

# HDN – 2021/2022 Board Excellence Programme

## 17 February 2022



### **Financial Assurance (Part One)**

- What board members need to know and how to seek assurance about Financial Performance

Jason Ridley

- Director of Finance & IT, Leeds Federated Housing Association
- Chair of Audit, North Star Housing Group.
- Trustee, Coaching Inside and Out

# Outline of session

17:05 - 18:40

- 17:05 - Jason will present:
  - Understanding Financial Performance
  - Setting financial targets,
  - Board sources of assurance
  - Questions to ask in your own organisation.
- 18:00 - Break
- 18:15 - review own financial reports
- 18:25 - Q&A
- 18:40 - Finish

1.25	58	8.25	3.25	4.8	3	6.05	70.25	14.38
9	3	30	29.8	12.18	17.98	19.38	129.85	34.42
100	18.44	20.77	5.88	3.98	0.4	1	0	11.2
8	3	1.6	4			8.5	11	6.5
1.13	0	0.5	0	5.37	0	0	0	11.5
1.18	2.7	83.32	2.38	0.8	1.21		27.06	2.24
183	3964.0	3964.76	1106.71	13945.75	14321.18	1757.58	19158.89	32134.68
156	142.09	211.18	54.81	818.81	223.71	15.01	139.96	299.93
Apr	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
86	13359.77	14216.78	1494.89	12862.21	12623.31	14686.73	213.05	12941.56
57	826.91	1232.48	1048.9	2152.52	1130.18	2180.66	2100	1838.81
89	2990.29	3408.59	445.21	3808	2856.12	3779.39	125.32	3033.2
51	340.89	446.02	481.75	443.8	443.92	808	74.59	686.86
21	8953.88	8323.28	128.78	5788.81	4654.11	6488.38	9883.8	6088.4
18	1878.68	1856.26	78.12	1814.77	1880.85	1298.63	168.45	2483.94
87	811.7	880.27	1.39	1703.9	847.94	1067.82	1183.01	1137.32
45	482.48	581	8.33	813.79	856.00	645.35	548	582.68
35	418.47	380.89	39.77	811.78	811.78	325.71	367.68	373.65
8.8	87.72	80.0	4.8	87.88	88.88	71	65.28	56.68
08	1.24	0.99	4.8	17.88	1.88	1.71	1.3	0.71
35	1	0.75	0.75	0.75	3.70	1.3	0	2.5
14	186.88	213.82	14	186.88	186.88	110.8	794.08	738.56
24	173.81	308	2.03	180.81	218.88	133.71	118.41	121.48
8.2	0.2	0.2	14.44	8	20.7	0.18	0	7.47
35	30.8		18.58	24.4	30.15	38.35	45.7	28.85
2.3	20.33		15.4	15.93	29.38	18.98	44.62	88.48
86	1		1.28	8.82	1.72	16.5	238.58	235.48

Financial Performance?



"Annual income twenty pounds, annual expenditure nineteen [pounds] nineteen [shillings] and six [pence], result happiness.

Annual income twenty pounds, annual expenditure twenty pounds ought and six, result misery."

- Charles Dickens

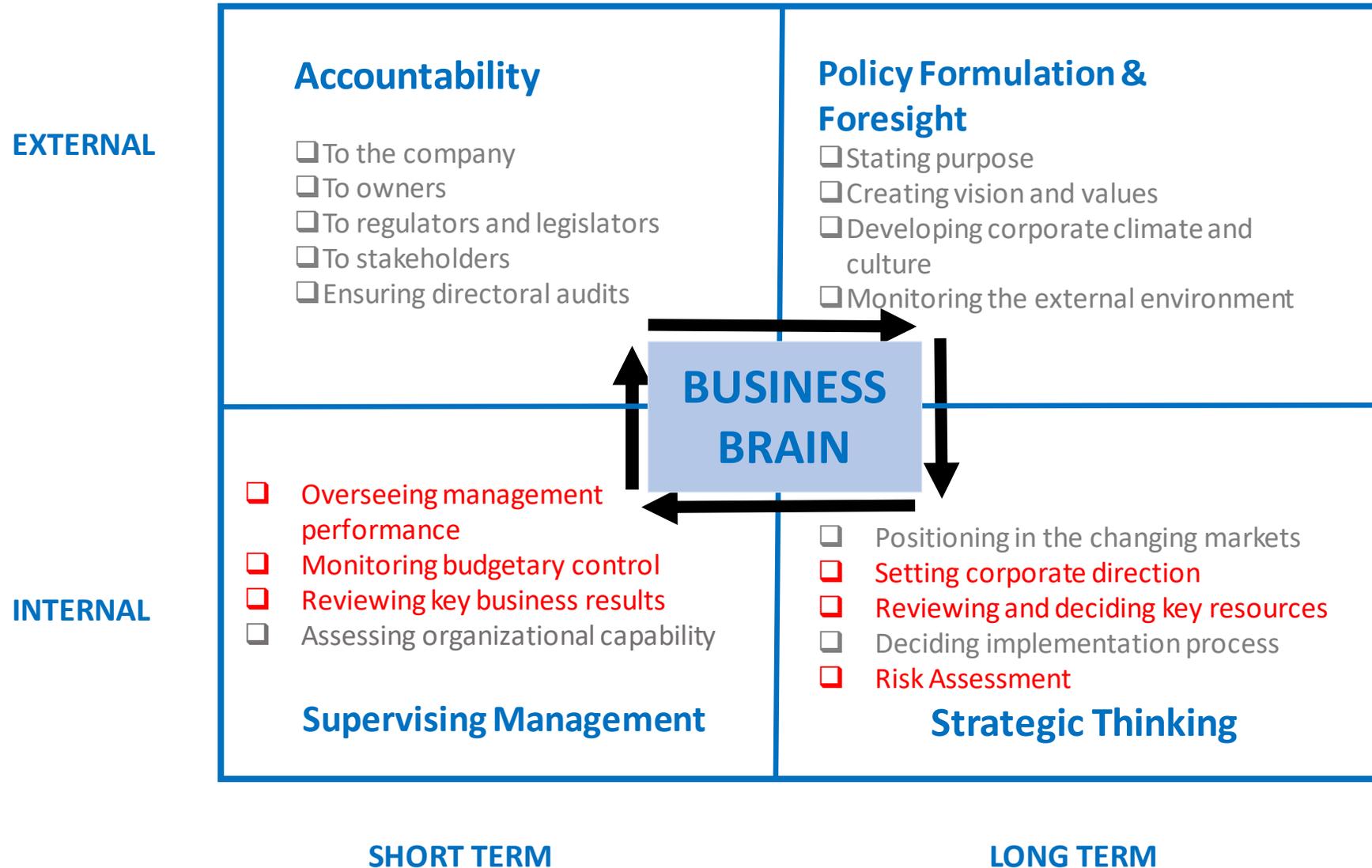




# Regulator of Social Housing

“Registered providers shall manage their resources effectively to ensure their viability is maintained while ensuring that social housing assets are not put at undue risk” (Governance & Viability Standard)

# The Learning Board — from “The Fish Rots from the Head” by Bob Garratt



# The Learning Board

## “STRATEGIC THINKING”

- Board has ultimate responsibility for the organisation’s strategy
- **Setting Corporate Direction**: Strategic thinking includes SWOT, value chain analysis, Scenario planning, strategic implications, develop strategies
- **Reviewing and Deciding Key Resources**: Finance relevant when looking at resource allocation which leads to detailed planning by management and ensuring feedback on progress via “SUPERVISING MANAGEMENT”
- **Risk Assessment** - Management of Financial risk (setting appetite, testing, controls, mitigation plans)

# The Learning Board

## ‘SUPERVISING MANAGEMENT’

- Overseeing Management Performance
- Monitoring Budgetary Control
- Reviewing Key Business Results
  - Monitoring key performance indicators
  - Financial Performance (relationships, trends, projections)
    - Profitability (surplus, efficiency)
    - Cash flow (lifeblood to support operations)
    - Balance sheet (test of value being added and financial strength)
  - Ratios and trendlines (e.g. margin, rent arrears, interest cover)



"We've gone from being in the red, to black, to taupe.  
Accounting is looking into it."

## Supervising Management

# The Learning Board



## Supervising Management

Focus on the most important information, if not sure what is important...ask!

Be clear on what 'good' looks like – targets/benchmark/direction of travel

Information should be presented so that it can be understood – plain English commentary that supports tables/graphs

Triangulate information



## Good questions to ask

Why are the targets appropriate?

What is the information telling us?

What actions are being recommended by management in response to performance?

Will the measures and targets support the strategic objectives?

Is anything missing?

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**“Our books are balanced. 50% of our numbers are real and 50% are made up.”**

## Finance Fundamentals

# Finance fundamentals

- **Statement of Comprehensive Income**
- Statement of Financial Position
- Cash flow
- Budgets & Business Plans
- Management Accounts
- Financial Statements & Financial Reporting
- Key performance measures including VFM

## Group Statement of Comprehensive Income and Retained Earnings

2017

2016

£'000

£'000

Turnover

6,163

6,233

Operating costs

(4,224)

(4,468)

1,939

1,765

Surplus on sale of housing properties

349

100

Interest receivable

7

7

Interest payable

(778)

(786)

Increase in valuation of investment properties

149

37

Surplus before tax

1,666

1,123

Revenue reserves brought forward

18,468

17,345

Revenue reserves carried forward

20,134

18,468

# Finance fundamentals

- Statement of Comprehensive Income
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$$\text{ASSETS} = \text{LIABILITIES} + \text{OWNER'S EQUITY}$$

## BALANCE SHEET

### ASSETS

\*GOODS AND RESOURCES OWNED BY THE COMPANY

### LIABILITIES

\*DEBTS OF THE COMPANY

### OWNER'S EQUITY

\*CONTRIBUTION OF OWNERS AND PAST EARNINGS

TOTAL ASSETS:

TOTAL LIABILITIES AND OWNER'S EQUITY:

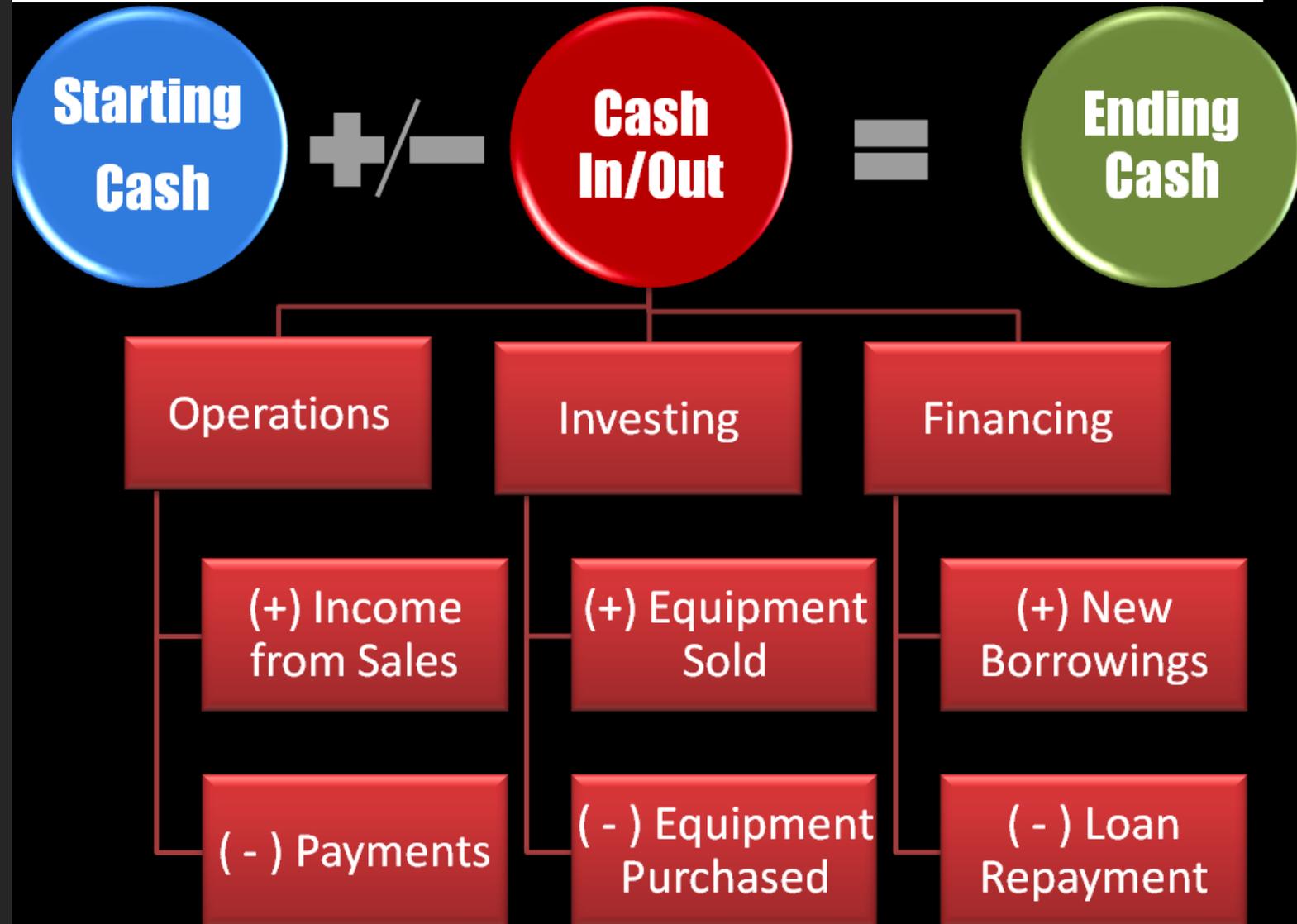
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<b>Group Statement of Financial Position</b>	<b>2017</b>	<b>2016</b>
	£'000	£'000
Fixed Assets		
Tangible assets	<b>52,690</b>	<b>52,435</b>
Investment properties	<b>2,591</b>	<b>2,639</b>
Other fixed assets	<b>86</b>	<b>9</b>
	<b>55,367</b>	<b>55,083</b>
Current assets	<b>3,112</b>	<b>2,518</b>
Less creditors due within one year	<b>(1,607)</b>	<b>(1,818)</b>
	<b>1,505</b>	<b>700</b>
Creditors due after more than one year	<b>(36,738)</b>	<b>(37,315)</b>
	<b>20,134</b>	<b>18,468</b>
Revenue reserves	<b>20,134</b>	<b>18,468</b>
	<b>20,134</b>	<b>18,468</b>

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# Cash Flow Statement



Cash Flow

<b>Projected Liquidity Position</b>	<b>Actual</b>	<b>Qtr 1</b>	<b>Qtr 2</b>	<b>Qtr 3</b>	<b>Qtr 4</b>
	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
	£k	£k	£k	£k	£k
<b>Operating Cashflow</b>					
<b>Capital Improvements</b>	0	(1,045)	(701)	(701)	(700)
<b>Core Business Cashflow</b>	(504)	972	(3)	1,929	(284)
<b>Development Spend</b>	(3,902)	(5,058)	(7,556)	(5,095)	(2,449)
<b>Development Grant</b>	1,181	262	729	210	332
<b>Property Sales</b>	1,989	1,128	990	546	2437
<b>Total Company Cashflow</b>	(1,236)	(3,741)	(6,541)	(3,111)	(664)
<b>Loan Drawdown</b>	0	5,000	6,750	4,000	1,000
<b>Add loan Repayments</b>	(887)	(407)	(911)	(419)	(935)
<b>Total Cash requirement</b>	(2,123)	852	(702)	470	(599)
<b>Liquidity Projections</b>					
<b>Opening Cash</b>	2,690	567	1,419	717	1,187
<b>Closing Cash</b>	567	1,419	717	1,187	588
<b>Undrawn funding facilities</b>	19,750	14,750	8,000	4,000	3000

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# Planning Process



# Finance fundamentals

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WE'RE MUIR  
Report 2018-19

# Annual Report

Annual Report

£ £20.5m  
NET SURPLUS

★ ★ ★ A3  
CREDIT RATING

1  
THE FASTEST GROWING  
HOUSING ASSOCIATION

2  
PR

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# Performance management

“If you can't **measure** it  
you can't **manage** it”

Peter Drucker

# Financial Performance Measurement

Enables board and management to focus on key aspects of performance

Most measures are expressed as ratios of one number relative to another e.g. rent arrears as a % of rent receivable.

Many different types of measures or indicators

The best are;

- Easy to extract
- Provides meaningful information
- Not too many...not too few
- Mixture of type of measures

# Financial Performance Measurement

- Good questions to ask
  - What does 'good' look like in terms of achieving success?
  - What does the result tell us?
  - What actions are being taken in response?
  - Are the targets stretching but deliverable?
  - Are the measures consistent with the strategic priorities?
  - Are there any areas not covered by performance indicators?

**Top tip:** Develop the skill to 'triangulate' the information with other data points from different sources e.g. previous budgets, external benchmarks. Is the information consistent with what you are seeing in other parts of the business from other reports.



# Regulator of Social Housing



5.	The Value for Money metrics .....	5
	Metric 1 – Reinvestment % .....	5
	Metric 2 – New supply delivered % .....	6
	Metric 3 – Gearing % .....	7
	Metric 4 – Earnings Before Interest, Tax, Depreciation, Amortisation, Major Repairs Included (EBITDA MRI) Interest Cover % .....	8
	Metric 5 – Headline social housing cost per unit .....	9
	Metric 6 – Operating Margin % .....	10
	Metric 7 – Return on capital employed (ROCE) .....	11

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# Recommended further Reading

- “The Fish Rots from the Head – Developing Effective Board Directors”, Bob Garret
- “Finance De-mystified”, National Housing Federation
- “Risk and assurance”, National Housing Federation (June 2021)
- “Understanding Assurance”, National Housing Federation
- From the Regulator of Social Housing
  - Governance & Viability Standards
  - VfM standard
  - Sector Risk Profile 2021