NATIONAL HOUSING FEDERATION

Financial Review 2017

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Introduction

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

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

This review is intended to be read alongside our full audited Financial Statements, which are available on our website under the **About us** section. The website also contains a wide range of information on how we provide added value to our members.

The Financial Statements include a Chair's Statement, Chief Executive's Review and comprehensive Strategic Report. The latter includes an assessment of the risks and uncertainties faced by the Federation and our members, reflecting on the post-election political environment and the tragic terrorist and Grenfell fire incidents.

We would like to answer any questions you have, or hear your views on whether you find the 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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2016/17 highlights

- Underlying surplus in 2016/17 of £456k in line with financial objectives and reserves policy
- Strong underlying financial position
- 4% reduction in the price of membership for 2017/18, following a 1% reduction in 2016/17, and no change proposed in price of membership for 2018/19
- Cumulative 29% real terms price reduction in affiliation fees over eight years, equivalent to a total saving for members of £13.5m
- Affiliation fee for a typical member 5% below 2011/12 fee
- Excellent member retention
- Successful organisational restructure 'Federation of the Future' implemented to further improve member service
- Project commenced to reduce occupation to one floor in main office, Lion Court, to achieve more flexible working and further efficiencies

Key figures

Table 1. Five year summary

	2016/17 £k	2015/16 £k	2014/15 £k	2013/14 £k	2012/13 £k
Turnover	**15,122**	16,653	15,464		
Underlying turnover	**13,976**	13,893	14,540	14,130	14,382
Change	**0.6%**	-4.4%	2.9%	-1.8%	-1.2%
Surplus	**2,192**	751	1,280	347	525
Underlying surplus	**456**	382	293	347	325
Net assets	**8,753**	6,561	5,810		
Net assets pre FRS 102			11,675	10,458	6,428
Net cash at year end	**3,015**	2,712	2,643	3,375	4,412

The Financial Statements for 2015-16 were prepared for the first time under Financial Reporting Statement 102 (FRS 102) and comparative figures for 2014-15 were restated.

Under FRS 102, the reporting of financial information relating to property and pensions has changed significantly. A reconciliation of the headline surplus reported in the Financial Statements and the underlying surplus, which is the measure used in relation to our financial objectives and reserves policy, is shown on page 5. Further details are provided in the Financial Statements.

Reconciliation of surplus

	2016/17 £k	2015/16 £k	2014/15 £k
Headline surplus	**2,192**	**751**	**1,280**
Unrealised property revaluation gain on investment property	-1,146	-2,760	-924
Pension deficit recovery payments	-1,008	-746	-697
Increase in pension deficit NPV excluding annual payments	401	2,859	506
Deferred tax and other FRS 102 adjustments	17	258	128
Underlying surplus	**456**	**382**	**293**

Financial objectives and reserves

The Federation sets affiliation fees with the aim that members pay each year for the level of services they receive and we 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.

Our Reserves Policy requires us to have at least six months operating expenditure covered by reserves, and a cash flow profile which would support continued operations both in the short or longer term, in the event that reserves have to be realised.

The board has concluded that given their size and nature, reserves are adequate but not excessive. 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.

Overview of performance

The underlying surplus for 2016/17 was £456k compared to £382k for the previous year which was in line with our financial objectives and Reserves Policy. The changes in reported headline results under FRS 102 do not affect the underlying financial performance and the surplus for the year will be added to reserves.

Excluding unrealised property revaluation gain on investment property, underlying turnover was marginally up by £0.08m (0.6%) to £14.0m.

Gross income from affiliation fees was 1.2% down on the previous year, reflecting the 1% reduction in the price of membership and merger activity amongst members.

Gross commercial income was 2.2% up. Net income and contribution to overheads showed larger gains of 11.3% reflecting direct cost savings from changes in the mix of paid-for events, different venues and better procurement.

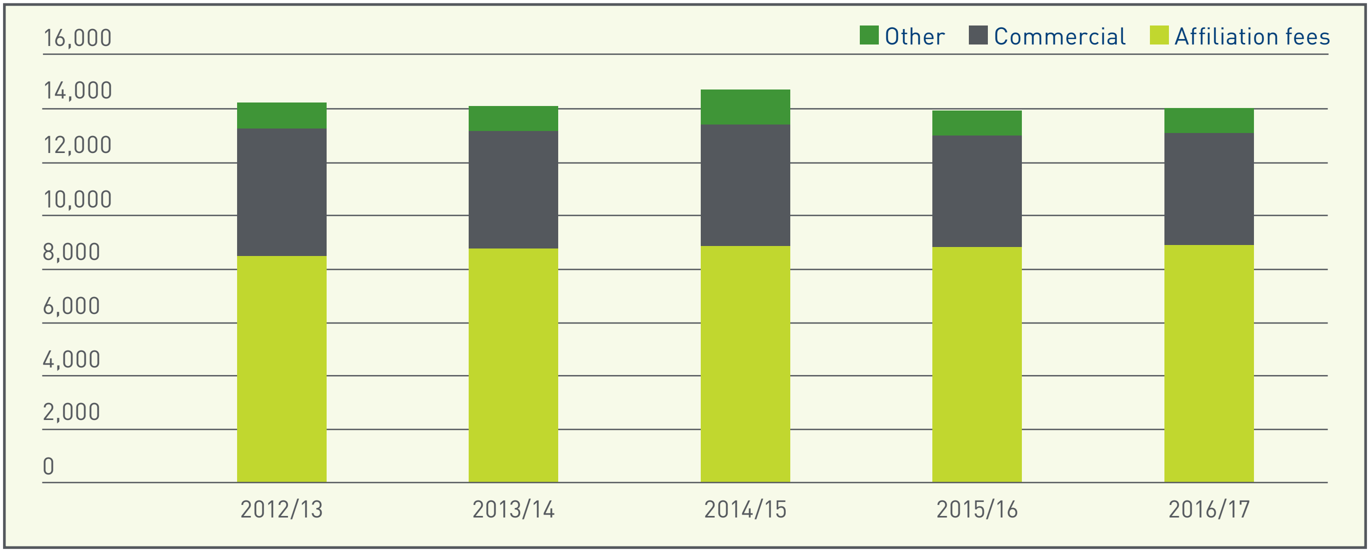
Administrative expenses were 1% higher than the previous year on an underlying basis, reflecting the costs of our organisational restructure.

At 31 March 2017 our main office, Lion Court in Holborn, London was independently valued at £27.8m (an increase of £1.8m from the previous year) and this has increased consolidated net assets shown in the Financial Statements by £1.1m.

Our cash flow remained strong and we did not need to use our overdraft facility during January or February when cash balances reached their annual low point, prior to receipt of the following year's affiliation fees.

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 £8.7m in 2016/17, 1.2% below the previous year, as a result of the 1% reduction in the price of membership and merger activity amongst members.

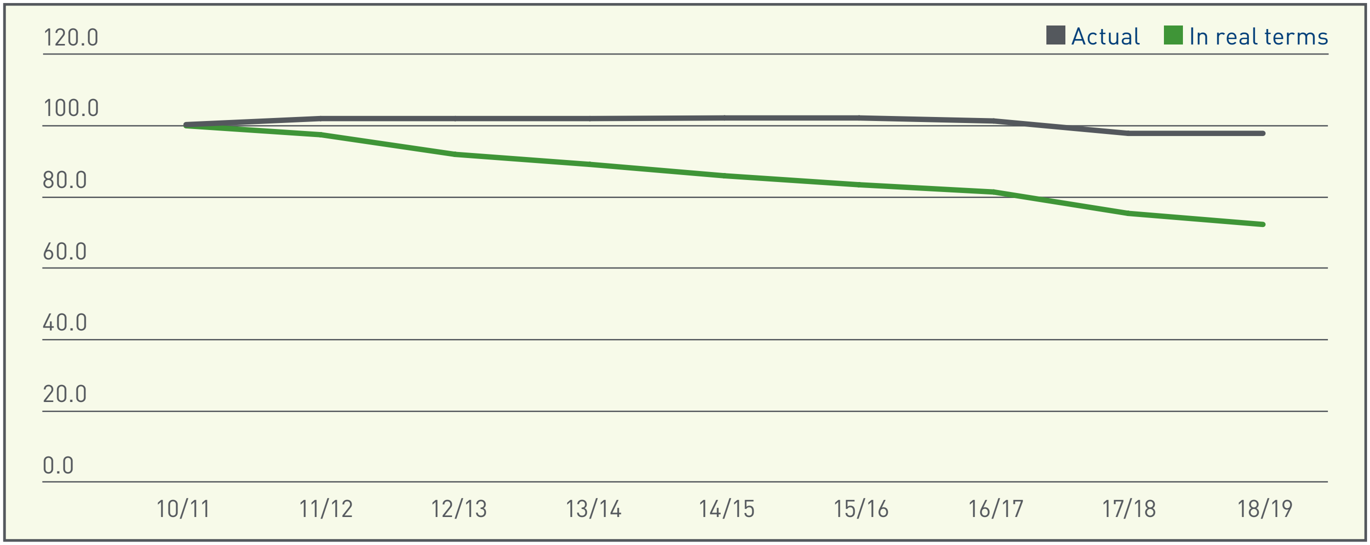
The bulk (around one third) of our other income comes from our commercial services. This totalled £4.3m in 2016/17 (in 2015/16 it was £4.2m).

We received sundry income amounting to £0.9m in 2016/17, the same as the previous year. Sundry income includes VAT recovery, service charge and grant income.

Service charge income relates to the management of the 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. **Price of Federation membership** (base = 100)



In return for their affiliation fees, members receive support from our staff across the country and a range of core services, such as policy work, lobbying and communication.

The annual changes in affiliation fee income result from changes in the makeup of Federation membership and the level of fees charged. Fee income in 2016/17 was 1.2% down on the previous year due to the 1% reduction in the price of membership and the negative effect of member mergers.

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

Up until 2009/10 our affiliation fees were linked to inflation. From 1 April 2012 fees have been based on the number of housing units owned and managed by each member. The charge per housing unit is banded and reduces as the number of housing units increases.

From 2011/12 the price of Federation membership remained virtually unchanged, until we implemented reductions in the price of membership for 2016/17 (-1%) and 2017/18 (-4%). We have now proposed there will be no change for 2018/19. The cumulative saving in real terms to members, will be 29%, or £13.5m.

Commercial services

Table 2. Commercial income and contribution

	2016/17 £k	2015/16 £k	2014/15 £k	2013/14 £k	2012/13 £k
Gross income	**4,252**	4,158	4,483	4,412	4,806
Net income	**3,085**	2,771	3,091	2,695	2,920
Contribution to overheads	**2,050**	1,800	2,200	1,800	1,930

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 paid-for events, sponsorship and exhibitions, commission from business partners, the HouseMark licence fee and commercial property income.

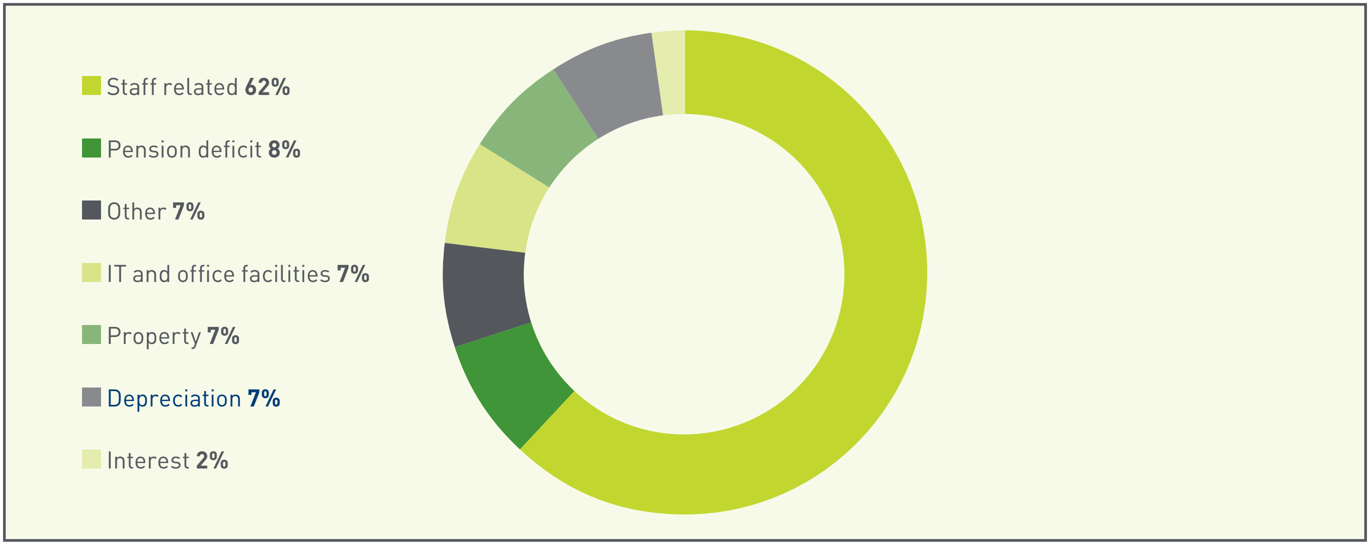
Commercial net income was £0.3m (11.3%) higher in 2016/17, reflecting a very successful events programme plus direct cost savings from changes in the mix of events, different venues and better procurement.

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

Commercial activities continue to be of major importance, both financially and in furthering the Federation's objectives. This year's contribution of over £2m to general overheads after taking account of all specifically related costs, is an important factor in our ability to keep down affiliation fees.

Expenditure

Figure 3. Overhead costs breakdown



In 2016/17 the Federation's overhead costs totalled £13.3m on an underlying basis. This excludes the balance sheet movements in pension deficit and HouseMark, but includes annual pension deficit recovery payments and net interest cost. This was slightly higher than the previous year reflecting the costs of our organisational restructure 'Federation of the Future'.

The largest proportion of our overhead costs relate to staff, which averaged 120 during 2016/17.

The largest cost element outside 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 2016 our pension deficit recovery costs increased by nearly £300k pa (39%), following the results of the SHPS 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. This will progressively reduce the risk resulting from the requirement to fund future pension liabilities.

The future

The Federation has already reduced the price of membership by 1% for 2016/17 and a further 4% reduction for 2017/18. We have decided to make no change for 2018/19, meaning that members will continue to benefit from the recent reductions.

We will be reviewing how we set fees for subsequent years, taking account of a number of factors including:

- The impact on members of the future regime for setting social rents
- The impact of our 'Federation of the Future' restructure carried out in early 2017
- The size of increase in our annual SHPS pension deficit recovery payments from 1 April 2019, following the 30 September 2017 triennial valuation
- The ongoing merger activity amongst members
- Federation membership criteria in light of structural changes in the housing market
- The broader political and economic context regarding Brexit and following the June 2017 General Election and the tragic terrorist and Grenfell fire incidents which occurred around the same time

There will continue to be a significant combined impact on the Federation's financial reporting under FRS 102 in relation to property and pensions. Our underlying financial objective remains charging members for only the services they receive and providing excellent value in doing so.

We will continue to develop our portfolio of commercial services to see if they can provide even more support for our membership services activities. This process will be enhanced by the broader organisational focus on commercial opportunities introduced under our new structure.

Consolidating our operational occupation in Lion Court onto one floor only will generate additional rent and service charge income and further reduce operating costs.

NATIONAL HOUSING FEDERATION

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