

FINANCIAL REPORTING IN HOUSING ASSOCIATIONS

Professional 2
December 1999

MARKING SCHEME



Question 1

(a) Income and expenditure account for the year ended 31 March 1999

	£000	£000	
Turnover(5,280+2,800(iv)		8,080	1
Less: Operating costs (3,894+446(vi + vii)+8(vii)	(4,348)		4
Cost of sales(iv)	(1,800)	(6,148)	
Operating surplus		1,932	
Interest receivable		312	
Interest payable		(620)	
Surplus for year		1,624	
Transfer to /from Designated Reserves			
Rent surplus for year (i)	(572)		1
Repairs for year (ii)	458		1
Capital surplus on sale (2,800- 1,800x90%)	(1,180)		2
		(1,294)	
Retained Revenue Reserve			
Revenue Reserve b/f		330	
Revenue Reserve c/f		8,668	
		8,998	1

	Cost £000	Depreciation rate	Depreciation charge
Buildings	1,800	2.5%	45
Equipment (1,188-600)	588	20%	118
Vehicles	164	20%	33
New computer	1,000	25%	<u>250</u>
			446

(10)

(b)

Balance Sheet as at 31 March 1999

	£000	£000	
Tangible Fixed Assets			
Housing properties (66,064+8,444+10,000 (v)- 1,800(iv))		82,708	3
Less HAG (59,186-1,620(iv)+10,000x75%(v))		(65,066)	2
		17,642	
Other assets (1,000+1,800+1,188+164 -600(vii)-[1,348-590]-446)		2,348	3
		19,990	1
Current Assets (9,390+1,298+2(vii))	10,690		
Less: Creditors due within 1 year (584+1,620(iv)+1,000)	(3,204)		1
Net Current Assets		7,486	
Total assets less current liabilities		27,476	
Creditors due after 1 year (12,648+25%x10,000)		(15,148)	1
Provisions for liabilities and charges Grant redemption fund		(94)	
Net Assets		12,234	
Capital and Reserves			
Share capital		2	
Designated reserves			
-Rent surplus reserve (540+572(i)-488(iii))		624	
-Repairs reserve (1,400-458(ii)+488(iii))		1,430	1
-Capital reserve(iv)		1,180	1
Accumulated surplus		8,998	1
		12,234	

14

NOTE TO THE ACCOUNTS

Change in accounting policies with regard to depreciation period for new computer.

1

(25)

Question 2

(a)

Performance Indicators

- evidence about performance
- may suggest problem areas
- assist in management of association
- comparisons over time and with peers
- limitations

½ mark for these or other valid points up to a maximum of 2

Benchmark Targets

- targets based on best practice
- systematic comparison of service against target
- continuous improvement process
- feedback from peers and partners
- requires behavioural changes
- staff commitment and involvement essential

*½ mark for these or other valid points up to a maximum of 2
(4)*

(b)

	Target	Toytown
Planned maintenance	£150	£143.32
Current tenant arrears	5%	6.6%
Unlet houses	2%	1.79%
Management costs	<100%	101.04%
First priority response repairs	90%	92.68%

Maximum of 1½ marks for calculation of each indicator 7½

Evaluation

Repairs and maintenance appears to be performing well,	1
planned maintenance is below cost target by around 5%	1
and first priority response repairs have bettered the target,	
and 97% completed within 3 days.	1½

*Up to maximum marks allocation other appropriate evaluation points should be rewarded
3½*

Management costs need to be investigated 1
As well as costs, management efficiency should be further investigated 1
Housing management appears not to be the problem. Unlet houses are below target 1
However, collection of rental income may be a difficulty as current tenant arrears are above target
and further analysis should be undertaken. 1

Up to maximum marks allocation other appropriate evaluation points should be rewarded
(4)

(c)

A large number of relevant PIs are possible. However, in light of discussion in (ii) above they could very well include further indicators of rental income collection efficiency.
1 mark for each relevant indicator, fully justified up to 6

(25)

Question 3

(i)

- service quality as important as cost
- review every element of every service
- make year on year improvements
- right to deliver services possibly at risk in event of failure
- competition one way, but not only way, to secure service efficiency
- needs changes in attitude, culture and management style
- enhanced accountability
- setting of targets and measuring performance against them
- targets set by Audit (Accounts) Commission, government, benchmark clubs etc.
- independent validation by external auditors
- four Cs
- best value framework
- etc.

1 mark for each valid point fully explained up to 10

(ii)

govt will seek to roll out to all sectors
cost reduction and quality improvements equally important for HAs
Housing Corporation best value pilots
benchmarking best practice
endorsed by Housing Corporation and Scottish Homes
applies to potential partners of HAs – local authorities and health care providers
etc.

1 mark for each valid point fully explained up to 5

(iii)

answers will of necessity be specific to student's workplace.

Allow 1 mark for each benefit fully described and fully illustrated with workplace examples

*Up to a maximum of 8
Report format and presentation 2*

(25)

Question 4

Cash flow statement for year ended 31 March 1999	£000	£000	
Net cash inflow from operating activities (note 1)		955	
Returns on investment and servicing of finance			
Income from short term investments	115		<i>1</i>
Interest paid	<u>(425)</u>		<i>1</i>
		(310)	
Taxation		0	
Capital expenditure			
Payments for buildings	(3235)		<i>2</i>
Payments for equipment	(600)		<i>2</i>
Receipts from fixed assets sold	195		
Net HAG (2425-25)	<u>2400</u>		
		<u>(1240)</u>	
Net cash outflow before financing		(595)	
Management of liquid funds			
Short term investments made		(500)	
Financing			
Share capital	5		<i>1</i>
Loans raised	2685		<i>2</i>
Loans repaid (1300+265+250)	<u>(1815)</u>		<i>2</i>
		<u>875</u>	
Decrease in cash		<u>(220)</u>	<i>1</i>
OPERATING SURPLUS			
Accumulated surplus increase (2065-1940)		125	<i>1</i>
Reserves increase (1245-1100)		145	<i>1</i>
Interest payable		425	
Interest receivable		<u>(115)</u>	
Surplus before taxation		<u>580</u>	<i>1</i>

NET CASH FLOW FROM OPERATING ACTIVITIES (NOTE 1)

Surplus before taxation	580	
Depreciation	280	1
Increase in provisions	225	1
Decrease in stocks	5	1
Increase in debtors	(155)	1
Increase in creditors	10	
Loss on sale of assets (35-20)+(95-150)+ (65-35)	<u>10</u>	2
	<u>955</u>	1

INTEREST PAYABLE

	Balance 1.4.98	Balance 1.4.99
Creditors > 1 year	3250	3880
Housing loans <1 year	1300	1570
Non housing loans < 1 year	<u>265</u>	<u>235</u>
	<u>4815</u>	<u>5685</u>

Average $4815 + 5685 = 10500 / 2 = 5250$

$5250 \times 8\% = 420$ add overdraft interest 5. Total = 425

INTEREST RECEIVABLE

Bank	10
Short term	<u>105</u>
	115

PAYMENTS FOR BUILDINGS, EQUIPMENT, VEHICLES

	Buildings	Equipment	Vehicles
Balance 1.4.98	18900	1750	800
Disposals (viii + ix)	(35)	(100)	(250)
Acquisitions (balancing figure)	<u>3235</u>	<u>250</u>	<u>350</u>
Balance 31.3.99	<u>22100</u>	<u>1900</u>	<u>900</u>
HAG/Depn. Balance 1.4.98	14500	1100	450
Disposals (viii+ix)	(25)	(80)	(100)
Additions/charges (balance)	<u>2425</u>	<u>130</u>	<u>150</u>
Balance 31.3.99	<u>16900</u>	<u>1150</u>	<u>500</u>

LOANS RAISED	Housing	Non housing
Balance 1.4.98	2500	750
Special repayment (vi)	(250)	
Repayable 1999/0 (ii)	(1570)	(235)
Raised during year (balancing)	2470	215
	<u>3150</u>	<u>730</u>
Balance 31.3.99		

RECONCILIATION OF NET CASH FLOW TO MOVEMENT OF DEBT

Decrease in cash	(220)	
Net cash raised by loans (3880-3250)	(630)	
Cash used to increase short term investments	500	
Change in net debt	(350)	<i>1</i>
Net Debt 1.4.98	<u>(1375)</u>	
Net Debt 31.3.99	<u>(1725)</u>	<i>1</i>

ANALYSIS OF CHANGE IN NET DEBT

	1.4.98	£000	31.3.99	
Cash	175	(220)	(45)	
Debt due after 1 year	(3250)	(630)	(3880)	
Short term investments	<u>1700</u>	500	<u>2200</u>	
	<u>(1375)</u>	(350)	<u>(1725)</u>	<i>1</i>
				(25)

Question 5

Funding

Housing Association Grant

Rental income

Loans

Grant % is diminishing – need to seek alternative resources

Such as partnerships with local authorities, Health authorities, private sector

Participate in govt. initiatives-urban renewal, inner city partnerships etc.

Etc.

1 mark for each point well made to maximum of 4

Asset accounting

Companies style

Fixed asset schedule

Valuation of housing stock

Depreciation of all non housing assets

No depreciation of houses

Changes in new SORP - depreciate housing stock

Etc.

1 mark for each point fully made to maximum of 4

Capital charges

Follow commercial practice- depn., interest on loans etc.

But no dividend to resourcers (govt) as this would only drive up rents and defeat purpose of social housing

NHS- depn. on replacement cost of assets;

-total cost pricing

-policy designed in era of competition

-etc.

1 mark for each valid point to maximum of 4

Corporate governance

Important in housing associations
Sound internal control procedures required and reviewed by Housing Corporation
(Scottish Homes)
Increased importance attached to internal audit
Audit Committees are encouraged by regulators
Application of Cadbury Report
etc.

1 mark for each valid point to maximum of 4

Accountability and stewardship

Legal requirements
FRS and SSAPs
UK GAAP
SORP
Companies Act reporting
True and fair view auditing
Regulation by Housing Corporation (Scottish Homes)
Review by govt. department and minister (also Scottish parliament and Welsh Assembly)
NAO and PAC
etc.

1 mark for each valid point to maximum of 4

Internal/external audit

Internal audit- employees of HA

- management tool
- review internal control systems
- independence not absolute but should be great as possible
- increasing importance

External audit

- independent validation of financial statements
- statutory duties
- true and fair view
- comply with APB guidance etc.
- will rely on work of internal audit and liase
- etc.

1 mark for each valid point to maximum of 4
1 mark for suitable format and presentation

(25)