

FINANCIAL REPORTING IN HOUSING ASSOCIATIONS

Professional 2 examination 7 December 1999

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** 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 Toytown Housing Association on 31 March 1999.

	£000
Turnover	5,280
Operating costs	3,894
Investment income	312
Interest paid	620
Repairs reserve	1,400
Rent surplus reserve	540
Housing held for letting	66,064
Housing under construction	8,444
Grant- HAG	59,186
Other fixed assets- buildings	1,800
Other fixed assets- equipment	1,188
Other fixed assets- vehicles	164
Cumulative depreciation (other fixed assets)	1,348
Current assets (excluding cash)	9,390
Cash	1,298
Creditors less than 1 year	584
Creditors after 1 year	12,648
Grant redemption fund	94
Share capital	2
Accumulated surplus	8,668
Capital suspense accounts	10,000dr
Capital suspense accounts	12,800cr

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 £572,000 and should be transferred to the Rent Surplus Reserve.
- (ii) Operating costs includes repairs of £458,000 that should be financed from the Repairs Reserve.
- (iii) An amount of £488,000 may be transferred from the Rent Surplus Reserve to fund future major repairs.

- (iv) Properties were sold during the year for £2,800,000 which originally cost £1,800,000. 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 1999. 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 £10 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 1998/99 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;
Vehicles and equipment over 5 years.
- (vii) The letting management computer system was replaced at a cost of £1,000,000 and is expected to last for 4 years (This item has not yet been paid for). The old system was sold for £2,000. It originally cost £600,000 six years ago, and had a net book value equivalent to its estimated scrap value of £10,000.

• **Requirement for question 1**

- (a) Prepare an Income and Expenditure Account for the year ended 31 March 1999. 10
- (b) Prepare a Balance Sheet as at that date. 15

(25)

2

You are the Assistant Finance Manager of Trumpton Housing Association. A Circular was received yesterday from the Housing Corporation (Scottish Homes) which dealt with revised monitoring arrangements for housing associations. The Circular contains a range of Key Performance Indicators and Benchmark Targets which will be used for the year 1999/00 onwards.

The Chairman of the Association has also received a copy of this Circular, and has just phoned in on his mobile to tell the Finance Manager he will be in tomorrow morning first thing to discuss the following Targets, in particular:

Planned maintenance (cost per house)	£150
Current tenant arrears (% of rent receivable)	5%
Unlet houses (% of stock)	2%
Management costs (% of maximum allowances)	<100%
First priority response repairs completed on time (24 hours)	90%

The Finance Manager tells you to drop everything and prepare a briefing note for her which:

- briefly explains the purpose and significance of performance indicators and benchmark targets;
- shows how Trumpton performed in 1998/99 compared to these targets; and
- suggests other relevant performance indicators and explains their usefulness.

On investigation you discover the following information for 1998/99.

Number of houses	10,445
Total rent receivable	£13,694,000
Planned maintenance expenditure	£1,497,000
Unlet houses – average during year	187
Maximum management allowances per house	£288
Arrears- current tenants	£903,804
Management costs	£3,039,500
First priority response repairs (total requests)	3,308
Response times were:	
<24 hours	3,066
<3 days	143
<7 days	47
>7 days	52

- **Requirement for question 2**

Prepare a briefing note for the Finance Manager which:

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|-----|--|------|
| (a) | Briefly explains performance indicators and benchmark targets. | 4 |
| (b) | Evaluates the 1998/99 performance of Trumpton against the Targets. | 15 |
| (c) | Suggests and justifies other relevant performance measures. | 6 |
| | | (25) |

SECTION B (Answer two questions)

3

The Chairman of your housing association has just returned from a national conference on urban regeneration and inner city partnerships. The keynote address at the conference was given by the Secretary of State and the theme was Rolling Out Best Value To The Whole Public Sector.

Your Chairman was very impressed by this concept and has asked the Finance Manager for a report on Best Value to be submitted to the next Board Meeting. You are summoned to the Finance Manager's office, and, because of your CIPFA studies, you are given the task of drafting a report for consideration by the Board.

Your report should explain what Best Value is; its key principles and objectives; and the relevance and applicability to housing associations.

• **Requirement for question 3**

Draft a report which:

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|-----|---|----|
| (a) | Outlines the main features of Best Value. | 10 |
| (b) | Considers its general applicability to housing associations. | 5 |
| (c) | Describes the particular benefits of Best Value and illustrates these with examples drawn from the organisation where you work. | 10 |

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4

The following information relates to Camberwick Green Housing Association.

Balance sheet as at 31 March	1998	1999
	£000	£000
Fixed assets	5,400	6,350
Net current assets	1,050	1,230
Creditors due after 1 year	(3,250)	(3,880)
Provisions	<u>(150)</u>	<u>(375)</u>
	<u>3,050</u>	<u>3,325</u>
Share Capital	10	15
Designated reserves	1,100	1,245
Accumulated surplus	<u>1,940</u>	<u>2,065</u>
	<u>3,050</u>	<u>3,325</u>

Notes

(i) Fixed assets comprise:

	31 March 1998	31 March 1999
	£000	£000
Housing properties	18,900	22,100
Housing association grant	(14,500)	(16,900)
Office equipment(at cost)	1,750	1,900
Depreciation	(1,100)	(1,150)
Vehicles (at cost)	800	900
Depreciation	(450)	(500)

(ii) Net current assets comprise:

	31 March 1998	31 March 1999
	£000	£000
Stocks	45	40
Debtors	775	930
Short term investments	1,700	2,200
Bank	175	(45)
Creditors	(80)	(90)
Housing loans	(1,300)	(1,570)
Non-housing loans	(265)	(235)

(iii) Creditors due after 1 year comprise:

	31 March 1998	31 March 1999
	£000	£000
Housing loans	2,500	3,150
Non housing loans	750	730

(iv) Designated reserves comprise:

	31 March 1998	31 March 1999
	£000	£000
Repairs reserve	600	755
Rent surplus reserve	350	300
Sales reserve	150	190

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

Bank interest	£10,000
Interest on short term investments	£105,000
Interest on bank overdraft	£(5,000)

(vi) During the year the housing association made an early repayment of a housing loan of £250,000 which was not due for repayment until 2000.

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

(viii) Derelict properties to the value of £35,000 were sold to a property developer for £65,000 during the year. This disposal also resulted in a repayment of HAG amounting to £25,000.

(ix) Other fixed assets were sold as follows:

Asset	Cost	Net value	Proceeds
Office equipment	£100,000	£20,000	£35,000
Vehicles	£250,000	£150,000	£95,000

(x) 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 1999, together with the appropriate supporting notes.

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Last month your housing association appointed three new board members in an attempt to achieve broader representation of local interests. One of these new members is a professor of nuclear physics at the local university, Professor Homer Simpson. Professor Simpson has spent all his life in scientific research but is very enthusiastic and keen to make a contribution to the management of the association.

This morning, you arrive at your office to find the following urgent e-mail waiting for you:

“ Thank you for all the reading material you sent me about the association, its objectives and how it is managed. I have one or two queries and wonder if you would be good enough to let me have some brief answers.

- *How is the association funded, and can we increase our resource base?*
 - *How do we account for our assets and why are some assets not depreciated?*
 - *At the NHS Trust where I am a Director, capital charges are very important. Do we have anything similar?*
 - *Our last Trust board meeting centred around internal control and setting up an Audit Committee. How do these matters apply to housing associations ?*
 - *I am a Trustee of several local charities where accountability and stewardship are very big issues. What are the arrangements within the association for demonstrating accountability and stewardship?*
 - *Finally, what exactly are the roles of internal and external auditors?”*
- **Requirement for question 5**

Provide a response to Professor Simpson’s e-mail in a suitable format.

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