

The Altair logo consists of two overlapping purple circles. The word "Altair" is written in white, sans-serif font across the circles.

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CHC FINANCE CONFERENCE 2019

FINANCE 101 – INSIDE THE BLACK BOX

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Director of Finance Solutions

Thursday, 11 July 2018

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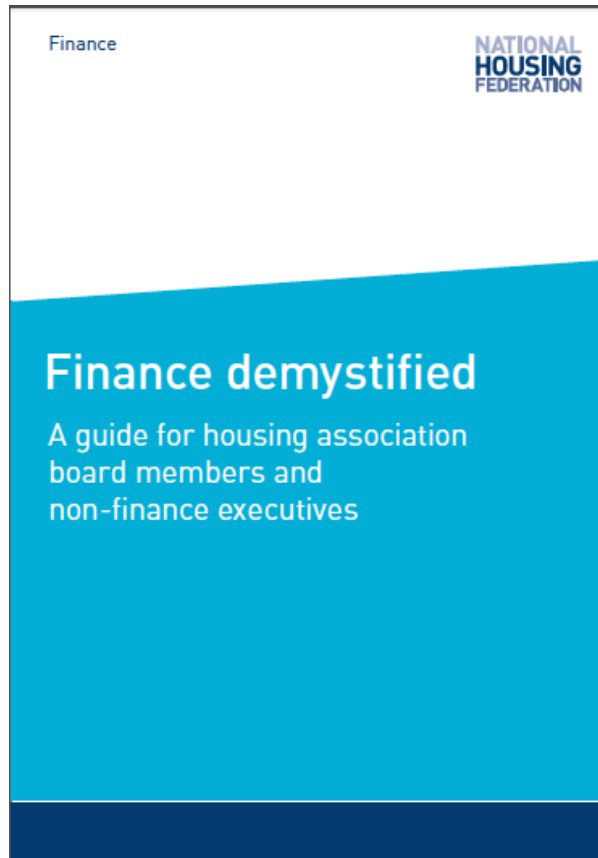
CHC FINANCE CONFERENCE 2019

FINANCE 101 – INSIDE THE BLACK BOX



- Why money matters
- How finance all fits together
- Reporting, monitoring and a hot topic

A guide for ... non-finance executives



- Vision, strategy, BPs
- Budgets, management accounts, KPIs, scheme appraisals
- Accounting/regulatory returns
- Treasury, loan covenants, tax and pensions
- External advisors

Why money matters

- Vision and mission
- Corporate strategy
- Business plan

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Developing a corporate strategy

Mission statement

Current operations

Business environment

SWOT (PESTLE!?) analysis

Services

Objectives

Operational plan

Typical business plan

Executive summary

Mission statement

Current operations

Business environment

SWOT (PESTLE!?) analysis

Services

Objectives

Operational plan

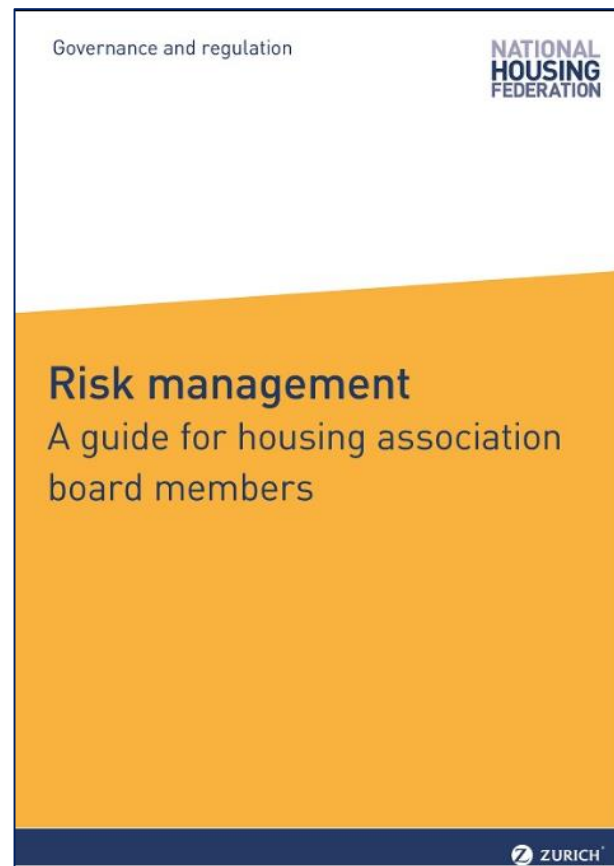
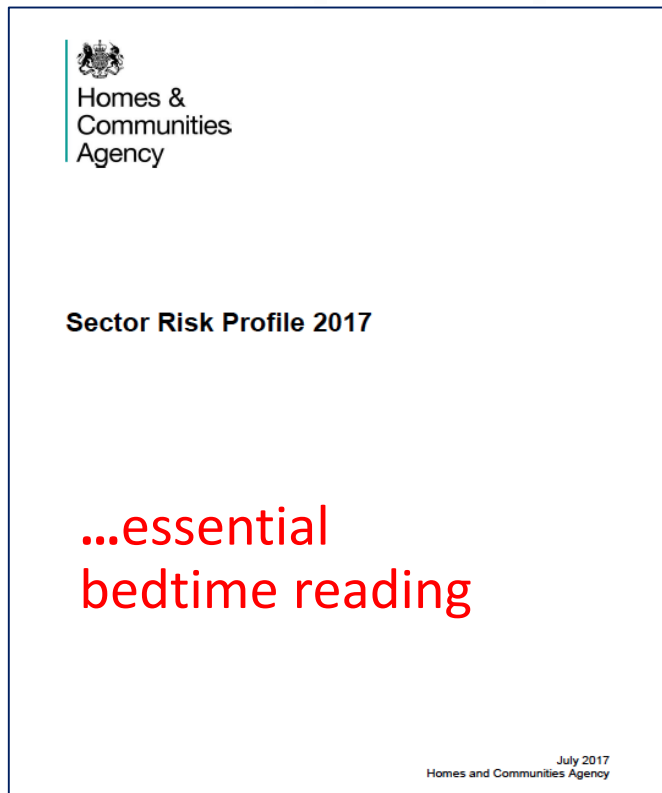
Funding plan

Financial analysis

Attachments

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RSH Sector Risk Profile



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- Why money matters
- How finance all fits together

How finance all fits together

- Internal versus external finances
- Funding and investment
- Pensions landscapes and taxation

Internal versus external financial information

Management accounts	Audited financial statements
Internal focus	External focus
Monthly or quarterly	Annually
Compare to budget	Compare to prior year
Detailed	Summarised
Activities	Statutory format
Not audited	Audited
Not published	Published
Current and forward looking	Retrospective

Basic accounting principles

Capital v revenue

Cash v profit/loss

Capitalisation

Accruals

Prepayments

Reserves

Housing Association A:

- Charges £1,000 rent but only collects £950 by the year end
- £400 of repairs carried out, but only paid £300 by the year end
- Buys £1,000 of computers for the housing team - expected to serve the business for 5 years

Cashflows	Turnover	1,000
	Repairs	400
Net outflow or <u>cash</u> <u>'loss'</u> <u>(£350)</u>	Computers	200
	<u>Accounting</u> <u>profit</u>	<u>£400</u>

Internal financial information

- Budgets
- Management accounts and forecasts

Budgets

- One year tactical plan, expressed in financial terms
- Estimates of:
 - Income
 - Expenditure
 - Cashflow
- Linked to strategic plan

Budget process and typical budget content

- Finance communicates/coordinates with budget holders
- Board approval and reports on in-year performance
- Monitoring loan covenant compliance

Executive summary

Mission statement

Strategic priorities

Current operations

Budget

Summary financial information

Risks

Attachments

Process and timelines

Management accounts and forecasts

- Reliable, timely and relevant information for decision-making
- Cross-organisational progress check against annual budget
- Some stakeholders require them, e.g. lenders

Six column format, e.g. for monitoring garden maintenance expenditure

Aggregate expenditure to date (£)	Budgeted expenditure to date (£)	Variance in budget to date (£)	Forecast expenditure for the year (£)	Budgeted expenditure for the year (£)	Variance in expenditure for the year (£)
850	700	(150)	1,125	1,200	75

External financial information

- Primary financial statements
- Other external financial returns

Accounting regulations

International
Financial
Reporting
Standards

Financial
Reporting
Standard
102

Housing
SORP



- WG RSL Accounting Requirements 2015
- Charities Commission
- Companies Act

Audited financial statements

Typical structure of audited financial statements

- | | |
|--|----------------------------------|
| • Key individuals/professional advisors | • Income and expenditure account |
| • Board Report | • Balance Sheet |
| • Statement of board members' responsibilities | • Cashflow statement |
| • Statement of internal controls | • Accounting Policy |
| • Auditors' report | • Notes to the accounts |

Other external financial returns

- HCA
 - Financial Forecast Return
 - Quarterly returns
 - Governance and Financial Viability Standard
- HMRC
 - PAYE
 - Corporation tax returns
 - VAT returns and Stamp Duty Land Tax

Internal versus external financial information

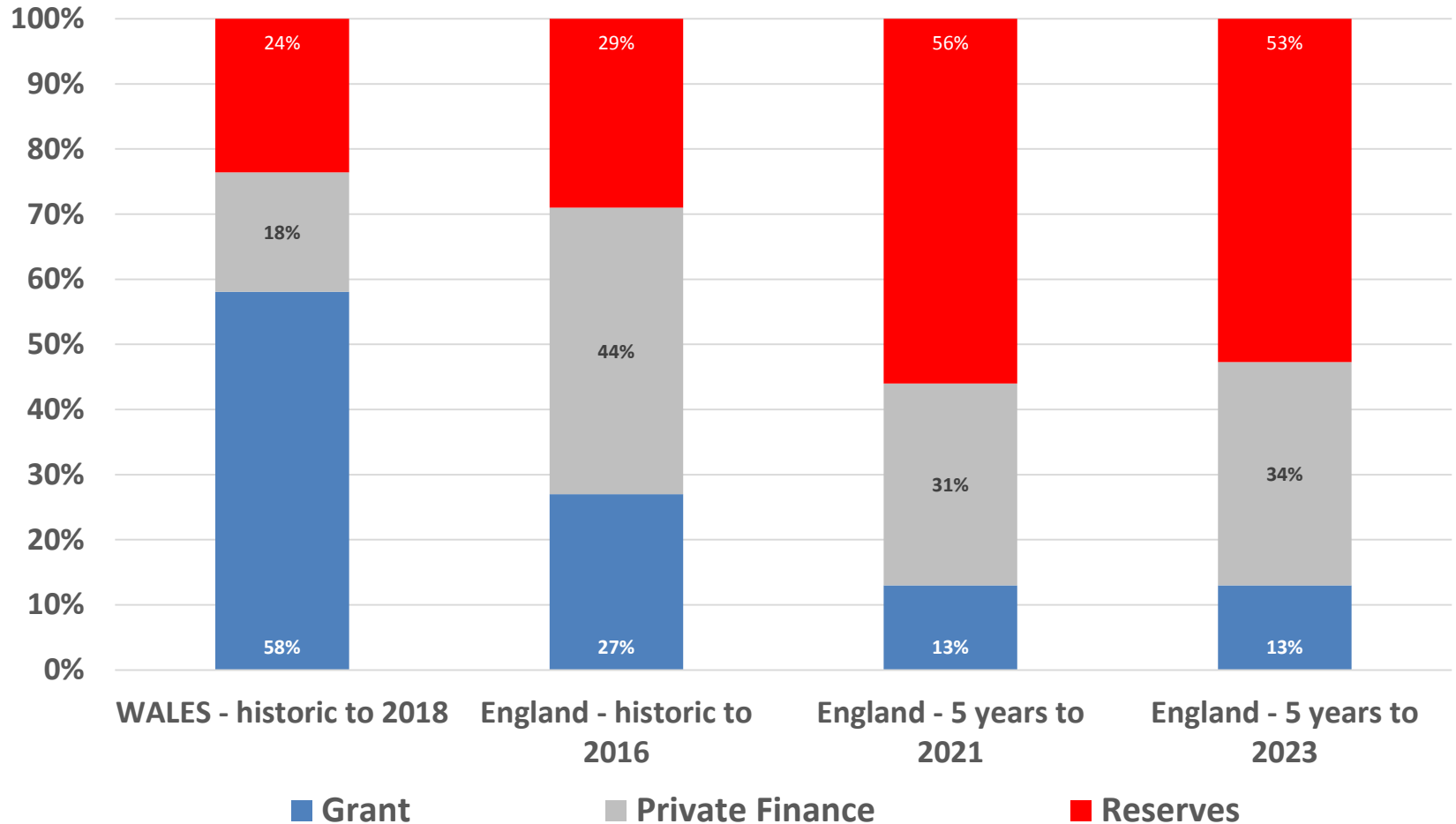
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How finance all fits together

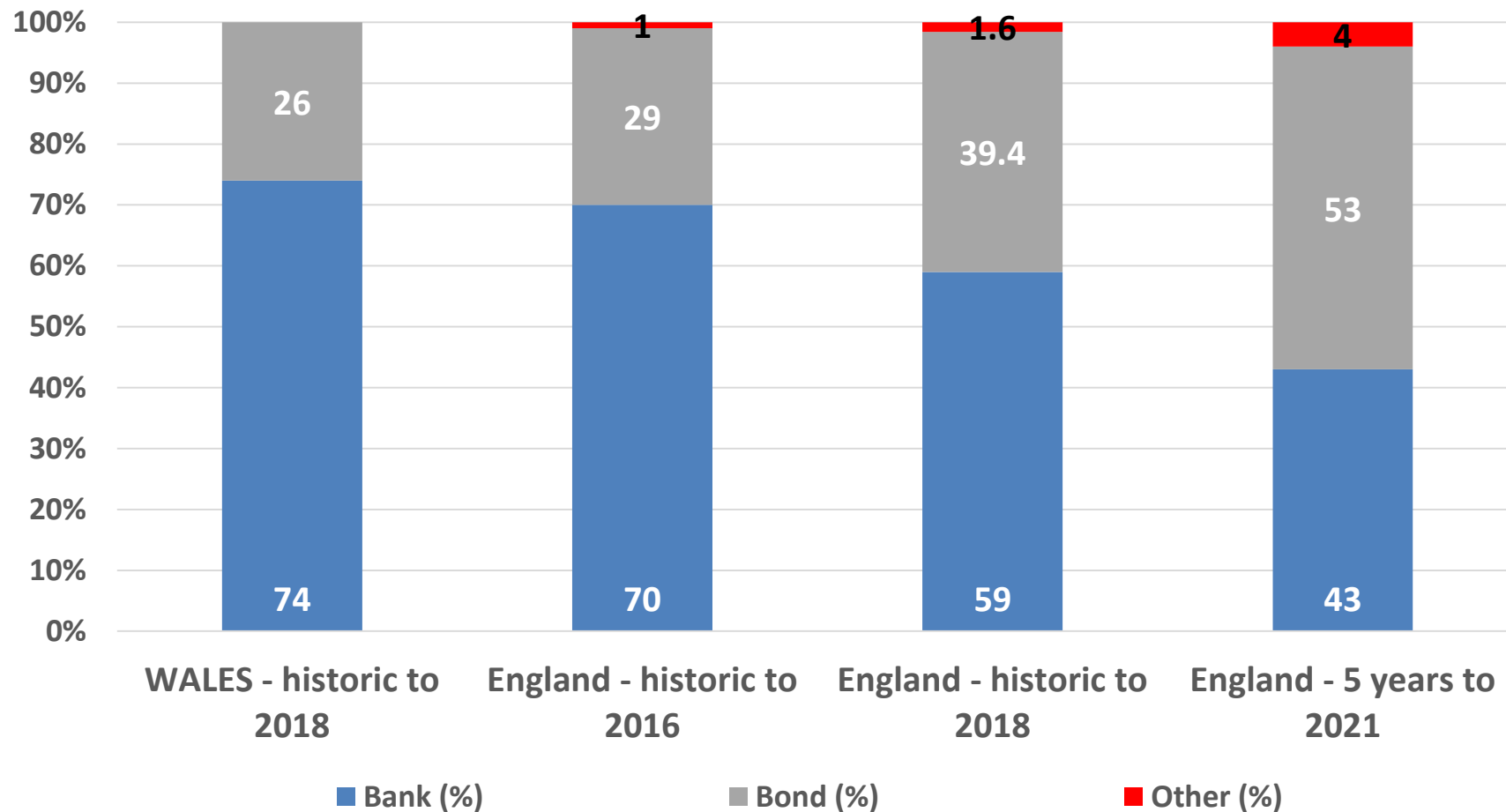
- Internal versus external finances
- Funding and investment

Welsh and English social housing funding

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Welsh and English social housing private finance



HA private finance

Instrument	Term (years)	Rates	loan (£)	Advantage	Disadvantage
Bank lending	5	<ul style="list-style-type: none"> Fixed or variable 	<ul style="list-style-type: none"> £10k - £300m Secured or unsecured 	<ul style="list-style-type: none"> Easy to arrange Access cash when require 	<ul style="list-style-type: none"> Comes with loan covenants which can constrain business development
Bonds – private placements	10 - 15	<ul style="list-style-type: none"> Fixed 	<ul style="list-style-type: none"> £30m - 150m Secured 	<ul style="list-style-type: none"> Irksome to arrange Flexible for borrower 	<ul style="list-style-type: none"> Can come with loan covenants Difficult to make changes (e.g. via expensive repayment)
Bonds – capital markets	20 - 30	<ul style="list-style-type: none"> Fixed Cheap 	<ul style="list-style-type: none"> £100m - £500m Secured 	<ul style="list-style-type: none"> Time consuming and costly to arrange Cash available up front 	<ul style="list-style-type: none"> Difficult to change Credit rating needed Comply with SE listing rules
EIB/Government Guarantee	20 – 30?	<ul style="list-style-type: none"> Fixed Cheap 	<ul style="list-style-type: none"> £30m - 150m Secured 	<ul style="list-style-type: none"> Available as a ‘club’ bond 	<ul style="list-style-type: none"> High security cover requirements
Sale and leaseback	10 - 30	<ul style="list-style-type: none"> Various 	<ul style="list-style-type: none"> £30m - 300m Secured 	<ul style="list-style-type: none"> Direct investment, so tailored/no middleman 	<ul style="list-style-type: none"> Higher level of setup and monitoring complexity

Loan covenants

- What are they?
- Compliance
- Impact upon the business

How finance all fits together

- Internal versus external finances
- Funding and investment
- Pensions landscapes

HA Pensions landscape

- Defined benefit versus defined contribution scheme
- Auto enrolment
- Social Housing Pension Scheme accounting

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Reporting and monitoring

- Key performance indicators
- Value for Money
- Audit & Risk and Treasury committees

Key Performance Indicators

- What are they?
- Why are they useful?
- Different types of KPIs – which is best?

Current rent arrears

	Rent arrears (£k)
1 October 2018	231
1 July 2018	218
1 April 2018	221
1 January 2018	223

- How has this organisation performed over this period?

A KPI for rent arrears

	Rent arrears (£k)	Rent receivable (£k)	Ratio %
1 October 2018	231	7,700	3.00
1 July 2018	218	7,457	2.92
1 April 2018	221	7,457	2.96
1 January 2018	223	7,170	3.11

- How does your view differ now, given rental income increases due to new units and inflation?

KPI without context

Three neighbouring hospitals collated data on patients admitted who then died over a six-month period. The percentages were:

Name of hospital	Proportion of admitted patients that died
Hospital A	1.05%
Hospital B	1.57%
Hospital C	4.66%

- How have the hospitals performed?

Analysing KPIs without context

Name of hospital	Type of hospital	% admitted patients that died
Hospital A	Local hospital with no A&E	1.05%
Hospital B	Large teaching hospital with A&E	1.57%
Hospital C	Specialist heart and stroke hospital with A&E	4.66%

- What do you think of Hospital C now?

Reporting and monitoring

- Key performance indicators
- Value for Money

Sector Scorecard

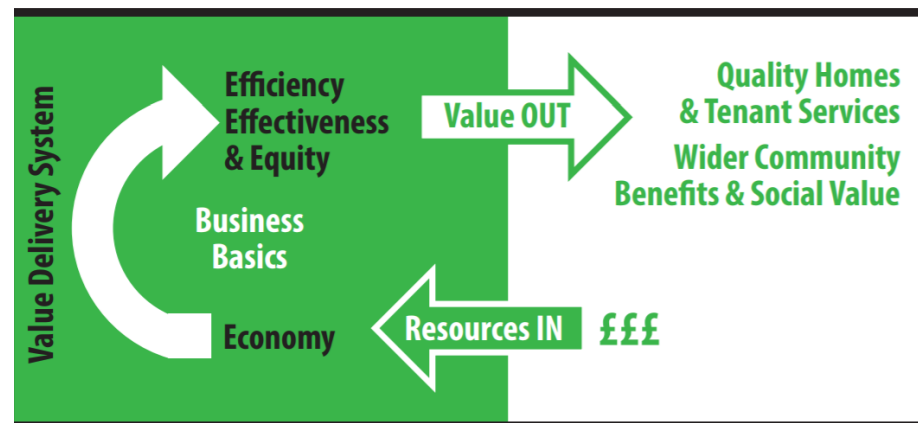
- What are they?
- Why bother?
- Key efficiency indicators

www.sectorscorecard.org.uk

1. Business Health
2. Development (Capacity & Supply)
3. Outcomes Delivered
4. Effective Asset Management
5. Operating Efficiencies

- Relief of poverty – lower cost social housing
- Provision of decent housing
- The Four Es...

Model for understanding VfM in Wales



Welsh VfM Indicators

1. Housing cost per unit:
 - Operating costs
 - Management costs
 - Reactive repair costs
 - Major repair costs
2. Turnover per unit
3. Operating margin
4. Voids and bad debts
3. Gross arrears as a percentage of turnover
4. Effective interest rate
5. Interest cover (operating surplus/interest payments)
6. Gearing

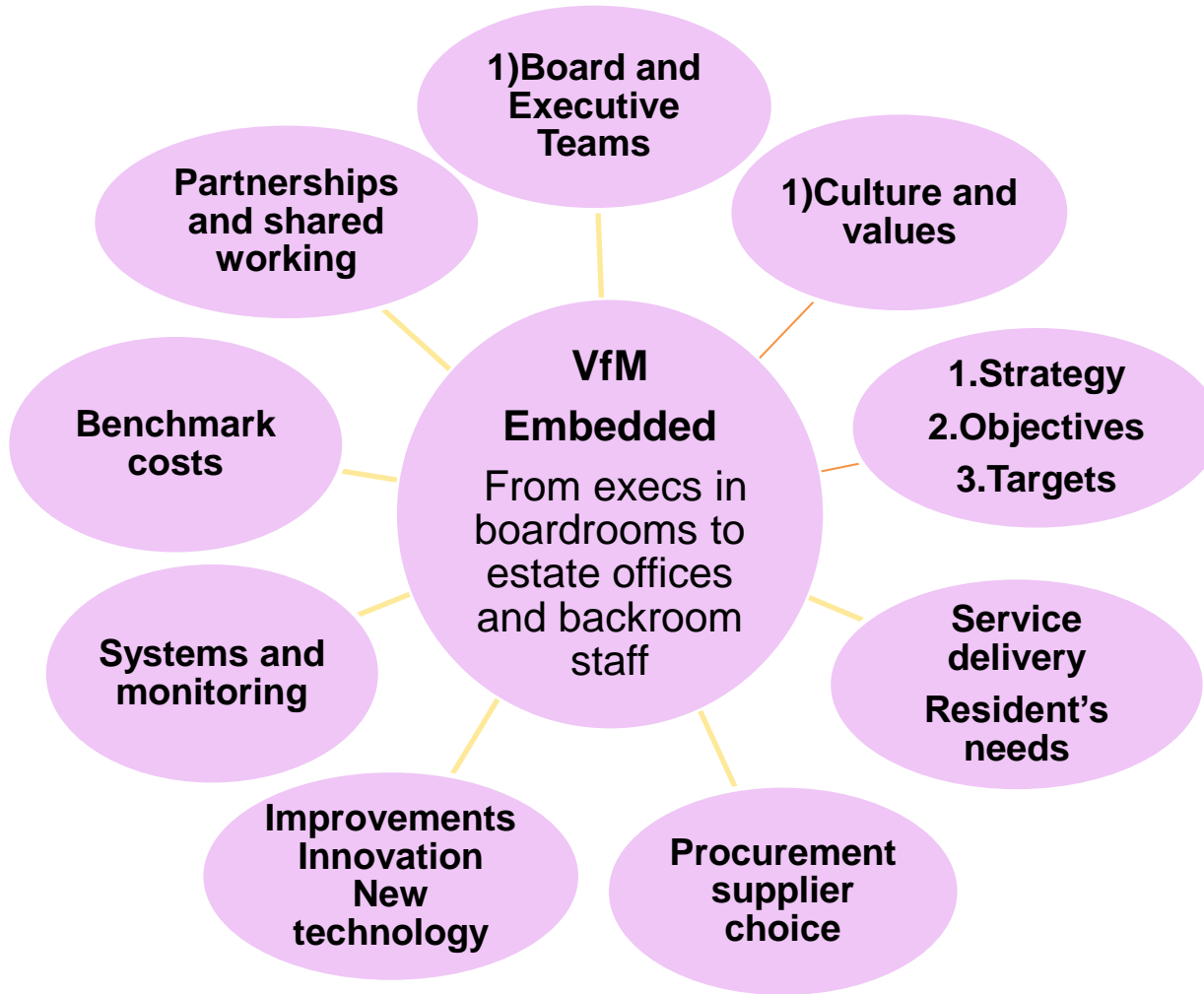
English Regulator VfM Metrics

1. Reinvestment
 2. Delivery of new supply
 3. Gearing
 4. Interest cover
 5. Social housing cost per unit
 6. Operating margin
 5. Return on capital
- Other metrics...?

2018 VfM Regulatory Requirement



- | | |
|--|---|
| • VfM in delivering strategic objectives | • Understand costs, use of resources |
| • Board own VfM approach | • Structural options for delivering gains |
| • VfM touches all HA decisions/planning | • Adequate return, commercial activity |
| • Board delegate VfM to executive | • Publish RSH and bespoke Metrics |
| • Develop, measure, monitor targets | • Report against appropriate peer |

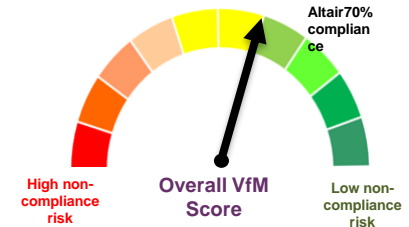
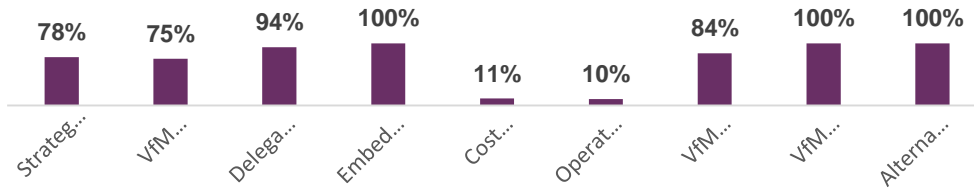


Altair's VfM Healthcheck[©]

Value for Money Healthcheck[©]



No	Compliance area	VfM score	Reviewer's comments
1.	Does the organisation have clear, up-to-date strategic objectives	Yellow	
2.	The VfM Strategy	Yellow	
3.	Delegation of VfM and target-setting	Green	
4.	Embedding VfM	Green	
5.	Understanding cost drivers and best use of resources	Orange	
6.	Delivering optimal value from big operational/project spend	Red	
7.	VfM Reporting	Yellow	
8.	VfM Mitigation	Green	
9.	Alternative operating structures	Green	

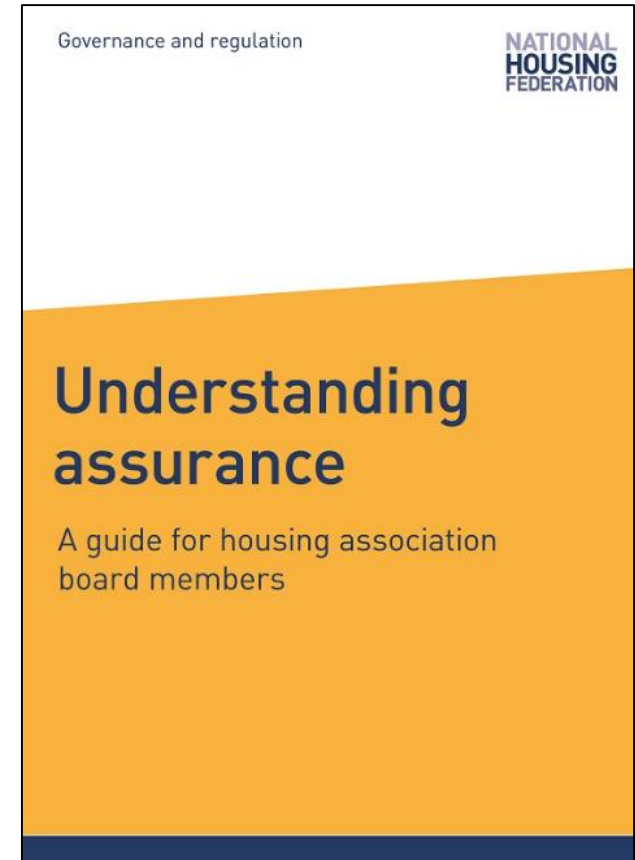


Reporting and monitoring

- Key performance indicators
- Value for Money
- Audit & Risk and Treasury committees

Audit & Risk and Treasury committees

- Audit and risk committee
- Internal audit
- Treasury committee



Show me the money: explain how it really works



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- Strategy & Governance
- Finance
- Property
- People

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A guide for ... non-finance executives

