16 and 17.

NOTES TO THE FINANCIAL STATEMENTS – Year ended 31 March 2018 continued**27. Financial instruments (continued)**

The carrying values of the Association's financial assets and liabilities are summarised by category below:

	2018 £	2017 £
Financial assets:		
Measured at undiscounted amounts receivable		
• Trade and other debtors	2,665,543	1,978,745
• Cash and cash equivalents	18,276,350	17,706,107
• Fixed asset investments in unlisted equity instruments	51	51
Financial liabilities:		
Measured at carrying value		
• Loans repayable	(26,120,105)	(27,935,713)
Measured at undiscounted amounts payable		
• Trade and other creditors	(22,147,043)	(5,273,265)
The Association's income, expense, gains and losses in respect of the financial instruments are summarised below:		
Interest income and expense		
• Total interest income for financial assets at undiscounted amounts	47,523	57,471
• Total interest expense for financial liabilities at amortised cost	(1,419,099)	(1,235,586)
Fair value gains and (losses)		
• On financial assets and liabilities (including loans) measured at fair value through statement of comprehensive income (note 8)	26,395,395	-

28. Contingent liabilities

As at 31 March 2018 there were no contingent liabilities (2017: £nil).

NOTES TO THE FINANCIAL STATEMENTS – Year ended 31 March 2018 continued**29. Related parties**

The Association has taken advantage of the exemption permitted by Financial Reporting Standard 102.33.1A – ‘Related Party Transactions’, and does not disclose transactions with group undertakings that are wholly owned by such a member.

The Association took out a loan of £315,000 with Reliance Bank Limited in the financial year ended 31 March 2011, and £2,200,000 in the financial year ended 31 March 2014, and a further loan of £150,000 in the financial year ended 31 March 2015, a partly (49%) owned bank by The Salvation Army Trustee Company (SATCo).

The Association made the following payments during the year to Reliance Bank Limited:

Capital repayments	£115,360
Interest payments	£52,971

The total outstanding balance of the loan at 31 March 2018 was £2,162,757. The long term loan was granted to the Association on normal commercial terms, including saha providing appropriate security to satisfy the conditions of the loan.

During the year, the Association paid £245,200 (2017: £220,517) for the property and liability insurance to SAGIC Ltd.

SAGIC Ltd is a company wholly owned by The Salvation Army Trust (Central Funds).

Key management personnel

All executive and non-executive directors and certain senior employees who have the authority and responsibility for planning, directing and controlling the activities of the Association are considered to be key management personnel. Compensation of key management personnel is disclosed in note 3.

Under the FRS 102.33.1A Sch72(2) definition of related party transactions, other than those transactions listed above, the Association did not have any other related party transactions with any of the key management or Board personnel.

30. Ultimate controlling party

The Board considers that the Association’s immediate parent company is The Salvation Army Trustee Company, a company limited by guarantee and registered in England.

In the opinion of the Board, the ultimate controlling party is the General of The Salvation Army as defined by the Salvation Army Act 1980.

31. Post balance sheet events

There were no material post balance sheets events.

LEGAL AND ADMINISTRATIVE DETAILS

Salvation Army Housing Association is registered with the Regulator of Social Housing (RSH) LH2429 and under the Co-operative and Community Benefit Societies Act 2014 Registration No. 15210R. The Association is incorporated and registered in England.

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