

Financial Review 2015



Introduction

This financial review is designed to explain in a straightforward way:

- how the Federation is performing in financial terms
- what our financial objectives are and whether they're being met, and
- what our financial drivers are.

This review is intended to be read alongside the Federation's full audited financial statements, and both are available on our website at www.housing.org.uk.

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

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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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2014/15 highlights

- £293k surplus, equivalent to 2.0% of turnover, in line with finance objectives and reserves policy
- Surplus slightly reduced from previous year following major resource commitment to Homes for Britain campaign
- Further 3% real terms price reduction in affiliation fees
- 17% real terms price reduction in affiliation fees over five years, equivalent to a total saving for members of £4.5m
- Further fee reductions now announced for 2016/17 and future years
- Commercial contribution up 21% on previous year
- Strong cash position despite financing major project to replace CRM (Customer Relationship Management) system

Key figures – Five-year summary

	2014/15 £k	2013/14 £k	2012/13 £k	2011/12 £k	2010/11 £k
Turnover	14,540	14,130	14,382	14,563	14,246
Change %	2.9%	-1.8%	-1.2%	2.2%	0.4%
Operating profit	568	754	964	1,019	36
Surplus	293	347	525	521	-526
Surplus excluding exceptionals	293	347	325	231	20
Net cash at year end	2,643	3,375	4,412	2,324	2,646

The Federation had another successful year in 2014/15, making a surplus of £293k, equivalent to 2.0% of turnover.

The surplus was slightly reduced from the previous year reflecting the significant resources committed to the Homes for Britain campaign and activity associated with the May 2015 General Election.

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

efficiently, we usually make a small surplus, which unless specifically decided otherwise by the Board, is added to reserves.

Over the past five years turnover has been static as the price of Federation membership has remained virtually unchanged. The increase in turnover in 2014/15 reflected a strong performance on commercial activities, higher VAT recovery and service charge income.

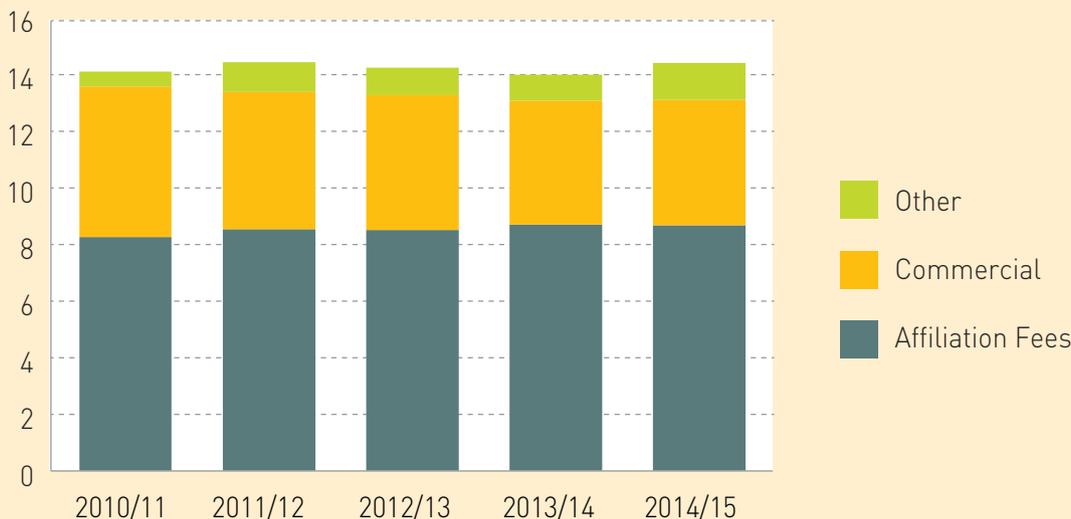
At the end of the year the Federation had cash of £2.6m

primarily from members paying their 2015/16 affiliation fees prior to 1 April and we are again grateful to members for paying their fees so promptly.

Cash balances were down from the previous year, reflecting expenditure during the year on the major project replacing our CRM (Customer Relationship Management) system. We still avoided dipping into our overdraft facility at the seasonal low point in our cash flow in February.

Income

Gross income (£m)



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 2014/15.

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

Over the past five years total income has remained around

the same level as the price of Federation membership has remained virtually unchanged.

The Federation received sundry income amounting to £1.3 m in 2014/15, £0.3m above the previous year. This included a higher VAT recovery reflecting expenditure on Homes for Britain and service charge income relating to space rented out at our London office, Lion Court.

The other main element of this

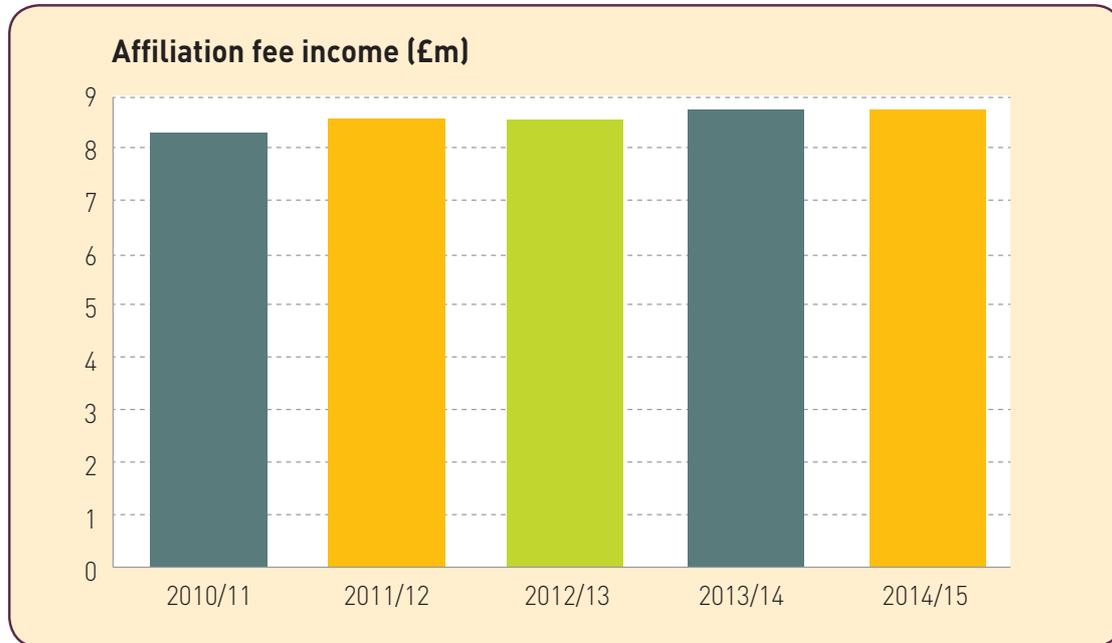
income is grant income, usually from government. The related services are only provided if the income covers the costs of provision.

Typically members receive free grant funded services. They comprise projects ancillary to the Federation's core activities in areas such as employment, the environment and health care.

Membership and affiliation 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, lobbying and communication.

Fee income over the past five years is as follows.



The annual changes in affiliation fee income result from changes in the make-up of Federation membership and the level of fees charged. Fee income in 2014/15 was almost the same as the previous year with the negative effect of member mergers offset by new members.

Virtually all English housing

associations of any size are Federation members.

Up until 2009/10 Federation affiliation fees were linked to the formula applied to the social rents charged by housing associations which meant fees increased by 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.

Commercial services

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

2014/15 was highly successful for income-generating activities with the most significant area, the Federation's conference, exhibition and awards business,

providing about 70% of commercial revenue.

The commercial portfolio also contains a range of high quality publications. Publishing activities produced a number of best-selling new titles, primarily based around finance. The Federation's commercial range of tailored support services, covering areas such as recruitment, insurance, IT and energy, also performed well, particularly the two tenant-facing My Home products,

which generated record levels of support.

Finally HouseMark, which is jointly owned by the Federation and the Chartered Institute of Housing, received a positive reception for its repositioning as a supplier of business intelligence, part of its five-year vision.

A summary of key figures for our commercial activities is as follows.

Commercial activities	2014/15 £k	2013/14 £k	2012/13 £k	2011/12 £k	2010/11 £k
Gross income	4,483	4,412	4,806	4,889	5,395
Net income	3,091	2,695	2,920	2,914	2,997
Contribution to overheads	2,180	1,800	1,930	1,805	1,857

In 2014/15 commercial services made a contribution to general overheads of £2.2m after taking account of all specifically related costs. This was £0.4m, 21% up on the previous year – the best result since 2008/09 – reflecting a strong performance by conferences and the improved return from better use of our main office building, Lion Court in London.

Expenditure



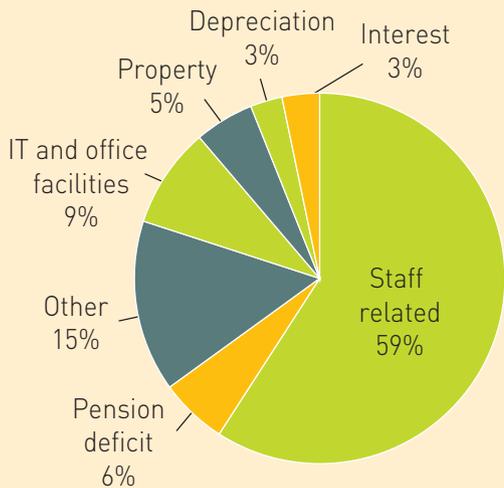
In 2014/15 the Federation's costs totalled £14.3m, including interest and excluding HouseMark. This was 3.4% up on the previous year, reflecting expenditure on the Homes for Britain campaign.

£1.7m were direct costs mainly associated with commercial activities which generate a profit. These included such items as hiring space for our own conferences and production costs for publications. Net interest costs were a further £0.27m, £0.13m

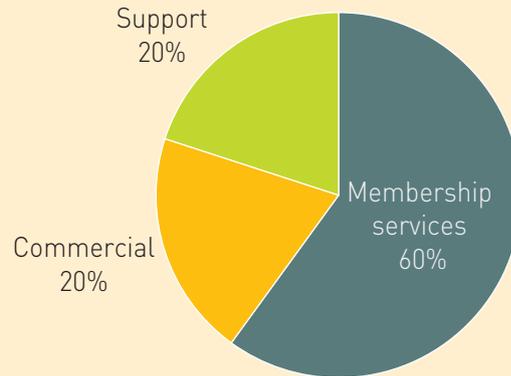
down on the previous year after reverting from fixed rate to base rate-related on a £4m loan. The balance of £12.3m relates to indirect or overhead costs.

Overhead costs have been controlled so that the Federation has made small surpluses as outlined above in line with its financial objectives.

Overhead costs breakdown



Staff breakdown



The largest proportion of our overhead costs relate to staff. Other costs, primarily bought in services such as media, were higher in 2014/15, reflecting the Homes for Britain campaign.

The Federation employs around 125 staff, slightly reduced from the previous year. Around 60% of staff are directly delivering membership services; the remainder are generating commercial income and providing support services.

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.

From 1 April 2013 the Federation's pension deficit recovery costs increased by over £300k (78%) to over £700k pa. There will be a further increase from 1 April 2016 of over £250k, following the results of the triennial valuation at 30 September 2014.

The Federation fully closed its defined benefit pension schemes from 1 May 2014, offering staff an improved defined contribution scheme. Whilst 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

The Federation had already guaranteed to limit the price increase applied to fees until March 2016 to no more than RPI minus 3%, with a zero increase floor.

We are now making a further commitment to reduce fees for 2016/17 and subsequent years.

In 2015/16 the Federation will report its results for the first time under Financial Reporting Statement 102 (FRS 102). Amongst other changes in presentation, this will require us to bring 'on balance sheet' the Federation's contractual liability to fund the recovery of historic pension deficits which, under existing UK GAAP, have been charged to the Profit and Loss Account

each year. Comparative 2014/15 results will be restated, as will the opening position at 1 April 2014.

There will continue to be a significant combined impact on the Federation's financial reporting in relation to property, pensions and FRS 102. The Federation's underlying financial position, business plan and operating model remain unaffected. Further careful communication of the changes will be provided to members at our September 2016 AGM.

We recognise further cost control and efficiencies as key elements in our continued drive to provide even greater added value for members.

The major cost outside our direct control is the pension deficit recovery payments we make to the Social Housing Pension Scheme (SHPS). We now know there will be a significant increase of over £250k pa from 1 April 2016 following the results of the triennial valuation at 30 September 2014. The results of the next triennial valuation will impact from 1 April 2019.

We will be further assessing our risk appetite for new commercial services to see if they can provide even more support for our membership services activities.

We will continue to improve the financial information available to members.

The National Housing Federation is the voice of affordable housing in England. We believe that everyone should have the home they need at a price they can afford.

That's why we represent the work of housing associations and campaign for better housing. Our members provide two and a half million homes for more than five million people. And each year they invest in a diverse range of neighbourhood projects that help create strong, vibrant communities.

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