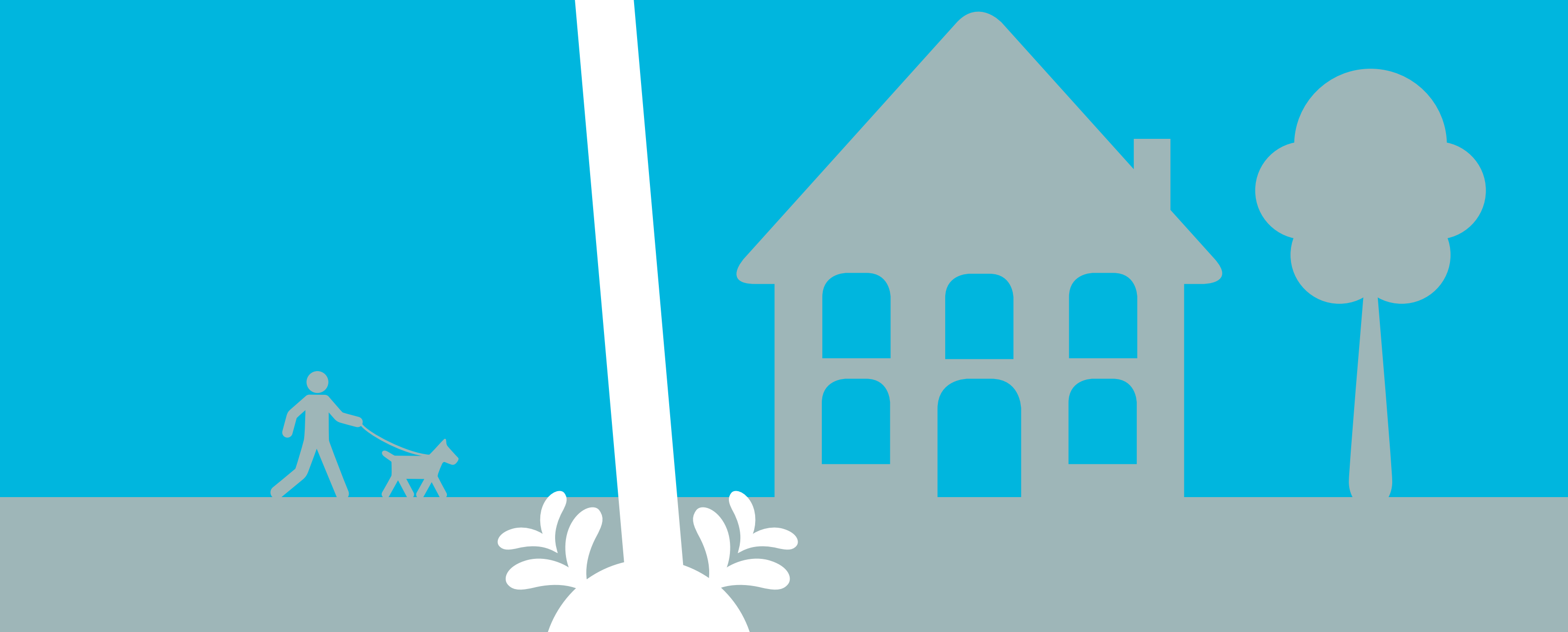
NATIONAL HOUSING FEDERATION

Financial Review 2016



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Introduction

The National Housing Federation's Financial Review is designed to explain in a straightforward way:

- how the Federation is performing in financial terms
- what its financial drivers and objectives are
- whether these financial drivers and objectives are being met.

This is the first year we have reported under Financial Reporting Statement (FRS) 102 and we are particularly aware of the need to provide a helpful explanation of its impact on our reported performance.

This review is intended to be read alongside our full audited Financial Statements, both available on **our website**.

Our website also provides a wide range of other information on how we provide added value for our members.

We would like to answer any questions you have, hear your views on whether you find the Financial Review helpful, and how you think it might be improved and developed. You can do this through your regular Federation contacts or by contacting:

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Highlights

- Underlying surplus in 2015/16 of £382k in line with finance objectives and reserves policy.

- Surplus slightly increased from 2014/15, which was a year that included a major resource commitment to Homes for Britain.

- 1% reduction in the price of membership for 2016/17, to be followed by a further 4% reduction in 2017/18.

- Cumulative 25% real terms price reduction in affiliation fees by 2017/18, equivalent to a total saving for members of £10m.

- Retention of full sector membership.

- Strong reserves/net assets despite bringing pension deficit on balance sheet under FRS 102.

- Continuing strong cash position despite completing major project to replace Customer Relationship Management (CRM) system.

- CRM project successfully completed to timetable and below budget.

Key figures

Table 1. Five year summary

	2015/16 £k	2014/15 £k	2013/14 £k	2012/13 £k	2011/12 £k
Turnover	**16,653**	15,464			
Underlying turnover	**13,893**	14,540	14,130	14,382	14,563
Change	**-4.4%**	2.9%	-1.8%	-1.2%	2.2%
Profit after tax	**751**	1,280			
Underlying surplus excluding exceptionals	**382**	293	347	325	231
Net assets	**6,561**	5,810			
Net assets pre FRS 102		11,675	10,458	6,428	5,931
Net cash at year end	**2,712**	2,643	3,375	4,412	2,324

The Financial Statements for 2015/16 have been prepared under FRS 102 and comparative figures for 2014/15 have been restated.

For the Federation, the main differences under FRS 102 relate to the inclusion of unrealised property revaluation gains on investment property and pension deficits, together with full provision for deferred tax.

A full explanation and an analysis of the differences between the underlying and headline surpluses for 2015/16 and 2014/15 are in the Financial Review section of the Strategic Report, available in our **Financial Statements**.

Financial objectives

We set affiliation fees with the aim that members pay each year for the level of services they receive and budget for an underlying break even position. By operating efficiently we aim to make a small underlying surplus (profit after tax) which, unless specifically decided otherwise by the board, is added to reserves.

The board has formally reviewed and updated its Reserves Policy. This requires the Federation to have at least six months operating expenditure covered by reserves and a cash flow profile which would support continued operations in the event reserves have to be realised, both in the short or longer term.

The board has concluded that reserves are adequate but not excessive, and therefore the addition to reserves of annual surpluses, including small annual underlying surpluses, is appropriate. Reserves for this purpose comprise net assets shown in the consolidated balance sheet plus unrecognised unrealised property revaluation gain on property held for our own use.

Performance

The underlying surplus for 2015/16 was £382k compared to £293k for the previous year, which was in line with our financial objectives and Reserves Policy. The changes in reported results under FRS 102 do not affect the underlying financial performance and the surplus for the year will be taken to reserves.

Excluding unrealised property revaluation gain on investment property, underlying turnover was down by £0.65m (4.4%) to £13.9m.

Gross income from affiliation fees was similar to the previous year. The main factors for the fall in underlying turnover were a reduction in income from commercial activities of £0.33m and lower VAT recovery of £0.23m.

Commercial income was lower due to difficult market conditions precipitated by political challenges to the wider business activities of housing associations. VAT recovery had been high in 2014/15 due to expenditure on the Homes for Britain campaign.

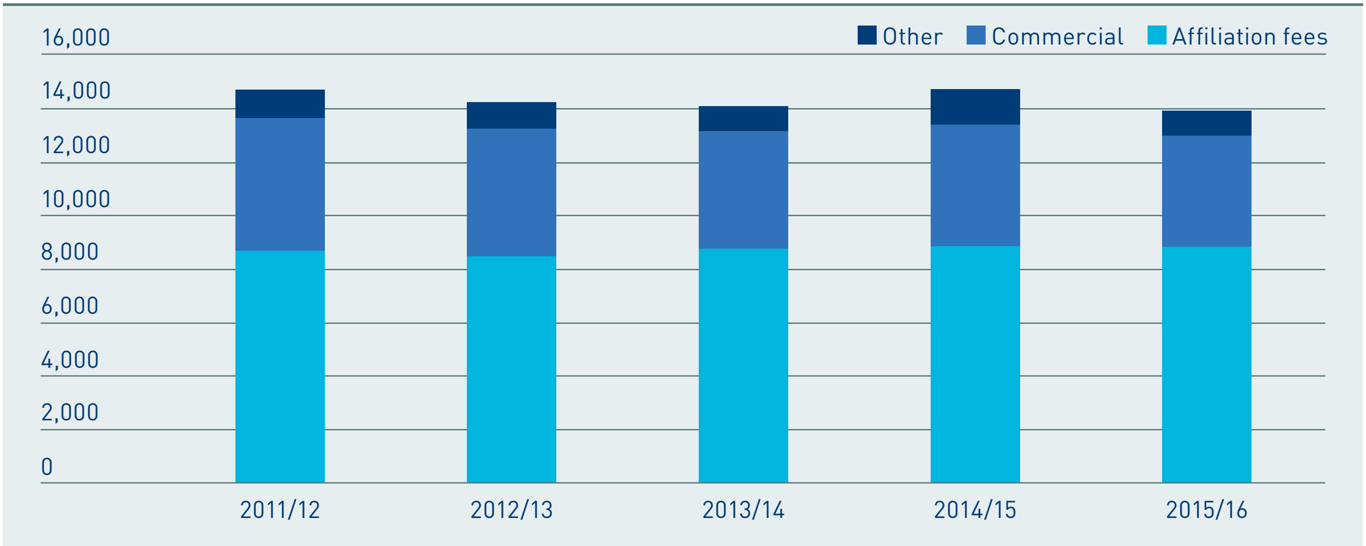
Administrative expenses were 11.4% higher than the previous year, including increases in pension deficit. Excluding the pension deficit increases, administrative expenses were 5.9% lower. The previous year's expenses reflected a major increase in campaigning and lobbying activity relating to the General Election.

At 31 March 2016 our main office, Lion Court in Holborn, London was independently valued at £26.0m (an increase of £4.5m) and this increased consolidated net assets shown in the Financial Statements by £2.8m.

During the year, the project to replace our CRM system was successfully completed to timetable and below budget. This expenditure was funded from existing financial resources and ongoing positive cash flow.

Income

Figure 1. Gross income (£k)



Just over 60% of the Federation's gross income is derived from the annual affiliation fees paid by our members. This totalled £8.8m in 2015/16, 0.6% above the previous year as a result of net changes in membership and sector size.

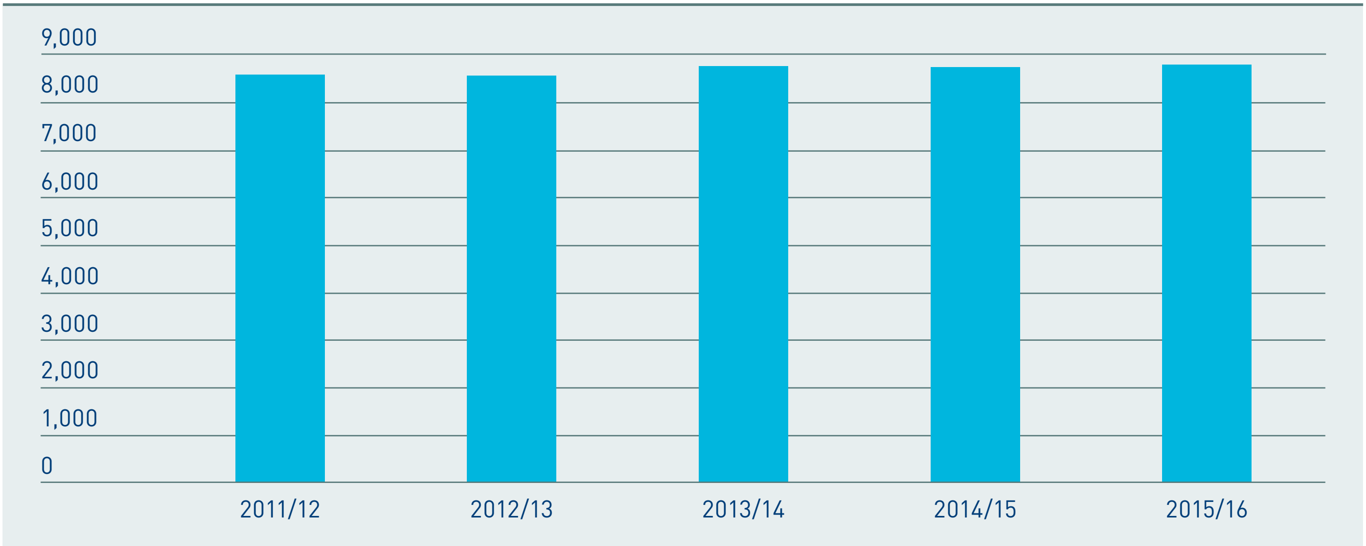
The bulk (around one third) of the Federation's income, other than from member affiliation fees, comes from our commercial services. This totalled £4.2m in 2015/16 (2014/15 £4.5m).

We received sundry income amounting to £0.9m in 2015/16, £0.4m below the previous year. This mainly reflected a lower VAT recovery, the previous year's recovery having reflected higher expenditure on the Homes for Britain campaign.

The other main elements of sundry income are service charge and grant income. Service charge income relates to the management of three floors let out in Lion Court. Grant income is usually from the Government and comprises projects ancillary to our core activities, in areas such as employment, the environment and health care.

Membership and affiliation fees

Figure 2. **Affiliation fee income (£k)**



In return for their affiliation fees members receive support from our staff across the country and a range of core services. The key services are policy work, lobbying and communications.

The annual changes in affiliation fee income are a result of changes in the makeup of Federation membership and the level of fees charged. Fee income in 2015/16 was slightly above the previous year with the negative effect of member mergers offset by new members and sector growth.

Virtually all English housing associations of any size are Federation members.

Up until 2009/10 our affiliation fees were linked to the formula applied to the social rents charged by housing associations, which meant fees increased by retail price index (RPI) plus 0.5%. From 1 April 2012 fees have been based on the number of housing units owned and managed by each member.

Since 2011/12 the price of Federation membership has remained virtually unchanged, representing a real terms reduction of over 17%, a total saving for members of over £4.5m. Reductions in the price of membership have already been announced for 2016/17 (1% reduction) and 2017/18 (4% reduction). Including these reductions the cumulative saving in real terms to members will be 25% (£10m).

Commercial services

Table 2. Commercial income and contribution

	2015/16 £k	2014/15 £k	2013/14 £k	2012/13 £k	2011/12 £k
Gross income	**4,158**	4,483	4,412	4,806	4,889
Net income	**2,771**	3,091	2,695	2,920	2,914
Contribution to overheads	**1,800**	2,200	1,800	1,930	1,805

Around one third of the Federation's income comes from commercial services, and this is used to support the services we provide for members in return for their affiliation fees. Commercial services are paid for at the point of delivery by both members and non members, with members receiving a discounted rate.

The main components of our commercial income are conferences and exhibitions, commission from business partners, the HouseMark licence fee, and commercial property income.

Commercial net income was £0.33m lower in 2015/16 due to difficult market conditions precipitated by political challenges to the wider business activities of housing associations.

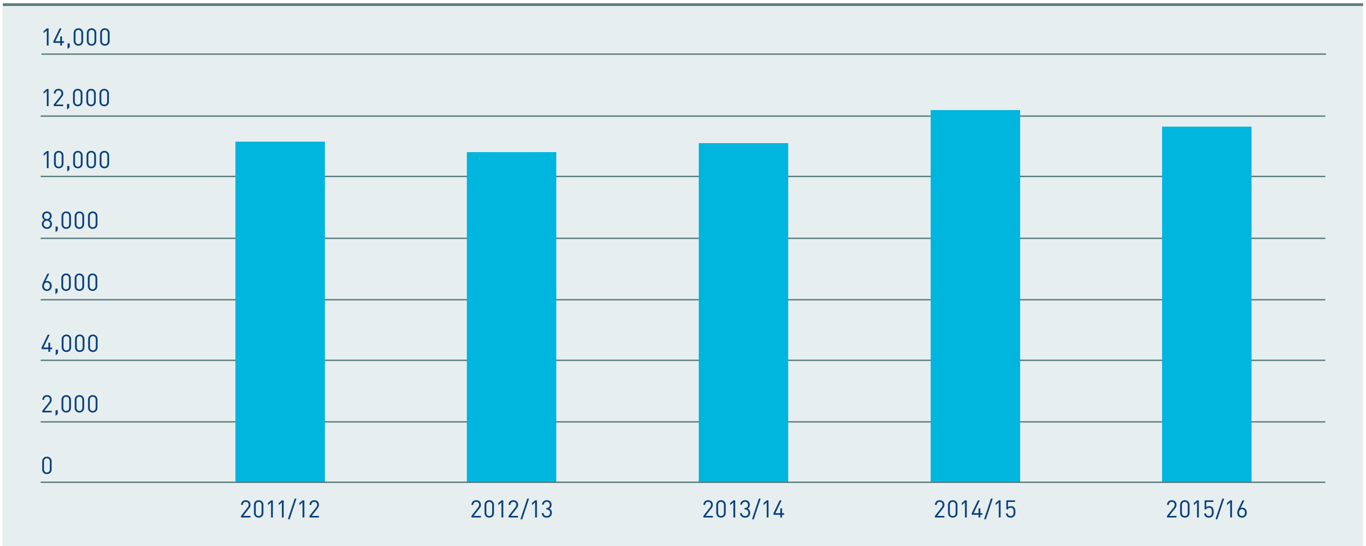
A summary of key figures for our commercial services is in Table 2.

All housing associations had to assess the impact of the political announcements on their own businesses which resulted in spending patterns becoming erratic and difficult to predict. The Federation responded well, with no drop in support from the proportion of members utilising commercial services, confirming that our customers value what we provide. Certain evidence suggests that our commercial activities are still out-performing those of our major competitors.

Despite not reaching previous year's levels, commercial activities continue to be of major importance, both financially and in furthering our objectives. This year's contribution of £1.8m to general overheads, after taking account of all specifically related costs, is an important factor in our ability to reduce affiliation fees.

Expenditure

Figure 3. Overhead costs (£k)



In 2015/16 the Federation's costs totalled £13.5m, including interest and excluding HouseMark. This was 5.4% down on the previous year, reflecting expenditure in 2014/15 on the Homes for Britain campaign.

£1.6m were direct costs mainly associated with commercial activities which generate a profit. These included such items as hiring space for our conferences and production costs for publications. Net interest costs were a further £0.21m, £0.06m down on the previous year following reversion part way through 2014/15 from a fixed to variable rate on a £4m loan. The balance of £11.7m related to indirect (overhead) costs.

Overhead costs have been controlled so that we have made small surpluses as outlined above in line with our financial objectives.

The largest proportion of our overhead costs relate to staff, of which there are around 124. Around two thirds of staff costs are directly related to delivering membership services in return for affiliation fees. The remainder relate to providing commercial services and providing internal support services. Other costs, primarily bought in services such as media, were lower in 2015/16 reflecting the 2014/15 Homes for Britain campaign.

Figure 4. **Overhead costs breakdown**

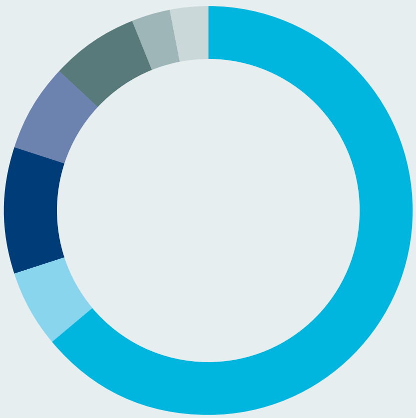
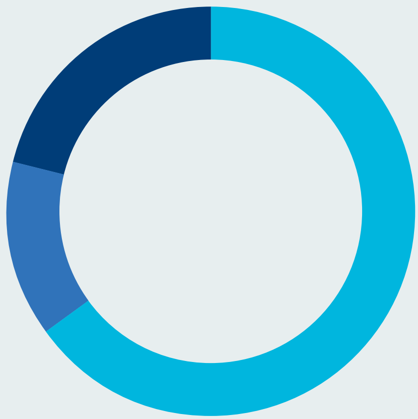


Figure 5. **Staff costs**



The largest cost element outside of our direct control is our pension deficit recovery costs. These costs relate to our membership of the Social Housing Pension Schemes (SHPS) and pension liabilities built up in the past.

From 1 April 2013 the Federation's pension deficit recovery costs increased by over £300k pa (78%), then rising with inflation to £726k in 2015/16. There has been an increase from 1 April 2016 of a further £319k, to over £1m pa, following the results of the triennial valuation at 30 September 2014.

We fully closed our defined benefit pension schemes from 1 May 2014, offering staff an improved defined contribution scheme. While slightly increasing annual contribution costs, this will progressively reduce the risk resulting from the requirement to fund future pension liabilities.

The increases in pension-related costs have been mitigated by the implementation of our Property Strategy in 2014, which has generated a net benefit of around £700k pa.

The future

We have already reduced the price of membership by 1% for 2016/17 and have committed to a further 4% reduction for 2017/18. This phasing has allowed us to plan effectively for further increasing the value we offer to members.

We will be reviewing how we set fees for subsequent years, alongside our new Business Plan. Our aim is that our members are independent, private businesses that exist for social good, taking charge of their own destiny and providing the homes the country needs.

As members address these challenges, we are seeing more change in both the business models adopted by individual members and the structure of our membership through increased merger activity. This will require us to re-evaluate how we best serve a much wider variety of members in terms of what they do and their size.

There will continue to be a significant combined impact on our financial reporting in relation to property, pensions and FRS 102. Our underlying financial objectives remain charging members for only the services they receive and providing excellent value in doing so.

The major cost outside our direct control is the pension deficit recovery payments we make to the SHPS. The results of the next triennial valuation at 30 September 2017 will impact from 1 April 2019.

We continue to assess our risk appetite for new commercial services to see if they can provide even more support for our membership services activities.

We recognise the increased uncertainty relating to many of the above issues as a result of the referendum vote to leave the EU, and we’ll be managing this uncertainty accordingly.

NATIONAL HOUSING FEDERATION

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