FINANCIAL REPORTING IN HOUSING ASSOCIATIONS

Professional 2 examination
June 2000

MARKING SCHEME

CIPFA

Question 1

(a) **Income and expenditure account for the year ended 31 March 2000**

	£000	**£000**	
Turnover (2,640+1,400 (iv)		4,040	*1*
Less: Operating costs (1,947+197(vi+vii)+4 (vii)	(2,148)	(3,048)	*3*
Cost of sales(iv)	(900)		*1*
Operating surplus		992	
Interest receivable		156	
Interest payable		(310)	
Surplus for year		838	
Transfer to /from Designated Reserves			
Rent surplus for year (i)	(286)		*1*
Repairs for year (ii)	229		*1*
Capital surplus on sale (1,400- 900x90%)	(590)	(647)	*2*
Retained Revenue Reserve		191	
Revenue Reserve b/f		4,334	
Revenue Reserve c/f		4,525	*1*

	Cost £000	**Depreciation rate**	**Depreciation charge**
Buildings	900	2.5%	22
Equipment (594-300)	294	20%	59
Vehicles	82	20%	16
New equipment	500	20%	100
			197

N.B. Students may also use 198 for depreciation *(10)*

(b)

Balance Sheet as at 31 March 2000

	£000	£000	
Tangible Fixed Assets			
Housing properties			
(33,032+4,222+5,000 (v)-900(iv))		41,354	*3*
Less HAG			
(29,593-810(iv)+5,000x75%(v)		(32,533)	*2*
		8,821	
Other assets (500+900+594+82			
-300(vii)-[674-295]-197)		1,200	*4*
		10,021	
Current Assets (4,695+649+1(vii) -500	5,345		*1*
Less: Creditors due within 1 year			
(292+810(iv)+500)	(1,602)		*1*
Net Current Assets		3,743	
Total assets less current liabilities		13,764	
Creditors due after one year		(7,574)	*1*
(6,324+25% x 5,000)			
Provisions for liabilities and charges		(47)	
Grant redemption fund			
		6,143	
Net Assets			
Capital and Reserves			
Share capital		1	
Designated reserves			
-Rent surplus reserve			
(270+286 (i)-244 (iii)		312	*1*
-Repairs reserve			
(700-229 (ii)+244 (iii)		715	*1*
-Capital reserve (iv)		590	*1*
Accumulated surplus		4,525	
		6,143	

(15)
(25)

Question 2

(a)

capital/development programme

- 3 year period linked to regulatory body's allocation process
- initial reports on viability/cost of schemes/revenue implications
- prioritisation/phasing of schemes
- approval of regulator
- matching expenditure with finance
- facilitate achievement of objectives

purpose

- strategic implementation
- monitoring and control
- optimise use of resources
- report progress against targets/remedial action
- regular and useful management information
- manage uncertainties/slippage

½ mark for each of these or other valid points up to maximum of 6

Sources of finance

HAG
Sale of assets
Loans
Leasing
PFI

1 mark each for these or other sources fully explained to maximum of 4

Implications for rental levels
- wide range of possible answers eg.
Sale of assets- no implications
HAG- meet costs of non-HAG financed portion of cost
Loans/ Leases/PFI- meet full cost from rentals
Trade off- higher initial costs v lower long term maintenance costs (for some types of projects)

½ marks for each valid point made to maximum of 2

(12)

(b)

Valuation of assets

- Choice of Historic Cost or Valuation
- Historic cost- traditional method, used in company style reporting, easy to understand
- Valuation- OMVEU-RHA. Valuation by Surveyor under certain assumptions eg. willing seller, market conditions , no restrictions on sale or use.
- New SORP continues this choice of historic cost or valuation (EUV-SH)

½ mark for each valid point up to maximum of 4

Asset registers

- Record of full and current information on all assets held
- Helps to calculate depreciation, asset accountability, better management of assets
- Description/ category/unique identification reference
- Date/method of acquisition
- Initial cost/revaluation
- Asset life/depreciation method

1 mark for each valid point fully made to maximum of 4

Depreciation on housing stock

At present, not required if properties are maintained in good order throughout life by means of properly managed maintenance programme.
New SORP rejects this procedure; as all properties have finite life and at some point becomes uneconomical to continue repairing them.

2

Capitalise major repairs

FRS15- increases economic benefit
New SORP-enhances rental income, reduces future maintenance costs, extends life of asset

2

Development costs

-Only directly attributable costs
-costs entirely related to development
-cease at date of practical completion

1

(13)
(25)

Question 3

(a)

Performance Measurement
- Need for accountability
- No profit measure
- VFM/efficient use of resources
- Report to regulatory body/govt./public
- Problems and use of intermediate outputs
- Definitions
- Performance indicators
- Comparators/enhancement/benchmarking/Best value etc.
- Gauges level of performance

- 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 7

(b)

	Benchmark	**Your HA**
Attendance at meetings	60%	52.8%
Current tenant arrears	2.3%	6.59%
Unlet houses	2%	1.8%
Void losses	0.7%	0.94%
Reactive repairs completion	85%	91%
Staff costs	25%	24.64%

Calculation of PIs *4*

Evaluation

Repairs and maintenance appears to be performing well, *1*
Governance - below benchmark, laxity? *1*

Management costs need to be investigated as office costs not available *1*

Housing management appears to be the problem. Both voids and arrears are above the benchmark
and further analysis should be undertaken. *1*

Up to a maximum of 4 marks allocation; other appropriate evaluation points should be rewarded

(8)

(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.

Further evidence needed on governance and management activity/efficiency
Unit costs for repairs and maintenance

1 mark for each relevant indicator, fully justified up to 5

(d) Peer group analysis

- Select comparators based on size, location, category, socio-economic factors
- Special considerations-sparsity, deprivation etc.
- Identify best practice
- Disseminate best practice
- Benchmarking clubs etc.

1 mark for each relevant point fully explained up to maximum of 5

(25)

Question 4

Cash flow statement for year ended 31 March 2000	**£000**	**£000**	
Net cash inflow from operating activities (note 1)		478	
Returns on investment and servicing of finance			
Income from short term investments	57.5		*1*
Interest paid	(212.5)		*1*
	-----------	(155)	
Taxation			
		0	
Capital expenditure			
Payments for buildings	(1617.5)		*2*
Payments for equipment	(300)		*2*
Receipts from fixed assets sold	97.5		
Net HAG (1212.5-12.5)	1,200		
	-----------	(620)	
Net cash outflow before financing		(297)	
Management of liquid funds		(250)	
Financing			
Share capital	1		*1*
Loans raised	1,343		*2*
Loans repaid (650+132+125)	(907)		*2*
	-----------	437	
Decrease in cash		(110)	*1*

<u>Operating surplus</u>

Accumulated surplus increase (1032-970)	62	*1*
Reserves increase (622-550)	72	*1*
Interest payable	212.5	
Interest receivable	(57.5)	
Surplus before taxation	289	*1*

<u>Net cash flow from operating activities (Note 1)</u>

Surplus before taxation	289	
Depreciation	140	*1*
Increase in provisions	115	*1*
Decrease in stocks	2	*1*
Increase in debtors	(78)	*1*

Increase in creditors	5	*1*
Loss on sale of assets (17.5-10)+(47.5-75)+ (32.5-17.5)	5	*2*
	478	

Interest payable

	Balance 1 April 1999	**Balance 1 April 2000**
Creditors > 1 year	1625	1940
Housing loans <1 year	650	785
Non housing loans < 1 year	132	118
	2407	2843

Average 2407+2843 =5250/2 = 2625
2625x 8% = 210 add overdraft interest 2.5. Total = 212.5

Interest receivable

Bank	5
Short term	52.5
	57.5

Payments for Buildings, Equipment, Vehicles

	Buildings	**Equipment**	**Vehicles**
Balance 1.4.99	9450	875	400
Disposals (vii+viii)	(17.5)	(50)	(125)
Acquisitions (balancing figure)	1617.5	125	175
Balance 31.3 00	11050	950	450
HAG/Depn. Balance 1.4.99	7250	550	225
Disposals (vii+viii)	(12.5)	(40)	(50)
Additions/charges (balance)	1212.5	65	75
Balance 31.3 00	8450	575	250

Loans raised

	Housing	**Non housing**
Balance 1.4 99	1250	375
Special repayment (vi)	(125)	
Repayable 2000/01 (ii)	(785)	(118)
Raised during year (balancing)	1235	108
Balance 31.3.00	1575	365

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Reconciliation of net cash flow to movement of debt

Decrease in cash	(110)	
Net cash raised by loans(1940-1625)	(315)	
Cash used to increase short term investments	250	
Change in net debt	(175)	*1*
Net Debt 1.4 99	687	
Net Debt 31.3 00	862	*1*

Analysis of change in net debt

	1.4.99	31.3.00	Change	
Cash	88	(22)	(110)	
Debt due after 1 year	(1625)	(1940)	(315)	
Short term investments	850	1100	250	
	(687)	(862)	(175)	*1*

(25)

Question 5

(a) Fixed costs	474,000	*1*

Variable costs

Cleaning staff	16,000/18 = 889 per resident	*1*
Agency staff	28,000/18 = 1556	*1*
Catering	96,000/18 = 5,333	*1*
Laundry	18,000/18 = 1,000	*1*

Total cost at full occupancy

Fixed costs	474,000	
Cleaning (889x22)	19,558	
Agency (1556x22)	34,232	
Catering(5333x22)	117,326	
Laundry(1000x22)	22,000	
	667,116	*1*

Weekly cost per resident	667,116/22/52 = 583.14	*1*
Weekly cost	583.14	
Option 1 income	624	
Option 2 income	492	*1*

Would appear unit cost analysis rules out option 2 but must look at marginal cost analysis *1*

Option 1

Additional cost (4 more residents)
889+1556+5333+1000 = 8778x4 = 35,112

65% occupancy	= 22,823	*1*
Additional income(4x624x52x65%)	= 84,365	*1*
Surplus income	61,542	

Option 2

Additional cost	35,112	*1*
Additional income (4x492x52)	102,336	*1*
Surplus income	67,224	

Other factors (eg)
Cost mix (fixed/variable) may change
For some weeks occupancy may potentially exceed 18
Marginal costing not appropriate for long term arrangement
Other suitable comment *up to a maximum of 3*

Recommend option 2 and justify *1*

Report format, clarity, logical argument etc. *up to a maximum of 2*

(19)

(b)

Answers will be particularised to student's own housing association, but should cover:

– total cost recognition
– cost allocation
– overhead/support costs
– planned occupancy
– full cost recovery
– restricted use of marginal cost pricing
– unit cost
– benchmarking/clustering
etc.

up to a maximum of 6
(25)