FINANCIAL REPORTING IN HOUSING ASSOCIATIONS

Professional 2 examination
6 June 2000

From 10.00 am to 1.00 pm
plus ten minutes reading time from 9.50 am to 10.00 am.

Instructions to candidates

*Answer **four** questions in total: **Both** questions from Section **A**, and **two** questions from Section **B**. The marks available for each question are shown in italics in the right-hand margin.*

All workings should be shown. Where calculations are required using formulae, calculators may be used but steps in the workings must be shown. Calculations with no evidence of this (for example, using the scientific functions of calculators) will receive no credit. Programmable calculators are not permitted in the examinations room.

Formula sheets, statistical tables, graph paper and cash analysis paper are available from the invigilator, where applicable.

SECTION A (Answer both questions)

1

The following list of balances has been taken from the accounts of Quality Street Housing Association on 31 March 2000.

	£000
Turnover	2,640
Operating costs	1,947
Investment income	156
Interest paid	310
Repairs reserve	700
Rent surplus reserve	270
Housing held for letting	33,032
Housing under construction	4,222
Grant- HAG	29,593
Other fixed assets- buildings	900
Other fixed assets- equipment	594
Other fixed assets- vehicles	82
Cumulative depreciation (other fixed assets)	674
Current assets (excluding cash)	4,695
Cash	649
Creditors less than 1 year	292
Creditors after 1 year	6,324
Grant redemption fund	47
Share capital	1
Accumulated surplus	4,334
Capital suspense accounts	5,000 dr
Capital suspense accounts	6,400 cr

Additional information

The following transactions are not included in the above balances or have yet to be adjusted in the final accounts:

(i) The rent surplus for the year was £286,000 and should be transferred to the rent surplus reserve.

(ii) Operating costs includes repairs of £229,000 that should be financed from the repairs reserve.

(iii) An amount of £244,000 may be transferred from the rent surplus reserve to fund future major repairs.

(iv) Properties were sold during the year for £1,400,000 which originally cost £900,000. These properties were originally 90% funded from Housing Association Grant. Surpluses from the sale of properties after Housing Association Grant should be set aside in capital reserve for the funding of future developments. Any Housing Association Grant adjustments will be paid in April 2000. Proceeds have been coded to a capital suspense account and the assets have still to be written out of the accounts.

(v) Capital construction expenditure during the year amounted to £5 million which was 25% funded by borrowing, the rest being funded from Housing Association Grant. The capital expenditure and new funding have been entered in capital suspense accounts.

(vi) It is the Association's policy not to depreciate housing properties. Other assets should normally be depreciated in 1999/00 by charging a full year's depreciation in the year of acquisition and assuming nil scrap value, normally using the following asset lives:

Buildings over 40 years; and
Vehicles and equipment over 5 years.

(vii) Equipment was replaced at a cost of £500,000. The sale realised £1,000. The equipment originally cost £300,000 six years ago, and had a net book value equivalent to its estimated scrap value of £5,000. These transactions have not yet been recorded in the ledger.

- **Requirement for question 1**

(a) Prepare the Income and Expenditure Account for the year ended 31 March 2000. *10*

(b) Prepare the Balance Sheet as at that date. *15*

(25)

2 You are the Assistant Finance Manager of Trumpton Housing Association. In an attempt to broaden representation of the local community, Mr Cutless, a consultant neurologist at the nearby district hospital, has been invited onto the Board of Management. After a series of induction sessions organised by the Director, Mr Cutless has contacted the Finance Manager with a number of queries. Because of your detailed knowledge of capital accounting and your CIPFA studies, the Finance Manager has passed you the points raised by Mr Cutless and asked you to prepare a briefing note for her meeting next week to go over the queries.

The relevant passage from Mr Cutless's e-mail is:

"…first some general questions…

- How does the Association decide on its development/capital programme and what useful purpose does it serve?
- What sources are available to us to finance this programme?
- What are the implications for our rental levels of the different methods of finance?

Secondly, I have some detailed questions:

- Why do we value our housing stock at historic cost?
- What are the alternatives?
- What are these asset registers and what information do they contain?
- No depreciation is charged on our housing stock. How can this be justified?
- On what basis can we capitalise major repairs and development costs?"

- **Requirement for question 2**

Prepare a briefing note for the Finance Manager which:

(a) Addresses the general issues raised by Mr Cutless; and *12*

(b) Responds to his specific questions. *13*

(25)

3

SECTION B (Answer two questions)

The Chairman of your housing association has just returned from a national conference at which the keynote speaker, a distinguished academic, described performance measurement as “accountants playing with numbers”. Since his return, he has taunted the Finance Manager with this quote in a jocular fashion. However, there is also a serious side to this matter. A guidance note has just been received from the Housing Corporation (Scottish Homes, Tai Cymru) on the subject of performance indicators and benchmarks.

The guidance note contains performance indicators to be used in 1999/2000 and national benchmarks and also raises the possibility of the use of peer group analysis to evaluate the performance of individual housing associations. The following national benchmarks are contained in the guidance note:

Subject	Performance Indicator	Benchmark
Attendance at Board meetings	Average % attendance	60%
Unlet homes	% of houses	2%
Arrears	% of rents collectable	2.3%
Void losses	% of rents collectable	0.7%
Reactive repairs	% completed within target time	85%
Staff costs	% of income	25%

The Chairman is concerned to see how your association compares with these benchmarks and how the process of peer group analysis might be carried out. The Finance Manager tells you as a matter of urgency to draft a report on her behalf which covers these various points.

On investigation, you discover the following information relating to 1999/2000.

Number of houses	5,223
Totalrent receivable	£6,850,000
Reactive maintenance expenditure	£748,950
Unlet houses - average during year	93
Void losses	£64,590
Arrears - current tenants	£451,408
Staff costs	£1,688,134

Completion times (repairs) were (target all within 24 hours)

<24 hours	1,555
< 3 days	78
<7 days	26
>7 days	52

There are 12 members of the Board and attendances at the meetings (held six times a year) were 8, 6, 7, 5, 8, 4.

- **Requirement for question 3**

On behalf of the Finance Manager, draft a report to the Board which:

(a) Explains performance measurement and indicates its usefulness in the management process; *7*

(b) Evaluates the performance of the association against the benchmarks; *8*

(c) Suggests and justifies other suitable performance indicators; and *5*

(d) Indicates how the process of peer group analysis might be undertaken. *5*

(25)

4

The following information relates to Brookside Housing Association.

Balance Sheet as at 31 March	**1999**	**2000**
	£000	**£000**
Fixed assets	2,700	3,175
Net current assets	525	615
Creditors due after 1 year	(1,625)	(1,940)
Provisions	(75)	(190)
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	1,525	1,660
Share capital	5	6
Designated reserves	550	622
Accumulated surplus	970	1,032
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	1,525	1,660

Notes

(i) Fixed assets comprise:

	31 March 1999	**31 March 2000**
	£000	**£000**
Housing properties	9,450	11,050
Housing association grant	(7,250)	(8,450)
Office equipment (at cost)	875	950
Depreciation	(550)	(575)
Vehicles (at cost)	400	450
Depreciation	(225)	(250)

(ii) Net current assets comprise:

	31 March 1999	**31 March 2000**
	£000	**£000**
Stocks	22	20
Debtors	387	465
Short term investments	850	1,100
Bank	88	(22)
Creditors	(40)	(45)
Housing loans	(650)	(785)
Non-housing loans	(132)	(118)

(iii) Creditors due after one year comprise:

	31 March 1999 £000	31 March 2000 £000
Housing loans	1,250	1,575
Non-housing loans	375	365

(iv) Designated reserves comprise:

	31 March 1999 £000	31 March 2000 £000
Repairs reserve	300	377
Rent surplus reserve	175	150
Sales reserve	75	95

(v) During the year the following amounts were received/paid:

	£
Bank interest	5,000
Interest on short term investments	52,500
Interest on bank overdraft	(2,500)

(vi) During the year the housing association made an early repayment of a housing loan of £125,000 which was not due for repayment until 2001.

Interest paid on loans was equal to 8% of the average of loans outstanding at the beginning and end of the year.

(vii) Derelict properties to the value of £17,500 were sold to a property developer for £32,500 during the year. This disposal also resulted in a repayment of HAG amounting to £12,500.

(viii) Other fixed assets were sold as follows:

Asset	Cost	Net book value	Proceeds
Office equipment	£50,000	£10,000	£17,500
Vehicles	£125,000	£75,000	£47,500

(ix) Any surpluses arising from the sale of housing stock are credited to the sales reserve. Changes to other reserves arise as a consequence of transfers to and from the accumulated surplus.

- **Requirement for question 4**

Prepare the Cash Flow Statement for the housing association for the year ended 31 March 2000 together with the appropriate supporting notes. *(25)*

5

Your housing association has a sheltered housing complex designed to meet the needs of frail/elderly, ambulant tenants.

The complex has 22 places, although the average occupancy for the year at present is expected to be 18.

The Social Services Department of the local authority has approached your housing association with a number of joint initiative proposals. These include the possibility of utilising this spare capacity to house suitable Care in the Community clients.

Two alternative proposals have been made:

(i) To use the four spare places to provide respite for home carers. In this case the council would pay £624 per week and anticipates a 65% annual occupancy requirement.

(ii) To place four clients permanently in the units, with the council paying £492 per week.

Some concern has been voiced by board members that the housing association must ensure that it recovers full cost, if either of these options is accepted. As the Finance Officer, you have been asked to draft a report on the financial implications of these proposals for consideration at the next Board meeting.

As part of the data collection exercise, you have obtained the following annual cost information, based on current average annual occupancy levels:

	£
Care staff	200,000
Administration staff	76,000
Property costs	48,000
Equipment costs	18,000
Transport costs	28,000
Maintenance costs	44,000
Support costs and other charges	60,000
Cleaning staff*	16,000
Agency staff*	28,000
Catering*	96,000
Laundry*	18,000

*You decide that these costs vary with the occupancy level of the complex.

- **Requirement for question 5**

(a) Draft a report for the board meeting which details the financial and non-financial implications of both proposals and recommends the best option. *19*

(b) Describe briefly the various types of management accounting information that is used to help determine the rental policy of your housing association. *6*

(25)