

Financial Review 2014



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.

The 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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2013/14 highlights

- £347k surplus, equivalent to 2.5% of turnover, despite £300k increase in pension deficit recovery costs
- Further 3% real terms price reduction in affiliation fees
- 15% real terms price reduction in affiliation fees over four years, equivalent to a total saving for members of £3.2m
- Continuing commitment to further reduce fees in real terms through to 2016
- Better utilisation of our London office to generate over £700k p.a. future additional income, whilst maintaining an effective base for our core policy, lobbying and communication work
- No increase in overhead costs and 3% reduction over the past four years
- Strong cash position

Key figures – Five-year summary

	2013/14 £k	2012/13 £k	2011/12 £k	2010/11 £k	2009/10 £k
Turnover	14,130	14,382	14,563	14,246	14,195
Change %	-1.8%	-1.2%	2.2%	0.4%	-1.3%
Operating profit	754	964	1,019	36	1,356
Surplus	347	525	521	-526	810
Surplus excluding exceptionals	347	325	231	20	810
Net cash at year end	3,375	4,412	2,324	2,646	3,606

The Federation had another successful year in 2013/14, making a surplus of £347k equivalent to 2.5% of turnover.

The previous year's result included an exceptional gain from a successful VAT reclaim. On a comparable basis 2013/14's surplus was £22k (6.8%) higher than the previous year.

We set 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.

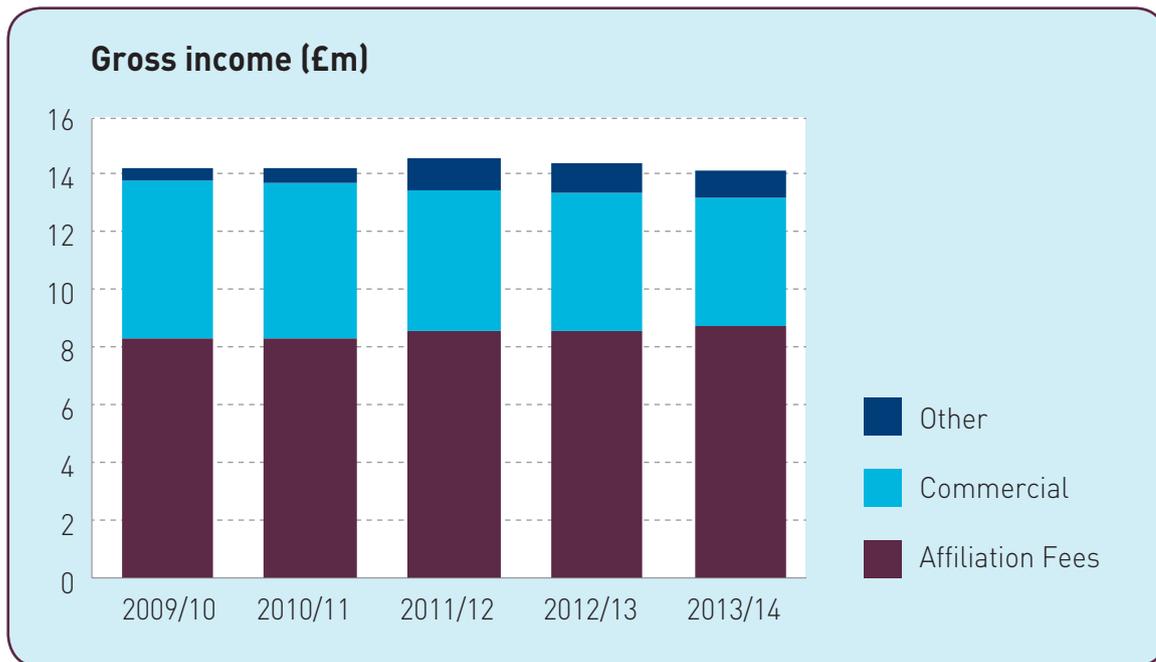
Over the past five years turnover has been static as we have restricted increases in fees.

At the end of the year the Federation had cash of £3.4m primarily from members paying their 2014/15 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 implementation of our property strategy, but we still avoided dipping into our overdraft facility at the seasonal low point in our cash flow in February.

Income



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 2013/14.

Apart from member affiliation fees, the bulk of the Federation's income comes from our commercial services. This totalled £4.4m in 2013/14.

Over the past five years total

income has remained around the same level as fees have reduced in real terms and the economic environment has been difficult for commercial services.

The Federation received other income amounting to £0.9m in 2013/14, slightly down on the previous year.

The key elements of this income are grant income, usually from

government, and cost recoveries. 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 a range of core services. The key services are policy work, lobbying, and media and campaign work. 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. Since 1 April 2012 fees have been based on the number of housing units owned and managed by each member.

Currently virtually all English

housing associations are Federation members including some that have joined after changing from ALMOs into housing associations.

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%. Since 2010/11 the Federation has held down fees as part of its drive to deliver added value to members. The price increase applied to fees has been just over 2% in total over four years, representing a real terms reduction of nearly 15%, a total saving for members of £3.2m.

Commercial services

Commercial services provide valuable support to members and play an important role in the Federation's lobbying and campaigning. These are paid for at the point of delivery by both members and non-members, with members usually paying a reduced rate.

The most significant commercial activity is running conferences and exhibitions, which provides

about 60% of commercial income. We also sell publications, and generate commission from:

- business partners, such as Guardian Jobs and our financial inclusion products My Home Contents Insurance and My Home Energy Switch
- subscribers (who receive promotional packages from the Federation)

- HouseMark, which is 49% owned by the Federation.

Our partners, subscribers and HouseMark provide a variety of leading business support services to members and other organisations working in the housing sector.

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

	2013/14 £k	2012/13 £k	2011/12 £k	2010/11 £k	2009/10 £k
Gross income	4,412	4,806	4,889	5,395	5,465
Net income	2,695	2,920	2,914	2,997	2,967
Contribution to overheads	1,800	1,930	1,805	1,857	1,747

Around one third of the Federation's income comes from commercial services.

Economic conditions have been difficult over recent years for commercial services. Income has fallen as a consequence, although at a lesser rate than that experienced by many direct competitors. Through effective management and cost control, contribution has been sustained and held up well.

In 2013/14 commercial services made a contribution to general overheads of £1.8m after taking account of all specifically related costs. This was slightly down on the previous year as we changed how we use our main office building, Lion Court in London. We terminated the contract to run our conference centre and now rent out over 60% of the building, taking advantage of the strong London commercial property market.

Expenditure



In 2013/14 the Federation's costs totalled £13.8m, including interest and excluding HouseMark. These were marginally lower than the previous year, and down by 3% over four years.

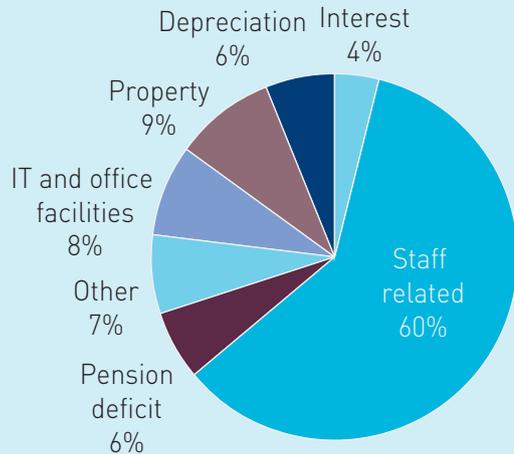
£2.2m were direct costs mainly associated with generating commercial income. These included such items as hiring space for our own conferences, production costs for publications and, until February 2014, contractor costs for running the conference

centre at our main office, Lion Court in London. Net interest costs were a further £0.4m and the balance of £11.2m related 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.

The largest proportion of our overhead costs relate to staff.

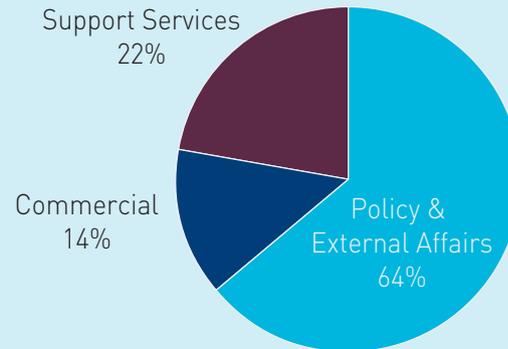
Overhead costs breakdown



The Federation employs around 130 staff. Nearly 65% of staff costs relate to staff directly delivering membership services; the balance relates to staff 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 our membership of the Social Housing Pension Scheme (SHPS) and pension liabilities built up in the past.

Staff costs



In 2013/14 the Federation's pension deficit recovery costs increased by over £300k (78%) to over £700k.

During the year the Federation moved towards fully closing its defined benefit pension schemes (effective 1 May 2014) and 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 future

The Federation has already guaranteed through to March 2016 to limit the price increase applied to fees to no more than RPI minus 3%. Before that we will be reviewing our longer term financial plans and talking with members in plenty of time about our approach to setting affiliation fees from 2016/17.

As a result of the changes in the way our property assets are categorised, and when we apply the new financial

reporting standard FRS 102, our reported surpluses may become more variable and will need careful explanation and communication.

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).

This may change from April 2016 in light of the triennial valuation due at 30 September 2014.

We will be further assessing our risk appetite to 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.

National Housing Federation

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