



Getting to know finance

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The brief



“Introduction to social housing finance”

A short training session to demystify social housing finance concepts

A bit about me -

- Experienced FCA and CFO - senior finance specialist
 - Coaching and training qualification - in house trainer
 - Housing focussed - 17 years experience in Welsh Social Housing in senior roles
 - Achieves significant results and outcomes driven.
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So... I asked Twitter ...

What's capital what's revenue	Depreciation
Service charges	Sinking funds
Cash does not equal reserves	Negative equity
Relationship of capital to I&E	Cashflow vs I&E vs Bal sheets
Gearing	LCHO and negative equity
Service charge	General confusion....
Impairment	Nothing on treasury...!





What on earth are Financial statements?



Three main elements:

1 - Profit & Loss /

Income & expenditure -

2 - Balance Sheet -

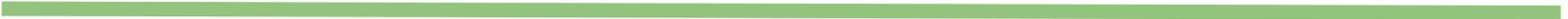
3 - Cash flow -

What happened in the year?

How big are we at a point in time?

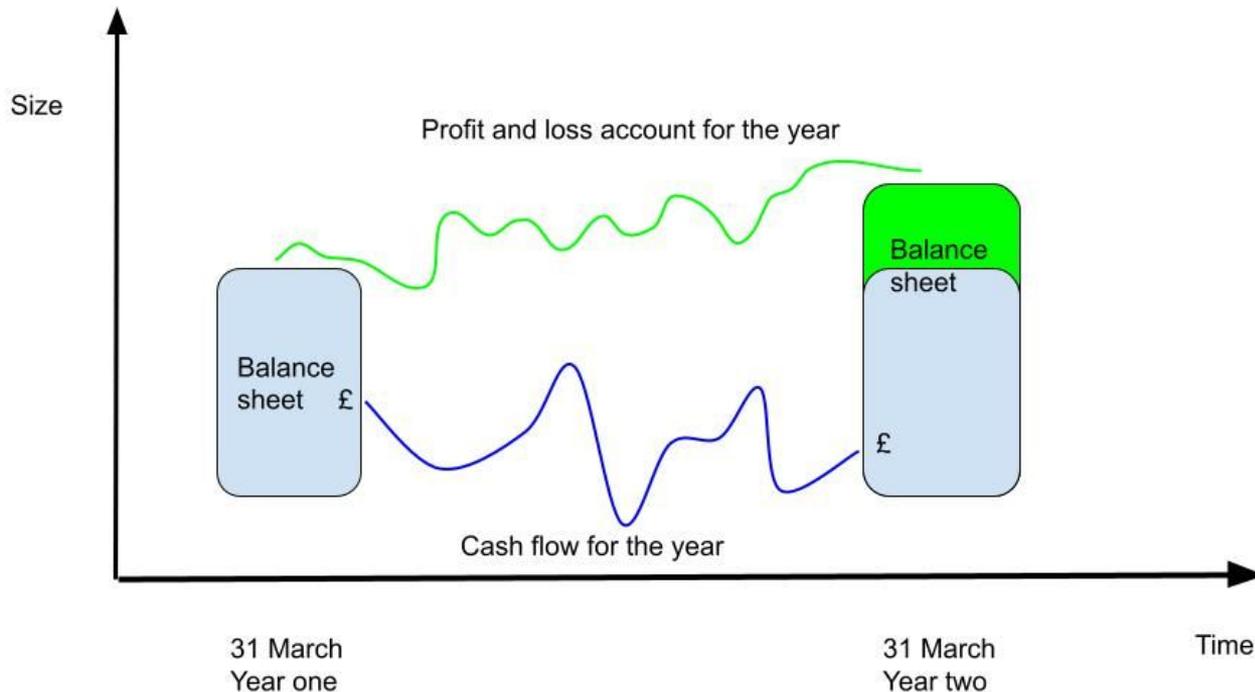
Where did the money go in the year?

And a lot of words...!





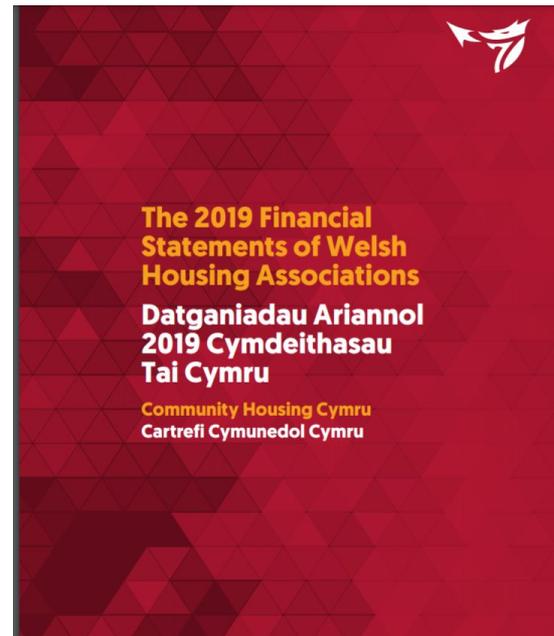
Financial statements





1 - How are associations funded?

- What our main funding sources?





1 - How are associations funded?

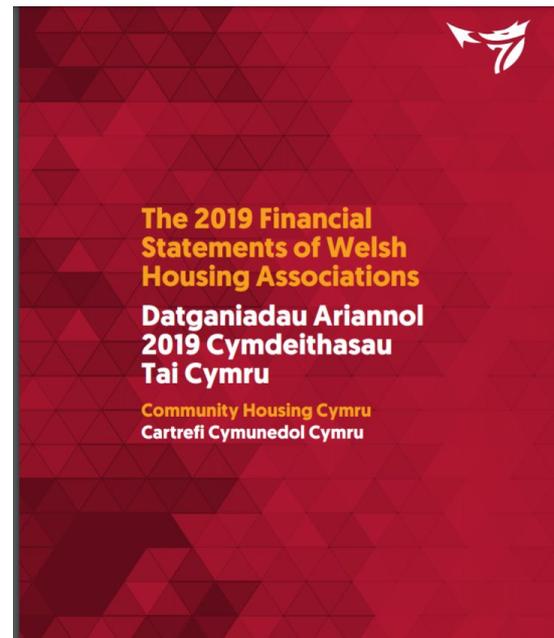


Their £1bn income is split (from the p&I):

- 71% rent and service charges (general lettings)
- 20% other (mostly care)
- 5% supported housing
- 4% grant

Other stuff (from cashflow)

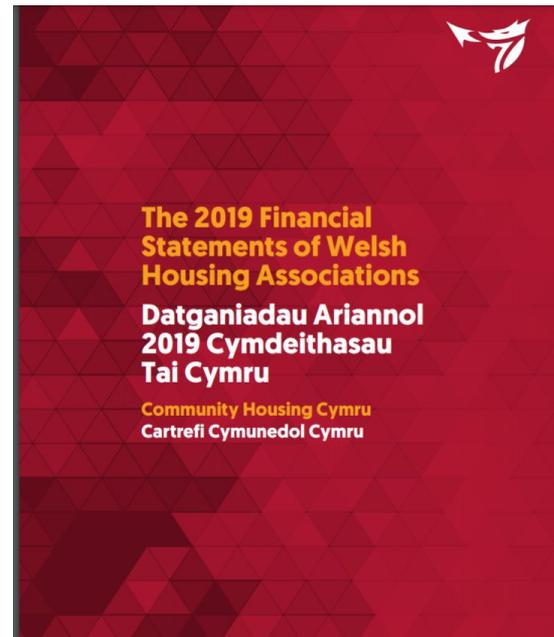
- + £240m SHG grants
- + £170m net new loans
- + £50m property sales
- -£150m on improvements
- -£400m on new homes





1 - How are associations funded? TLDR

- HA £1bn income comes mostly from rent >75%, and is pretty stable.
- Behind the scenes they gain grant and new loans to fund investments in new and existing homes of c£600m





2 - The importance of grant

- What types of grant are out there?





2 - The importance of grant

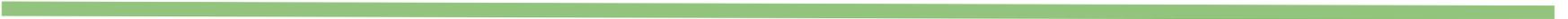
- Why do housing associations need grant in the first place?
To solve a market failure
- Two main types of grant in Welsh housing
 - SHG
 - Dowry
- Grants are also available for supported housing and care
- Innovation funds
- Future of grant - decarbonisation?





Why is SHG important?

- Welsh housing associations do not have huge profit margins to fund new developments - they need help
- Welsh HAs also fund considerable investments in improving their existing homes
- A subsidy is needed to make rents affordable
- It makes the lenders very happy
- It avoids need to for riskier options
- Grant has declined over time





2 - The importance of grant TLDR

- Grant is an essential element of building new homes (and funding LSVTs)
- Level of grant investment in sector is significant
- Grant adds additional complexity to housing associations





3 - The importance of lenders

- A How many organisations lend to Welsh housing associations?
- B What's the total size of that lending?





3 - The importance of lenders

- A How many organisations lend to Welsh housing associations?

29

- B What's the total size of that lending?

£3.6 billion





3 - The importance of lenders

Spotlight on the lenders

- A range of financial institutions - some traditional, some less so
- A range of models, from Bonds, private placements, to traditional loans



You
asked..



3 - The importance of lenders

- Lenders are also essential to new homes programmes
- They support the cashflow and the robustness of the sector
- They also support the improvements in existing homes
- Lending was the reason the LSVTs were set up...





3 - The importance of lenders

Lender motivation

- Lenders are here for profit: interest (and other charges)
- Lenders need to have a balanced portfolio
- Housing is not high reward for them, but they like it because:
 - Its asset backed
 - Its government backed
 - Its long term
 - Its mature, safe and predictable

You
asked..





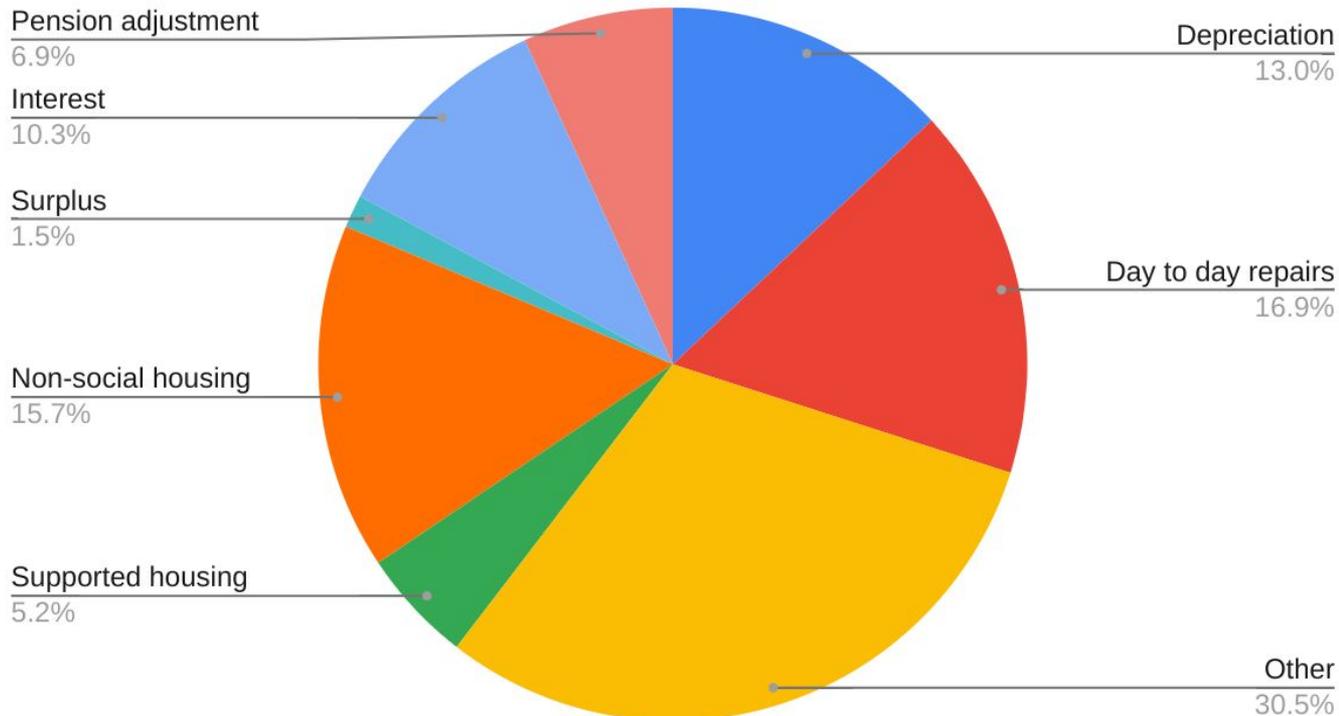
3 - The importance of lenders TLDR

- Lenders are an essential element of the sector, delivering investment of over £3bn
 - Having lenders will make lender management, treasury and adhering to covenant rules critical to the sector
 - Covenant rules drive quasi-commercial behaviour from the sector
-



4 - Inside financial statements

Where that £1bn goes





4 - Inside financial statements



What else is in there?

Prescribed format

1. Annual report - governance and risk
2. Audit opinion
3. Profit and loss, Balance sheet and cashflow statement (big three)
4. Accounting policies
5. Notes to the accounts (including many breakdowns, staffing information and pension disclosures)

Check websites, Companies house, Commission and FCA





ICYMI...

- Key tools: Balance sheet, Profit & Loss, Cashflow
- HAs funded by rent. Certain investments funded by grant & loan
- Grant - SHG and Dowry
- Lenders - 29 and £3.6bn





Any questions?



Thank you Diolch

