NATIONAL HOUSING FEDERATION

Financial Review 2018

Contents

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
- whether these are being met.

This review is intended to be read alongside the Federation's full audited Financial Statements, and **both are available on our website**.

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

The Financial Statements include a Chair's Statement, Chief Executive's Review and comprehensive Strategic Review. The latter includes an assessment of the risks and uncertainties faced by the Federation and our members.

We would like to answer any questions you have, 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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Message from our Chair

In my introduction to this year's Financial Review I wanted to give you an overview of the environment in which the Federation operates, highlighting some key issues for us and our members.

The Brexit process continues to generate a potentially unstable political environment. Although the ramifications of Grenfell are now somewhat clearer, they are still likely to impact on all of us for a long time. Against this background, it is encouraging that the commitment to solving the housing crisis has been maintained across the political spectrum.

The Federation played a major role in securing a new social rent settlement of CPI plus 1% for five years from April 2020. Allied to additional and more flexible government funding being made available via Homes England, our members should have additional financial resources to help achieve the massive boost required to housing supply.

Post Grenfell, it is clear there will be a much stronger focus on the protection and support of social housing tenants, as the recently published Social Housing Green Paper made clear. We have responded with a major initiative of our own, our Offer to Tenants, working closely with members. We were also pleased to have helped secure the recent commitment from the Government that funding for supported housing will continue to be provided via the benefits system.

The Federation's relationships with its members are generally excellent. In our latest member survey, the proportion of members satisfied or very satisfied with the Federation grew to more than 80%.

The Federation has continued to maintain a sound financial position, delivering modest financial surpluses in line with our Reserves Policy, whilst delivering significant, real reductions in the price of membership. For 2019/20, Federation affiliation fees will include a 2% increase in the price of membership, the first increase for five years, but still below the rate of inflation.

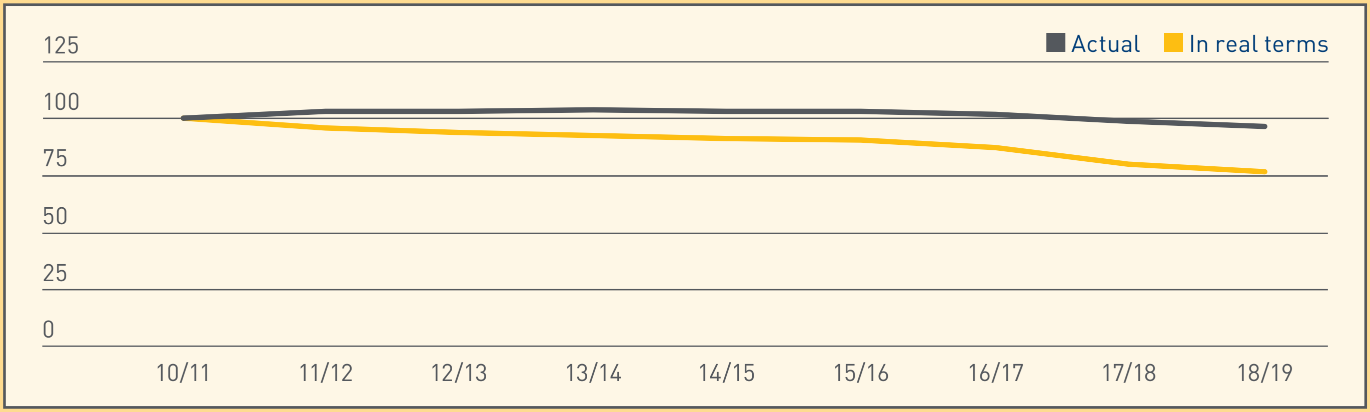
I continue to be very well supported by a high performing Board and hugely effective Federation staff. I thank them all including Cath Purdy and Mervyn Jones who step down from the Board this year and David Orr, who is leaving after 13 years as our very successful Chief Executive. I am delighted to welcome Kate Henderson as David's successor.

Baroness Diana Warwick
September 2018

2017/18 highlights

- No change in the price of Federation membership for 2018/19, following a 5% reduction over previous two years
- Affiliation fee for a typical member still 5% below 2011/12
- Cumulative 29% real terms price reduction in affiliation fees over eight years, equivalent to a total saving for members of £13.5m
- Underlying surplus in 2017/18 of £444k in line with financial objectives and reserves policy

Price of Federation membership (base = 100)



- Federation operational occupation reduced to one floor in main office at Lion Court, to achieve more flexible working and lease out an additional floor
- Temporary lower cash balance at year end due to delayed issue of fee invoices pending renewal of sector D&O insurance, now fully resolved

Key figures

Five year summary

	2017/18 £k	2016/17 £k	2015/16 £k	2014/15 £k	2013/14 £k
Underlying turnover	**13,286**	**13,976**	13,893	14,540	14,130
Change %	**-4.9%**	**0.6%**	-4.4%	2.9%	-1.8%
Underlying surplus	**444**	**456**	382	293	347
Reserves (per reserves policy)	**13,987**	**14,552**	11,071	8,473	
Net assets	**11,808**	**8,753**	6,561	5,810	
Net assets pre FRS 102				11,675	10,458
Net cash at year end	**1,070**	**3,015**	2,712	2,643	3,375

In accordance with its financial objectives and reserves policy, the Federation sets affiliation fees with the aim that members pay each year for the 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.

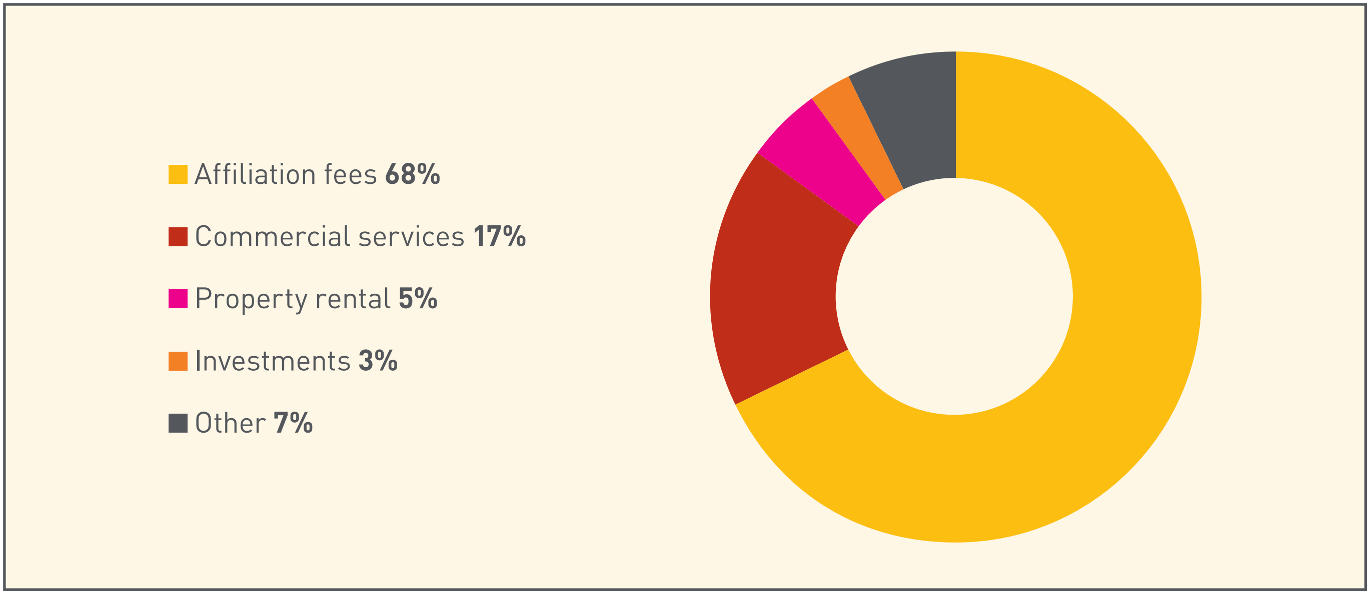
The underlying surplus for 2017/18 was £444k compared to £456k for the previous year. This was in line with our financial objectives and reserves policy.

Over the past few years, the underlying trend in income has been downwards as fee levels have been kept down. We have compensated for this by operating more efficiently, generating property rental income and reducing costs.

The Financial Statements for 2015/16 were prepared 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. Further details are provided in the Financial Statements, which include a reconciliation of the surplus reported in the Financial Statements (headline surplus) and the underlying surplus, the measure used in relation to our financial objectives and reserves policy.

Income

Net income 2017/18



Net income is the income available to cover overheads and comprises underlying turnover less direct variable costs.

Over two thirds of the Federation's income is derived from the annual affiliation fees paid by our members. These totalled £8.3m in 2017/18, 5% below the previous year, as a result of the 4% reduction in the price of membership, and merger activity amongst members.

The annual changes in affiliation fee income result from changes in the makeup of our membership and the level of fees charged. Virtually all English housing associations of any size are Federation members and there has been no significant change in this.

Fees are 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 per member increases. Under our fee charging structure, mergers normally result in a reduction in combined fees.

In return for their affiliation fees, members receive support from Federation staff across the country and a range of core services. The key services are policy work and representation, supported by an extensive programme of member events and communications.

Income from commercial services such as events is used to support the services we provide for members in return for their affiliation fees. The income generated is an important factor in our ability to keep down affiliation fees. Most commercial services are paid for at the point of delivery by both members and non-members, with members receiving a discounted rate.

Net income from commercial services, totalling £2.1m in 2017/18, was slightly up on the previous year. Within this our events net income was up by 4%, to its highest level for five years, a reflection of our programme to reshape and reinvigorate our events programme.

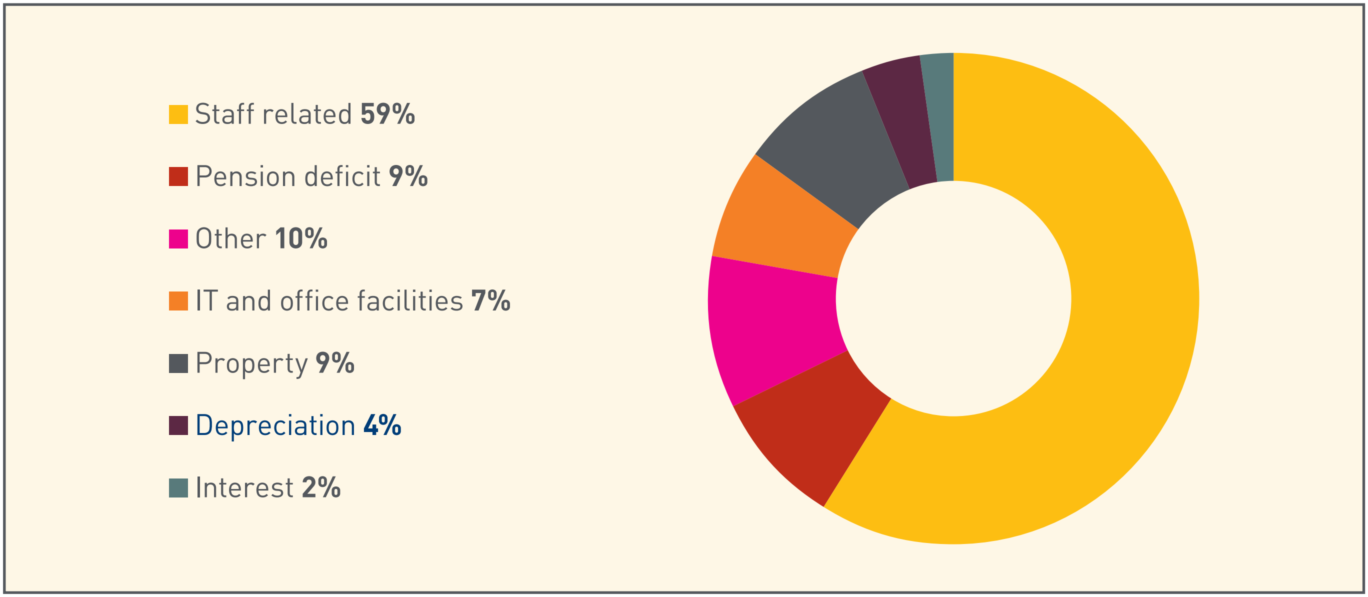
Property rental income was £0.7m, derived from letting out the floors in Lion Court not used for our own operational purposes.

£0.3m was received in income from our 50% joint venture investment in HouseMark, which provides benchmarking and procurement services to the sector.

The Federation received sundry income amounting to £0.9m in 2017/18, 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.

Costs

Overhead costs 2017/18



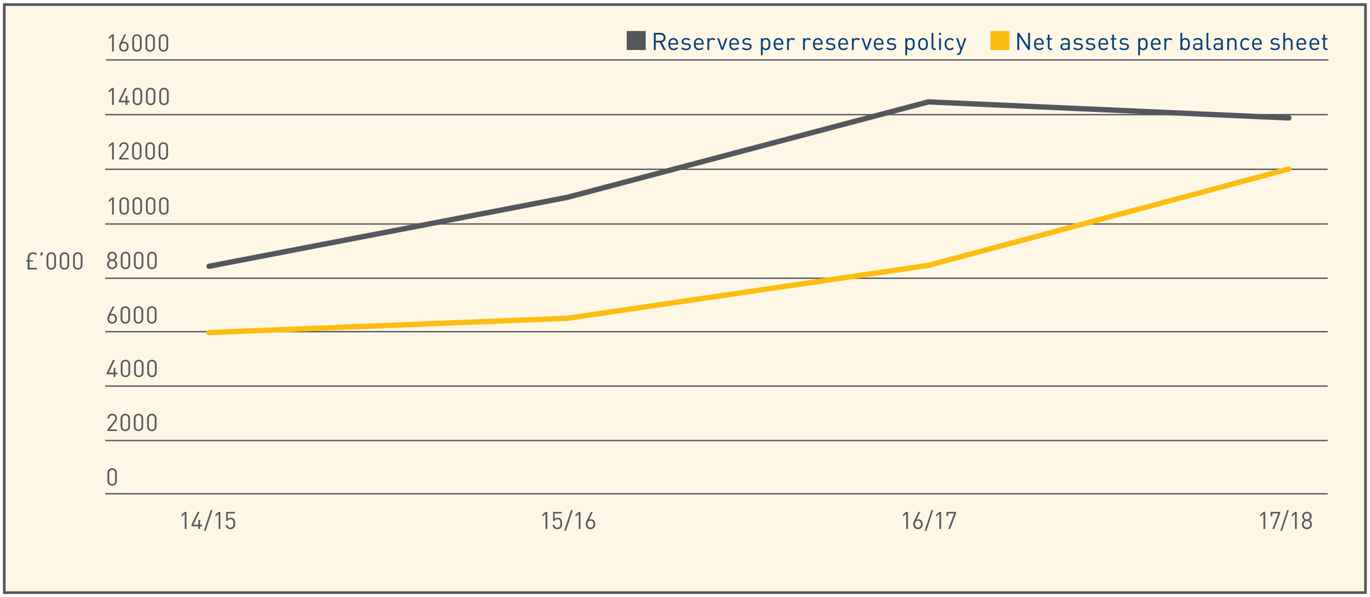
Costs consist of direct variable costs deducted in arriving at net income, and overheads. Overheads were 4% lower than the previous year on an underlying basis, reflecting the cost savings from our organisational restructure and introduction of more flexible working practices.

The largest proportion of our overhead costs relate to staff, which averaged 112 during 2017/18.

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

Balance sheet and cash flow

Reserve and net assets



At 31 March 2018 our main office, Lion Court in Holborn, London, was independently valued at £26.3m (a reduction of £1.5m). The proportion of Lion Court treated in the Financial Statements as investment property increased from 62% to 80% because we released another floor to rent out, so the combined effect on consolidated net assets shown in the Financial Statements was an increase of £2.7m.

The Federation's reserves policy 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 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 the Federation's own use.

Our cash flow was temporarily affected around the year end by a delay in issuing our 2018/19 affiliation fee invoices. The delay was whilst finalising the renewal terms for the Directors & Officers (D&O) insurance we procure for members. This was a result of a considerably more risk-aware environment following the tragic Grenfell fire. We did successfully renew the D&O cover and our cash position has subsequently returned to normal.

Housing SORP: 2018 update

An updated SORP (Statement of Recommended Practice) will be available in early September. The update reflects the relevant changes to FRS 102 as well as some other areas of clarification to the previous SORP, including:

- clarifying what is included and excluded from operating surplus
- removing the "undue cost and effort" exemption in valuing investment properties
- allowing an accounting policy choice to carry property rented to other group entities at either cost or fair value
- drawing attention to the requirement to include a net debt reconciliation as part of cash flow disclosures.

This SORP will be effective for periods beginning on or after 1 January 2019 although early adoption is permitted, provided all aspects are adopted.

Order at
www.housing.org.uk/publications

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