**Queens Cross Housing Association**

**2019/20 Financial Summary**

Each year at our Annual General Meeting, the Association presents its accounts to its membership. This year we will, despite the circumstances that we find ourselves in, meet our obligations in this respect by presenting the accounts to the members via video conferencing. These Group accounts show the results for the Housing Association and the consolidated results with the Factoring company subsidiary and include for the first time this year Queens Cross Workspace

The full group accounts are available:

* in hard copy, on request, by contacting Adele Drennan by email [ADrennan@qcha.org.uk](mailto:ADrennan@qcha.org.uk) or by telephone 0141 589 7443
* on this web-link https://www.qcha.org.uk/documents?filter=Accounts from September the 1st.

This narrative and accompanying tables shows a summary of the 2019/20 financial statement and financial position for the Housing Association.

At the AGM Neil Manley Director of Finance and Corporate Support will present the finances of the group and our future plans in more detail.

**Affordable rents and Value for Money**

In our key strategic aims we include “the delivery of excellent services whist ensuring we provide value for money" and central to this is ensuring our rents are affordable for our tenants.

We know from our ‘Getting to Know You’ returns that some of our tenants struggle to make ends meet and that affordability is different for every individual. However we annually review our rents using the Scottish Federation of Housing Association’s affordability tool. This allows us to measure affordability across a range of property and family sizes using an affordability target that no more than 28% of the household’s average income should be attributed to rent costs.

For small families (2 children) our rents represent no more than 18% of income across our range of property types whilst for single people, only a terraced house at 31% is deemed unaffordable. We believe this demonstrates that we do provide affordable homes although we recognise that everyone’s circumstances are different.

In our forward financial plans we have to be realistic that costs will increase year on year however to keep our rent levels affordable we ensure that our future financial plans only allow for inflationary increases each year. We do believe our plans are prudent and based on realistic assumptions which support our objectives of achieving value for money as an organisation and ensuring our forward future viability

We set saving targets within our annual budget to allow us to make these rent decisions and continue to review our services to ensure they are provided in the most cost effective manner whilst maintaining service quality. We continue to use our HouseMark membership, a benchmarking group that helps us compare our service quality and cost with other social housing providers, to access key data on cost and service quality and support service reviews. For us value for money is always more than simply cutting costs but it’s about spending more on the right things on to ensure maximum overall impact is positive for the Association and our customers in the long term.

**Risks and challenges in our financial planning.**

The association’s investment programme has continued with £1.1m invested in our existing properties in 19/20 and work continues on meeting the new fire safety regulations and the upgrading of smoke detectors across the stock. The Association’s financial forward plan continues to include significant levels of investment in our existing homes. We are mindful that reduced competition in the building sector, contractors focussing on new build projects and the decline in the value of the pound pushing up the costs, all represent risks to our financial plan. The association also has a substantial new build programme and the management of these projects and the control of costs will be key for their successful delivery.

Our housing teams continue to focus on helping tenants maintain their tenancy, encouraging timely rent payment and rent arrear recovery in response to the roll out of universal credit and the Association is investing in new systems and process to ensure this is a top priority.

The association has staff members in two pension schemes and continues to make payments and changes to the scheme in line with the schemes pension deficit recovery plans. Actuarial advice is that in each scheme, the recovery plans are on track to fund the deficit over the proposed timescale. We will continue to review the actuarial valuations as they occur to ensure this continues to be the case or whether the association may face additional deficit costs. The statements this year show a significant improvement in the valuation of the pension deficit with a positive £5m actuarial gain in the year but with Covid-19 this is likely to continue to be very volatile.

These financial statements cover only 2 weeks of the Covid-19 lockdown so it is essential that as an organisation we closely monitor the financial performance in 2020/21to prepare for any impact and shape our plans going forward.

**The Basic Financial Statements**

The Board outline their strategic report to the accounts from page 3 to 10. This includes an overview of the key risks the association currently faces and a commentary on the financial position, performance and future plans.

The financial performance reports described below are then presented. There are two versions of the income and financial position statements, one showing the whole group including subsidiaries and one for the Housing Association alone. The narrative below looks focuses on the Association position with an added section for the Group showing the impact of bringing Workspace into the QC Group.

* **Statement of the Boards Responsibilities p12**
* **Income Statement p18**
* **Cash Flow Statement p23**
* **Statement of Financial Position p22**
* **Group Position p 17 and 21**

The Board of management as the governing body of the Association undertake a number of commitments in terms of record keeping, accounting policy and prevention of fraud and loss. These are stated in page 12 and in signing the document on pages 12 and 21-22 the officer bearers confirm these commitments. The auditors in signing on page 16 affirm their view that the accounts present a true and fair view of the association’s finances.

**Comprehensive Income Statement Housing Association Page 18 – Income surplus of £6.4m in 2019/20 compared to £1.4m deficit in 2018/19.**

**Is this all due to real business performance of the Association in the year?**

This year’s accounting surplus of £6.4m includes an actuarial gain of £4.7m on the pension scheme. This actuarial gain relates to the revaluation of the assets and liabilities of our pension schemes at the year-end and is a valuation movement rather than real income surplus. This compares to a loss of £2.7m in the previous year on this pension valuation. The surplus for the year **before this actuarial charge** was £**1.7m** compared to **£1.3m** last year.

The statement also includes£2m of **grants** which we received in the prior financial years as cash and these are released as income over the grants lifespan.

**The statement also includes;**

£5.6m of a depreciation charge to reflect the use of capital assets

**And importantly it excludes**

* **£1.1m of investment in existing homes**
* **£2.4m spent developing new homes**

which, for a Housing Association are key areas of expenditure and central to planning its finances. This investment is defined as capital because it last for more than a single year.

As you can see for a Housing Association where housing assets are core to its business the income statement has limitations on providing information on our overall financial positon as it does not include capital investment or grant income, however the overall increase in surplus prior to actuarial movements to £1.7m from £1.3m is a welcome result of good control of costs.

Any surpluses on the income statement are held as a reserve to meet this capital investment and for new homes. These inclusions and exclusions all mean the income position here can vary greatly to the actual cash movement the Association sees in the year as shown in the next statement.

**Statement of cash-flows Page 23 – Cash decrease by £8m for the Group**

This statement reconciles the actual cash we generate for the Group on an annual basis with both our long term commitments including investing in our homes and servicing and repaying the loan debt we hold in order to build our homes.

To get a comparative position, from the £20m of surplus generated we need to deduct the one off **£13.3m** arising from the incorporation of Workspace, to give us a cash generated figure of **£6.7m**. From this annual surplus we have paid net interest of **£2.3m**. In addition the statement shows the amount we invest in our stock to keep them in good condition. This year we invested **£3.8m** in major capital investment in both existing and new properties, with £2m received as a grant to support this work.

We also repaid some **£4.6m** of loan finance in the year and we deposited **£6.2m** as longer term investment, to maximise interest return, resulting in the decline in the immediate cash balance across the two years.

**Statement of Financial Position Page 22 – Overall assets growth of £6.4m**

This statement lists our assets and liabilities and reflects the surpluses, valuations movements and investments highlighted in the first two statements.

The capital investment in our new homes and existing property and their depreciation is reflected in housing asset value, down £1.8m after depreciation charges.

The cash and investment balance has decreased by £2.8m as a result of expenditure on component investment and new build projects.

Our pension liability creditor has decreased as a result of the revaluation increasing the overall reserve position.

The overall impact of these movements and the in-year surplus has been to increase the reserve figure by **£6.4m**.

**The Group Position pages 17 and page 21**

The accounts include group income and financial statements including the subsidiaries. Page 17 shows the income statement for the year and the incorporation of the Workspace within the group has resulted in an overall surplus of £19m, with £12m of this representing the Workspace assets coming into the group (line 11). This growth is not solely presented by cash but includes the book value of all the assets, cash and property of the Workspace less any debt.

The financial position for the group is shown on page 21 and again shows the overall asset growth through the incorporation of Workspace. The total reserve position has increased to £59m.

The provision of services to owners is managed through a separate company because this work is not deemed to be “charitable “. In having a separate company it allows the Association to ensure that all related costs are recovered and that a reasonable return on our assets is made. In 2019/20 the factoring company made a surplus of **£133,411** on a turnover or **£1.76m**. This surplus is in part gift aided to the Association and used to cover costs of our charitable work and in part retained as a reserve in the factoring company in case of any adverse business events.