

HDN – 2020/2021 Board Excellence Programme

18 February 2021

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 and Board Member, North Star Housing Group.



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

125	58	8.25	3.25	4.8	3	6.05	70.25	14.35
9	3	30	29.6	12.18	17.98	19.18	129.25	34.42
100	18.44	20.77	5.88	3.98	0.4	1	0	11.2
8	3	1.6	4			2.4	11	6.5
113	0	0.5	0	5.37	0	0	0	11.5
118	2.7	53.32	2.38	3.4	1.21		22.06	2.24
183	3964.0	3964.75	1106.75	13945.75	14321.18	1757.5	19138.89	32134.68
156	142.09	211.18	54.31	813.31	223.71	15.0	139.96	299.93
Apr	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
86	13359.77	14216.78	1494.59	12862.21	12223.37	14686.73	213.05	12941.55
57	825.91	1232.48	1048.5	2152.52	1130.18	2180.66	2100	1838.81
89	2990.29	3408.59	445.21	3808	2856.12	3779.39	325.32	3003.2
51	340.83	446.02	481.75	443.8	443.92	828	74.59	686.86
21	8953.85	8323.28	128.78	5741.87	4654.11	6458.39	9883.6	6088.4
28	1075.65	1856.26	78.12	1814.77	1880.85	1298.63	165.45	2483.94
57	811.7	880.27	1.35	170.39	847.94	1067.82	1183.01	1137.32
45	482.48	581	5.33	313.79	356.00	645.35	548	582.68
35	418.47	380.85	39.77	811.78	811.78	325.71	367.58	373.65
9.8	57.72	80.0	4.1	87.88	81.86	71	65.28	56.68
28	1.24	0.99	4.1	17.85	1.88	11	1.3	0.71
35	1	0.75	0.1	0.28	3.70	1.5	0	2.5
14	126.88	213.82	14	114		710.8	794.08	738.56
24	173.81	308	2.03	180.87	210.88	133.71	118.41	121.48
8.2	0.2		14.44	2	20.7	0.18	0	7.47
35	30.8		16.55	24.4	30.15	38.35	45.7	28.85
2.3	20.33		15.4	15.93	29.29	18.98	44.62	86.48
85	7		1.28	8.82	1.72	25.5	238.58	235.48

Financial Performance?

Account Name	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
...



What do we mean by 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

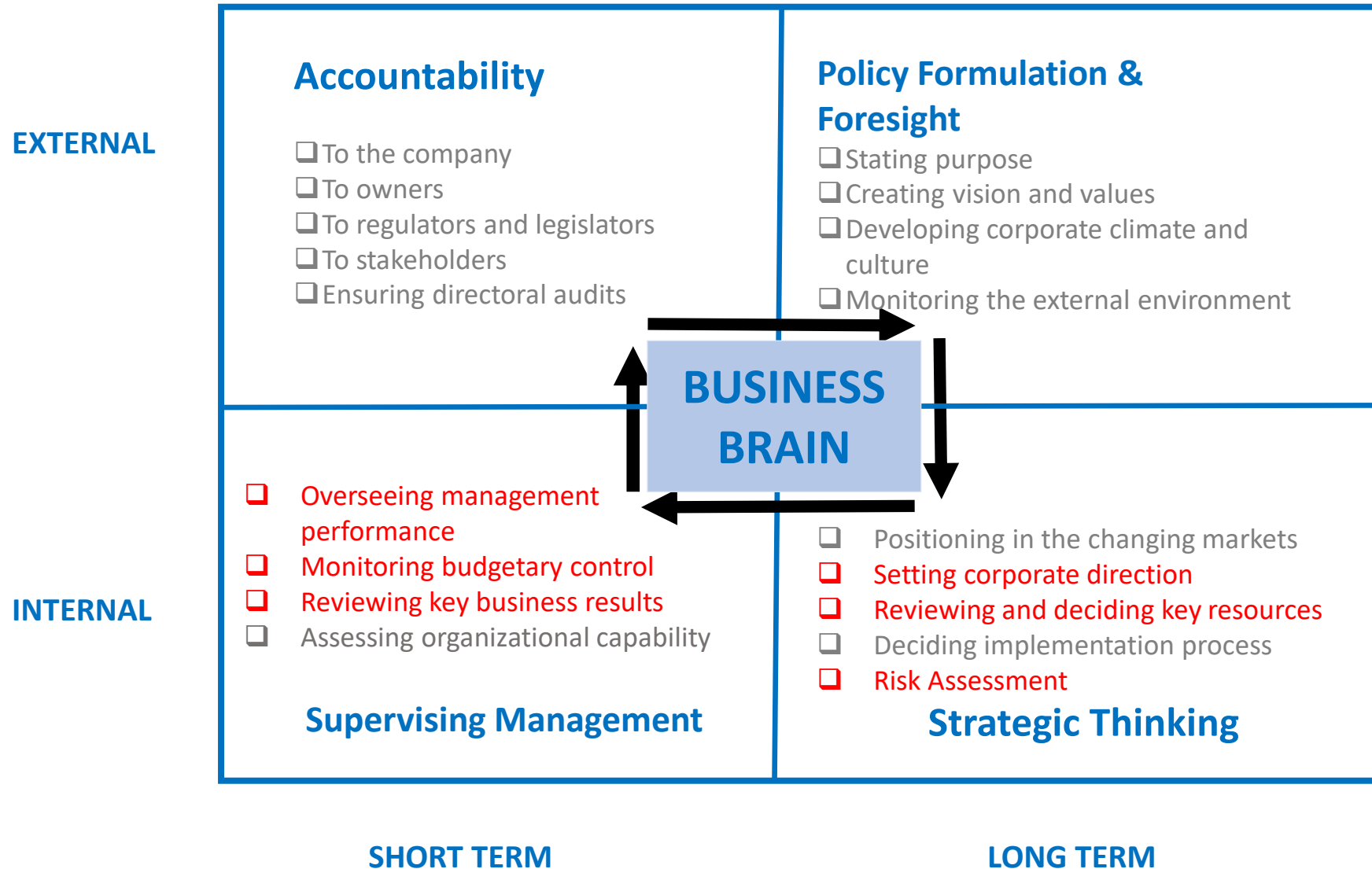




Regulator of Social Housing

“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



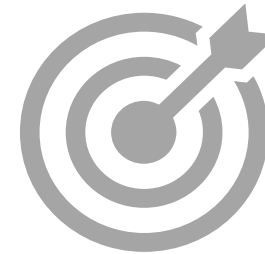
Supervising Management

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
- **Statement of Financial Position**
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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:

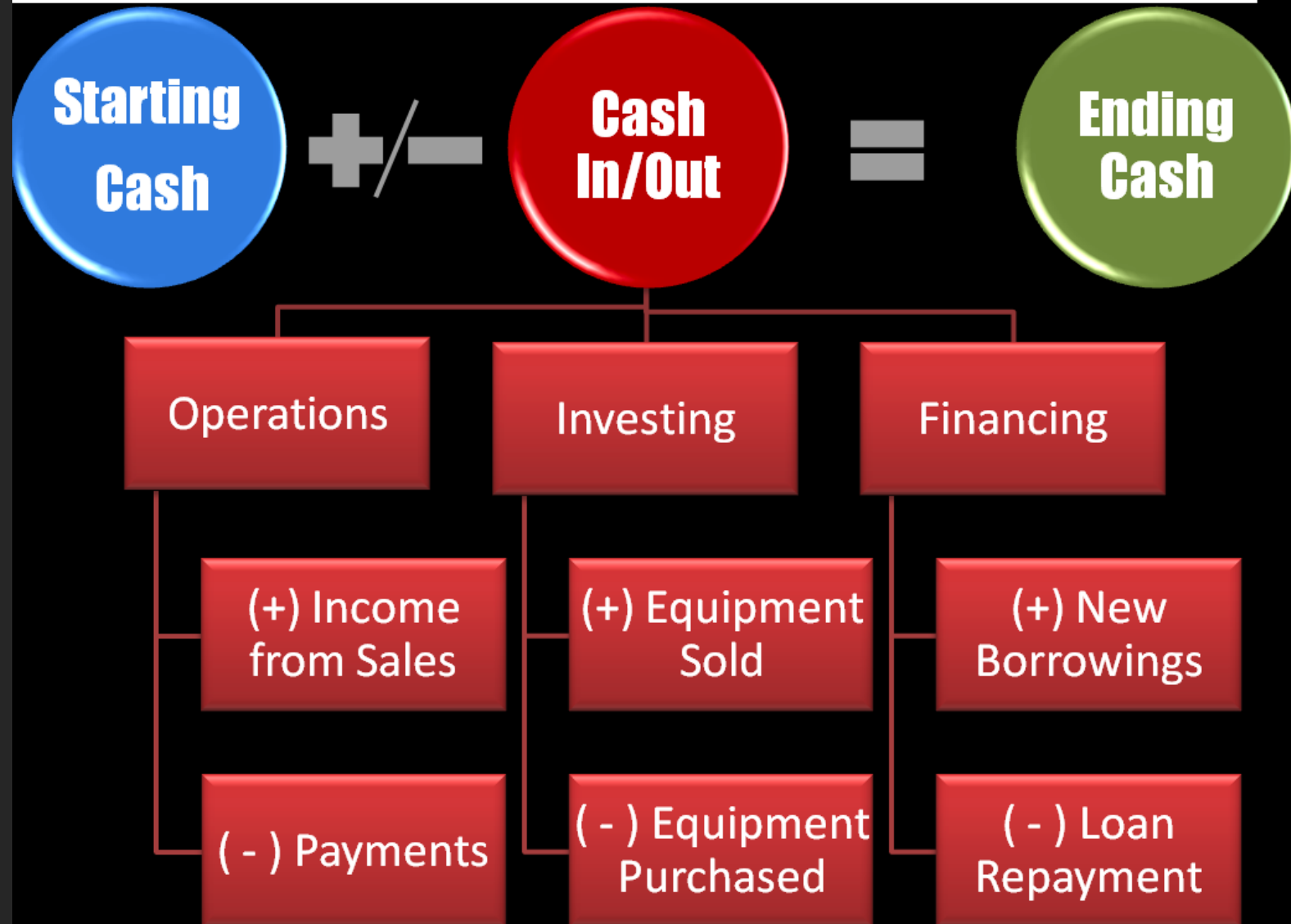
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Group Statement of Financial Position	2017	2016
	£'000	£'000
Fixed Assets		
Tangible assets	52,690	52,435
Investment properties	2,591	2,639
Other fixed assets	86	9
	55,367	55,083
Current assets	3,112	2,518
Less creditors due within one year	(1,607)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

Finance fundamentals

- Statement of Comprehensive Income
- Statement of Financial Position
- **Cash flow**
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Cash Flow Statement



Cash Flow

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

Finance fundamentals

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Planning Process



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- **Financial Statements & Financial Reporting**
- Key performance measures – VFM

work for everyone



2017 ANNUAL REPORT



WE'RE MUIR

Annual Report 2018-19

SHROPSHIRE RURAL HOUSING ASSOCIATION



Annual Report

Bolton at Home Annual Report

April 2018 - March 2019

EKAYA HOUSING ASSOCIATION

Annual Report 2018-19



Finance fundamentals

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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 Management”, National Housing Federation
- “Understanding Assurance”, National Housing Federation
- From the Regulator of Social Housing
 - Governance & Viability Standards
 - VfM standard
 - Sector Risk Profile 2020