

Financial Review 2019



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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
- 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.

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

Our website also provides a wide range of 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 this 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 would like to give you an overview of the environment in which the Federation operates, and highlight some key issues for us and our members.

We have designed our new three-year strategy to reflect this environment and to give our members the space to thrive and deliver on their social purpose. It is shaped around three strands – quality, trust and delivery. This focus will allow us to support our members' vision to build and maintain the highest standard of homes, provide excellent service to their customers, and create great places to live.

Following the Hackitt Review we will continue to work with our members to secure systemic change in building safety, ensuring that their reputation for providing the highest possible quality and standards is protected and galvanised.

The Federation is continuing to develop trusting relationships with local leaders, and with the most important people of all: the tenants and residents of our homes. Through our Together with Tenants work we are supporting better, more transparent engagement and accountability with tenants and residents, providing the platform for housing associations and residents to engage more strongly.

Brexit has continued to dominate the political and economic landscape, creating an uncertain market, while the affordability crisis continues to grow, pushing more people into poverty, and homelessness is rising. Yet despite the challenges

of the housing market, as well as other barriers like expensive land, our members have continued show themselves as central partners in building and investing in homes. The figures from our supply survey have shown that housing associations built 12.7% more homes in 2018 than the previous year, and the flexible funding from Homes England's Strategic Partnerships programme has provided additional resource to fund development programmes.

In 2018/19, the Federation made an underlying surplus of £288k compared to £444k in the previous year, continuing to deliver modest financial surpluses in line with our Reserves policy. However, as a consequence of the change to the accounting treatment of pensions, net assets under FRS 102 have reduced from £11.8m to £2.3m and we will be seeking ways to improve the reserves position over the next few years.

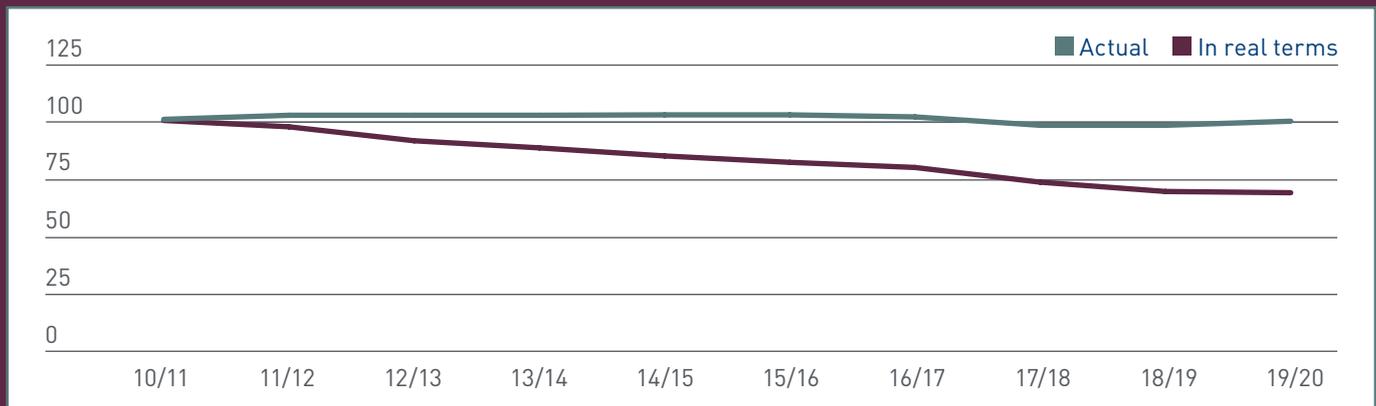
I continue to be well supported by a high performing Board and hugely effective Federation staff including our new Chief Executive Kate Henderson, who joined the Federation last year. I thank them all including David Montague who steps down from the Board this year.

Baroness Diana Warwick
July 2019

Highlights

- Underlying surplus in 2018/19 of £288k in line with financial objectives and reserves policy.
- Small increase in overall income, but an underlying downward trend – fee income has reduced on average 8.4% since 2016.
- At the main office in Lion Court, London, staff now occupy one floor, with the additional floor being let on a 10-year commercial lease, securing a financial benefit of £370k per year.
- As part of an efficiency drive, administrative expenses were 2% lower than the previous year on an underlying basis. This was achieved through cost savings from an organisational restructure, and the introduction of more flexible working practices.
- 2% increase in the price of membership for 2019/20, following a 5% reduction over previous three years.
- Income from membership fees 2% below the previous year due to net changes in membership and merger activity.
- Cumulative 29% real terms price reduction in affiliation fees over nine years, equivalent to a total saving for members of £16.9m.
- Affiliation fee for a typical member still 3% below 2011/12.

Price of Federation membership (base = 100)



Key figures

Five year summary

	2018/19 £k	2017/18 £k	2016/17 £k	2015/16* £k	2014/15* £k
Underlying turnover	13,448	13,286	13,976	13,893	14,540
Change %	1.2%	-4.9%	0.6%	-4.4%	2.9%
Underlying surplus	288	444	456	382	293
Net assets	2,225	11,808	8,753	6,561	5,810
Net assets pre FRS 102					11,675
Net cash at year end	1,629	1,070	3,015	2,712	2,643

*The Financial Statements for 2015/16 were prepared under Financial Reporting Statement 102 (FRS 102) and comparative figures for 2014/15 were restated.

In accordance with its financial objectives and reserves policy, the Federation sets fees that members pay annually in return for high-quality services. 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.

There was a small increase in income this year, however the underlying trend in income has been downwards as membership fees have been kept

down. We have compensated for this by operating more efficiently, generating property rental income and reducing costs.

For the first time it is now possible to obtain sufficient information to account for the pension scheme as a defined benefit scheme resulting in the full net benefit liability being included in the balance sheet. The effect of this change is a charge against comprehensive income of £8m and a corresponding reduction in net assets. This, together with the reduction in the unrealised property revaluation, has reduced net assets from £11.8m to £2.3m. On a day-to-day basis, this has

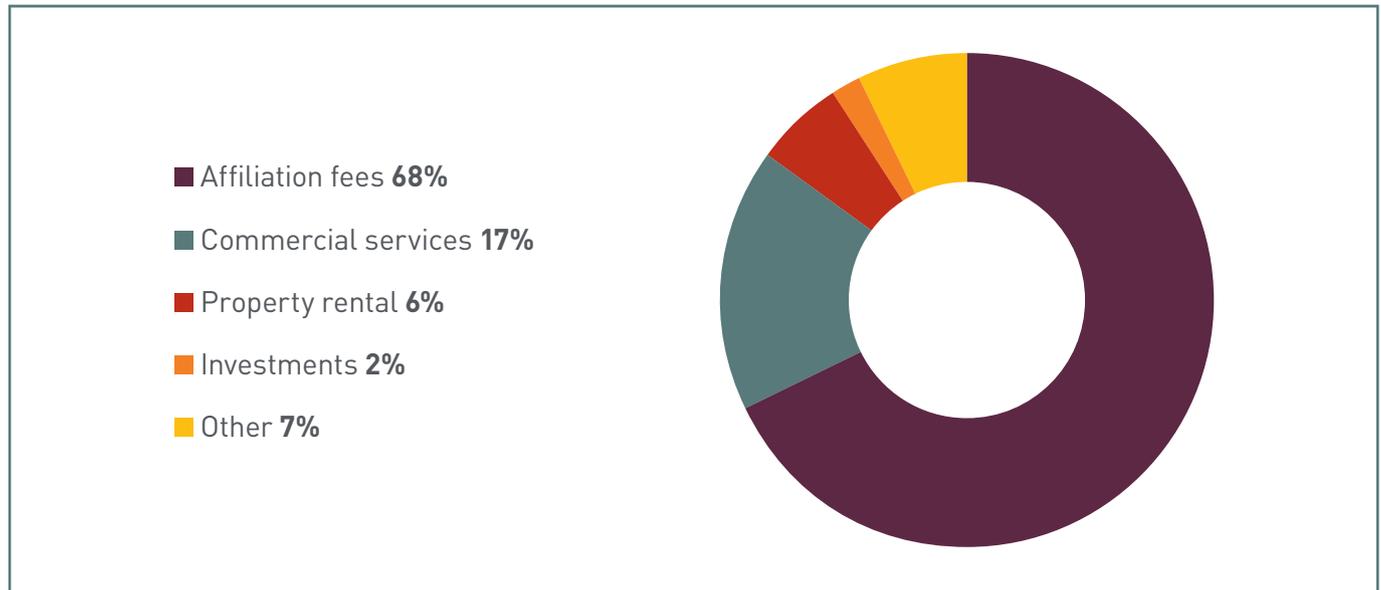
little impact on the Federation's finances, as the debt will not be realised in the foreseeable future. The only direct consequences are the agreed pension deficit payments, which are accounted for within normal trading of the business and reflected in the underlying results.

Further details are provided in our full Financial Statements, available on our website, 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 2018/19



In return for their fees, members across the country receive support from the Federation and a range of core services including our influencing, campaigning and policy work.

Over two thirds of the Federation's income comes from annual affiliation fees. These totalled £8.1m in 2018/19, 2% below the previous year because of net changes in membership and merger activity.

These net changes are due to changes in the makeup of our membership. Because our fees are based on banded charges linked to the

number of housing units owned and managed by each member – with the charge per band reducing as the overall number of housing units increases – mergers normally result in a reduction in combined fees.

Approximately 99% of English housing associations are Federation members, and there has been no significant change in this.

Income – from other sources

Income from commercial services is used to support the services we provide for members in return for their 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.

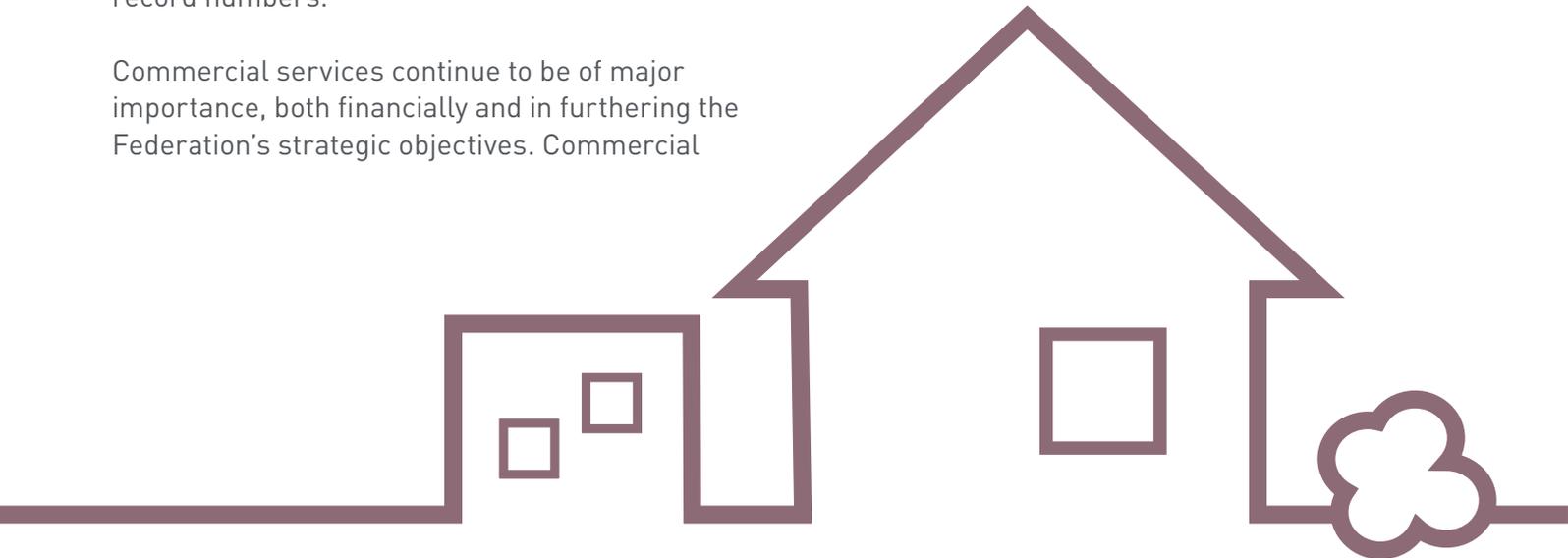
Net income from commercial services fell slightly but contributed £3.01m (compared to £3.12m in 2017/18). This reflects the more difficult financial environment we are operating in, and also the repositioning and refresh of our events programme. However, this repositioning will provide a strong foundation for future years – for example, after we repositioned our Finance Conference & Exhibition a few years ago, it initially dropped in income but has since gone on to sell in record numbers.

Commercial services continue to be of major importance, both financially and in furthering the Federation’s strategic objectives. Commercial

income enables us to provide greater value for money for our membership fees.

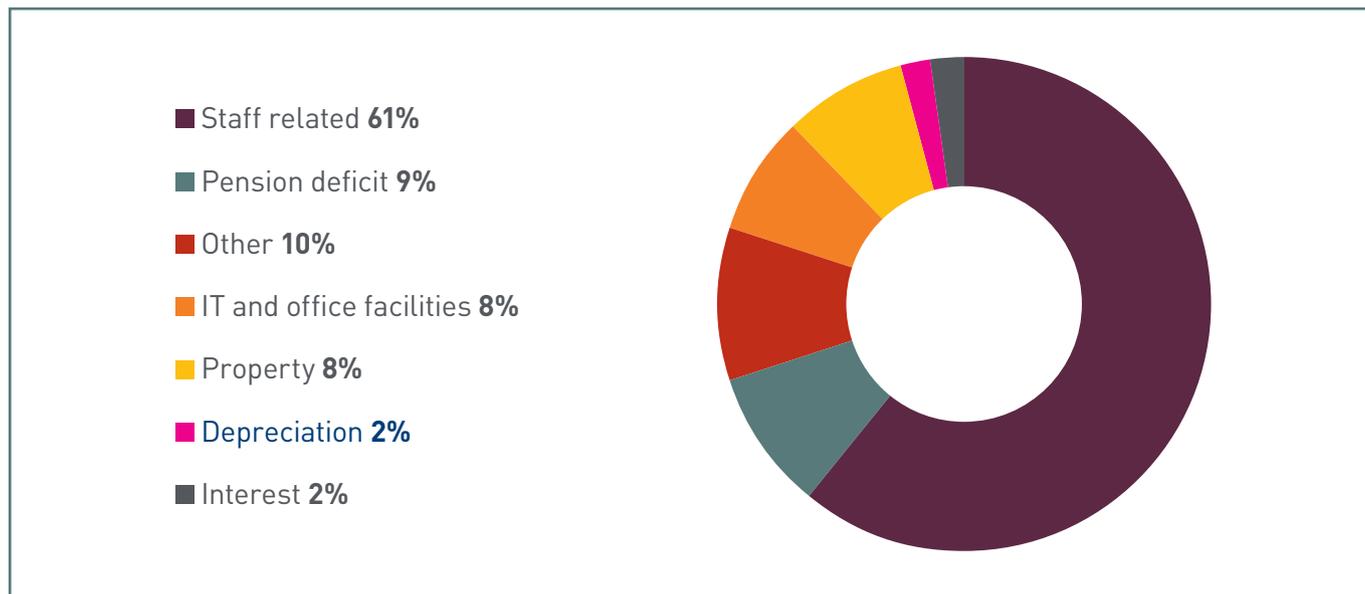
Property rental income was £0.7m, derived from letting out the floors in Lion Court that are not used for our own operational purposes. £0.2m was received in income from our 50% joint venture investment in HouseMark, which provides benchmarking, procurement and consultancy services to the sector.

The Federation received sundry income amounting to £0.8m in 2018/19. 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.



Expenditure

Overhead costs breakdown



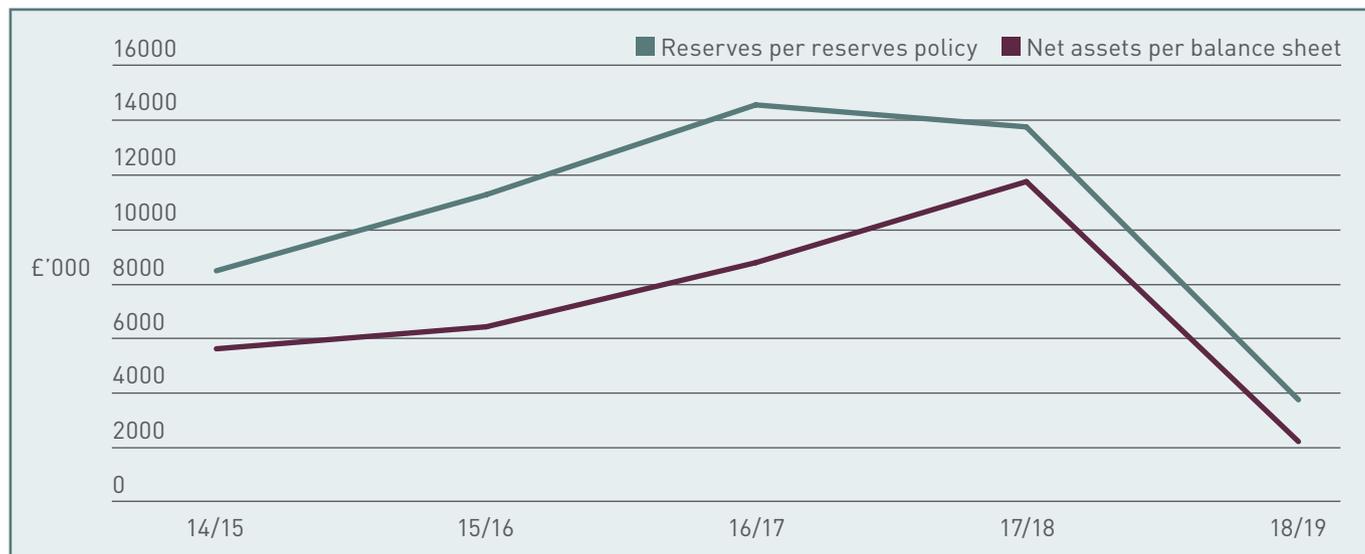
Administrative expenses were 2% lower than the previous year on an underlying basis, reflecting the cost savings from an organisational restructure and the introduction of more flexible working practices.

The largest proportion of our overhead costs relate to staff, which averaged 113 people during 2018/19.

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 reserves

Group reserves and net assets



At 31 March 2019 our main office, Lion Court in Holborn, London was independently valued at £23.4m (a reduction of £2.9m).

The Federation's reserves policy states that the Federation should 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 long term.

Because of the changes in accounting treatment of the SHPS pension deficit (see Key figures section above), reserves have reduced to a value

that would only cover three to four months' operating expenditure.

Given that the accounting change is in respect of a long-term liability, and the deficit payments in relation to this liability are accounted for within normal cashflows, the Board has concluded that the reserves are adequate. However, action will need to be taken to improve this ratio where possible.

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.

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