

2 March 2016

Ordinary Council

Housing Revenue Account (HRA) Budget 2016/17

Report of: *Chris Leslie, Finance Director*

Wards Affected: *All*

This report is: *Public*

1. Executive Summary

- 1.1 The report considers the Medium Term Financial Plan for the Housing Revenue Account (HRA).
- 1.2 The report also includes results of the tenant consultation and the consideration of the Environment & Housing Management Committee concerning the proposed rent charges for 2016/17.

2. Recommendation(s)

- 2.1 To approve the HRA Business Plan for 2016/17 and beyond as shown in Appendix C of this report.
- 2.2 To agree a 1% decrease in rents for General Need Housing for 2016/17 and for the following 3 years.
- 2.3 To agree to freeze the rents for Supported Housing for 2016/17 and then apply a 1% decrease for the following 3 years as outlined in paragraph 4.18.
- 2.4 To agree to freeze the proposed Service Charges for 2016/17 for tenants.
- 2.5 To agree to apply the formula rent to all new tenancies from April 2016/17.
- 2.6 To agree the Fees and Charges proposed at Environment and Housing Management Committee on 9 December 2015 (attached as Appendix A).
- 2.7 To note the Section 151 Officer's Assurance Statement on the robustness of the estimates and adequacy of the reserves.

3 Introduction and Background

- 3.1 The HRA is the budget operated by the Council which contains the income and expenditure of services connected with the Council's Housing Landlord role.
- 3.2 The main source of income into the HRA is the rental income from the properties let by the Council. These rents are calculated by reference to a Government formula which provides a target rent for the Council's properties to reach over a period of time.
- 3.3 From April 2012, a new system in Self Financing came into force for local authority social housing.
- 3.4 Self Financing represents a significant change in the way the Council's housing stock is funded. In principle, it gives more local accountability and responsibility for the operation of the Council's housing stock. The key elements of Self Financing are:
- The Government calculated a level of debt based on a 30 year assessment on expenditure, which was transferred to the authority to compensate the Government for the end of the subsidy scheme. For Brentwood, this was assessed at approximately £64.4million. We have borrowed to service this debt.
 - Councils have full responsibility for the maintenance and development of the housing stock and also the servicing of the debt.
 - A sum for depreciation of the stock is required to be included in the accounts.
- 3.5 The method of setting rents has changed in the Government's summer budget 2015. As part of the new Welfare Reform and Work Bill 2015/16 it was announced that rents in the social housing sector will be reduced by 1% a year for the next four years.

Service Charges

- 3.6 **Tenant Service Charges** - Historically, the Council has increased tenant service charges through a 'rolling reconciliation'. The 'rolling reconciliation', compares the previous year's actual to the budgeted figure. The under/over recovery is then passed onto the tenant in the following year. This ensures service charges are cost recovered. For 2015/16 the tenant service charges were frozen at current levels. Where the service charge had decreased this was passed onto the tenant.

- 3.7 It is recommended that we freeze the tenant services charges in 2016/17. The reason behind the proposed freeze is due to the decision made at the Environment and Housing Management Committee that a further report is presented to the Committee providing details of the outcome of a planned review of the current service charges. This outcome of this review will inform the 2017/18 charging levels for tenants.
- 3.8 **Leaseholder Service Charges** - these are levied by the Council, to recover the costs the Council incurs in providing services to a dwelling. The way in which the service charge is organised is set out in the leaseholder's lease or tenancy agreement and therefore they will be calculated accordingly.

Fees and Charges – Recharging Policy

- 3.9 On the 23 September 2015 the Environment and Housing Committee approved the new recharge policy. Previously recharges for Housing services have only been recovered on an ad hoc basis. This has led to the council subsidising some of the costs, which is ultimately passed on to the Council.
- 3.10 In addition to reviewing discretionary services, Officers have also reviewed the services the Council pays for, which are deemed rechargeable, but the Council is currently subsidising. It is hoped that the introduction of the re-charging policy, for these services will encourage tenants to be more aware and also more responsible for their property and actions within their property.
- 3.11 Prices have been calculated with the following price mechanism:
- 2016/17 – Cost price less 30%
 - 2017/18 – Cost price less 25%
 - 2018/19 – Cost price less 20%

Each year the percentage deducted will decrease by 5% until the full cost price is recovered.

- 3.12 The schedule of the fees and charges were agreed at the Environment and Housing Management Committee of 9 December 2015 and are attached as Appendix A.

4. Issues, Options and Analysis of Options

Projected Outturn 2015/16

- 4.1 The estimated outturn for the HRA Fund is a potential surplus £240k as at 31 March 2016 which is in line with the original budget for 2015/16 which projected a surplus of £234k. The anticipated surplus will deliver a working balance at the end of the financial year of £2 million and an earmarked reserve balance of £1.9 million.
- 4.2 The HRA budget for 2016/17 indicates a surplus of £292k. The key variations from the budget are:
- The budget for Repairs and Maintenance has decreased by £250k. This is based on the agreement that non priority planned maintenance works are stopped for a year while a stock condition survey is carried out to inform the new capital program from 2017/18 onwards.
 - Increase in employee Costs for increments and pay inflation, offset by the budget removal of project management support, results in a growth of £6k.
 - Central Recharges to the HRA have increased by £57k.
 - There is now a service level agreement for the out of hour's work CCTV carry out for HRA. This agreement is a charge to the HRA of £51k per annum.
 - Inflation has increased by £44k.
 - Depreciation, that does hit the HRA bottom line, has increased by £135k based on slight increase in valuations as at 31st March 2015.
 - Dwelling Rent Income decreases by £214k taking into consideration the government rent decrease proposed within this report as well as the reduction in income due to the sales of council dwellings. However Supported Housing Rents are to remain frozen.
 - Contribution towards Expenditure has decreased by 58k. This is due a reduction in grant income from Supporting People.
 - In 2016/17, one of the first HRA Self Financing Loans is due to be repaid. Repayment of the loan of £5 million will be funded from funds set aside.

HRA Working Balance

- 4.3 The HRA working balance must continue to be managed so that it provides the flexibility to manage unexpected demands and pressures without destabilising the Council's overall financial position. The level of the Working Balance should provide a reasonable allowance for unquantifiable risks or one off exceptional items of expenditure that are not covered within existing budgets. The Working Balance can also be used to act as a source of pump priming investment and/or to deliver "invest to save" projects.
- 4.4 General guidance and practice amongst other authorities varies. Options include a percentage of total income, and a set value per Council Dwelling. However, individual risk assessments undertaken at a local level are considered best practice.
- 4.5 The Working Balance can be used to correct inflation assumptions, increase capital spend, repay debt early or to fund new HRA capital projects.
- 4.6 The average working balance for the period 2016/17 to 2018/19 is expected to be £2.2 million. This is deemed for the Council as an acceptable, assured level of balances.

Earmarked Reserves

- 4.7 In addition to the HRA Working Balance, the Council keeps two HRA Earmarked Reserves on the Balance Sheet. These Reserves are as follows:
- Carpets for Sheltered Schemes –this reserve will be utilized in 2015/16 to fund the purchase of the carpets in the recently refurbished sheltered scheme.
 - Council Dwellings Investment Fund – this reserve receives an annual contribution from the HRA (as outlined in the Business Plan), to support future investment in the Council's housing stock. The anticipated balance in this reserve as at 31 March 2016 is £1.5 million. The MTFP assumes a voluntary annual contributions of between £100k to £500k per annum for the period 2016/19 as long as it is affordable.

Rent Levels

- 4.8 For the last five years, the Council has held a consultation process both with our tenants in general, and with Tenant Talkback in particular, so that the views of our tenants are taken into account in this important decision.
- 4.9 As part of the government summer budget, rent policy has changed and all social housing rents for General Need Housing are to decrease by 1% from 2016/17 until 2019/20 inclusive.
- 4.10 Under the new rent policy, the main changes are:
- Current rents to reduce by 1% and for the next four years from 2016/17.
 - Formula Rents can still be applied to all new tenancies, however these must reduce by 1% for 2016/17 and the next three years.
- 4.11 The rent year for 2016/17 will commence on 4 April 2016 and finish on 2 April 2017. It will be a 52 week rent year.
- 4.12 The Rent Model for 2016/17 applies the Governments summer budget change as part of the new Welfare Reform and Work Bill 2015/16.

Supported Housing Rents

- 4.13 On 27 January 2016 it was confirmed by the Welfare Reform minister that a year long exemption would apply to Supported Housing regarding rent reduction. This exemption will give the government time to study its findings from its review into the cost of providing supported housing.
- 4.14 This announcement means that providers of Supported Housing have the option to increase their rents in line with the consumer process index (CPI) as at September 2016 plus 1% (0.9%). All general needs properties will have their rents decreased by 1%.
- 4.15 The Welfare Minister has also pledged to put in place protections for supported housing tenants hit by plans to cap housing benefit in line with Local Housing Allowance (LHA) rates.
- 4.16 The reason behind the exemption is because the costs of providing Supported Housing are higher than those of General Needs Housing, and that providers rely on housing benefit funding for services such as wardens and the upkeep of Supported Housing facilities.

- 4.17 This announcement means that the HRA could receive additional income than previously proposed to the Environment and Housing Management Committee on 9 December 2015, the increase for the next 4 years is shown in Table 1.

Table 1

2016/17	2017/18	2018/19	2019/20	Total
£36,788	£36,419	£36,055	£35,695	£144,957

- 4.18 If the Council decides to freeze Supported Housing rents in 2016/17 and then apply the decrease of 1% from 2017/18 to 2019/20, the additional income to the HRA compared to the amount previously proposed to Environment and Housing Management Committee on 9 December 2015 for the next four years is shown in Table 2.

Table 2

2016/17	2017/18	2018/19	2019/20	Total
£19,367	£19,172	£18,981	£18,791	£76,311

General Needs Housing Rents

- 4.19 The average proposed decrease for General Needs Properties in 2016/17 is 1% and the average rent decrease is £0.97 per resident. The average increase for Supported Housing properties in 2016/17 is 0.9% and the average increase is £0.75 per resident, if rents were increased. However recommendation is for supported housing rents to be frozen so 0% change to their rents.
- 4.20 If the rents are charged at the model's current calculation then the gross income will be £12.259m (2015/16 £12.351m). The allowance for properties empty ("Voids") between letting will be 1%, therefore the expected Void budget will be £123k (2015/16 £123k).
- 4.21 Based on the new rent policy, the HRA will lose £214k of rental income in 2016/17. Over the 30 year business plan, the loss of rental income is estimated at £84.3 million.
- 4.22 The rental charges and impact have been outlined in Appendix B.

Tenant Service Charge Policy

- 4.23 The proposed rent decreases do not include service charges – specific additional charges for tenants primarily of flat blocks, relating to the provision of specific services, such as heating, communal lighting and caretaking.
- 4.24 For 2016/17, it is proposed the tenant service charges are frozen, with a review on service charges to be carried out during 2016/17 in order to inform the charging policy from 2017/18 onwards.
- 4.25 Government guidance suggests service charges should not be increased by more than CPI + 1%. This guidance will be included in the service charge review.

2016/17 Rent Decrease – Options

- 4.26 The impact of a four year decrease of 1% on the rent is a loss of income not just for the year in question, but, if the deficit is not made up in the following year, amounts to a year on year decrease in income over the course of the Business Plan.
- 4.27 The rent reduction has resulted in the HRA making a deficit in 2017/18. Officers have reviewed the planned maintenance and capital works programmes provisionally planned for 2016/17. It is proposed that only priority works are completed.

The review of the planned and capital works program will result in a one off decrease to the planned budget of £250k, and a one off decrease to the capital program of £1 million. This is to balance the HRA budget for 2016/17.

- 4.28 By only completing priority works over the next 12 months whilst the Stock Condition Survey is completed; it will allow us to take stock, review and improve our approach to planning and identifying planned maintenance and capital works in the future.

HRA Business Plan

- 4.29 The HRA Business Plan has been updated with the recommendations proposed in this report. A sensitivity analysis has been carried out to ensure the robustness of the 30 year plan. A summary is attached in Appendix C.
- 4.30 The following assumptions have been taken into account when considering the revised Business Plan:
- The financial viability of the HRA.
 - Delivering a repairs capital programme of £2m for 2016/17 and then £3m from 2017/18 onwards.
 - Delivering an Affordable Housing Development Program in addition to the Decent Home Capital program. This averages at £2.35m for 2016/17 & 2017/18 and 436k from 2018/19 onwards. This program is also dependent on the number of right to buy sales made.
 - Budget provision for repayment of HRA self financing debt of £64.166m.
 - No allowance has been made for growth bids.
 - Affordability for tenants.
 - The 1% decrease has been applied to rental income for the next four years and then rental income is assumed to increase from 2020/21.

Section 151 Officer's Assurance

- 4.31 Section 25 of the Local Government Act 2003 requires that, when the Council is considering next year's budget and rent levels, the Council's Section 151 Officer (Finance Director) must report on:
- The robustness of the estimates, and
 - The adequacy of the proposed financial reserves.
- 4.32 The estimates are considered robust. Realistic assumptions have been incorporated with regards to inflationary increases, and where appropriate these have been reflected in both expenditure and income.
- 4.33 The budget includes planned contributions to the reserves which will provide resources for investment and debt repayment requirements.

5. Reasons for Recommendation

- 5.1 Effective financial management underpins all of the priorities for the Council.
- 5.2 The Council is required to compile a budget which collates all the income and expenditure relating to the Council's housing stock. The Council is also required to agree the rent levels and notify tenants of any changes to their rents.

6. Consultation

- 6.1 A meeting was held with the Tenants Talk Back Group on the 9 and 23 November 2015 to discuss the proposed rent setting for 2016/17. In principle the Tenants Talkback Group agreed to rent reductions of 1% and agreed to only prioritizing works in planned maintenance and capital works programme during 2016/17 whilst a stock condition survey is undertaken.
- 6.2 Tenants Talkback Group has requested a letter is sent to all residents advising them of the changes.
- 6.3 This reduction is timely when tenants are concerned about affordability issues with the on set of Universal Credit in 2016/17.
- 6.4 A meeting was held on with the Tenants Talkback Group on 24 November 2015. They recognized the need for the fees & charges proposal and agreed to them. Again they asked all tenants are notified of the new fees and charges.
- 6.5 The Chair of the Tenants Talkback Group will be notified of the proposed changes to Supported Housing Rents.

7. Reference to Corporate Plan

- 7.1 The Council has a legal obligation to produce a balanced HRA budget and to set the Housing Rent levels for 2016/17.

8. Financial Implications

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- 8.1 The impact of the changes to the rent levels are outlined in the report. The government recommendation to decrease rents by 1% for the next 4 years does impact on the anticipated surplus on the HRA Business Plan. The actions arising from this report will ensure that the HRA sets a balanced budget.
- 8.2 The proposal from the government that a year long exemption would apply on Supported Housing rents is because providing Supported Housing is more expensive than providing General Needs Housing for Brentwood's HRA. Therefore, with the uncertainty surrounding the Supporting People Grant the additional income can contribute towards providing this much needed housing in the Borough.
- 8.3 The estimates are considered robust. Realistic assumptions have been incorporated with regards to inflationary increases, and where appropriate these have been reflected in both expenditure and income.
- 8.4 The budget includes planned contributions to the reserves which will provide resources for investment and debt repayment requirements.

Legal Implications

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- 8.5 The Council has a legal obligation to produce a balanced HRA budget and to set the Housing Rent levels for 2016/17.

9. Background Papers

- 9.1 2 November 2015 - Policy, Finance and Resources Committee Agenda and Minutes.
- 9.2 9 December 2015 - Environment and Housing Management Committee Agenda and Minutes.

10. Appendices

- 10.1 Appendix A - Fees & Charges 2016/17
- 10.2 Appendix B – Rent Analysis
- 10.3 Appendix C – 30 Year Business Plan

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Appendix A

Fees & Charges 2016/17

FEES & CHARGES SCHEDULE AND CHARGING DIRECTORIES FROM 2016/17 ONWARDS						
Committee: Environment and Housing Management Committee Budget Book Area: HRA Service Area: Supervision & Management						
Description of charge	Vat Indicator	Statutory fee (S) of Discretionary	Actual Charge as at 1 April 2015	Actual Increase 2016	Proposed Charge from April 2016 Rounded	Increase %
Housing Estates						
			£10 Per Square Foot		£10 per week	
Storage - Evictions	S	D		0.00		0.0%
Copying of Housefile	O	D	12.61	-2.61	10.00	-20.7%
Copying of Tenancy Agreement	O	D	12.61	-12.61	0.00	-100.0%
Garage Clearance	S	D	0.00	42.00	42.00	100.0%
Property Clearance 1 or 2 Beds	S	D	0.00	-	102.00	100.0%
Property Clearance 3 or 4 Beds	S	D	0.00	156.00	156.00	100.0%
* Bulk Waste Removal	O	D	0.00	10.00	£10 per item	100.0%
Tenancy Management						
			Average £376		Average £376	
Court Costs	O	D		0.00		100.0%
Gas Servicing Warrant Fee	S	D	0.00	24.00	24.00	100.0%
Gas Servicing Warrant Enforcement	S	D	0.00	42.00	42.00	100.0%
Forced entry	S	D	0.00	42.00	42.00	100.0%
* Missed Appointments	S	D	0.00	24.00	24.00	100.0%
FEES & CHARGES SCHEDULE AND CHARGING DIRECTORIES FROM 2016/17 ONWARDS						
Committee: Environment and Housing Management Committee Budget Book Area:HRA Service Area: Reapirs & Maintenance						
Description of charge	Vat Indicator	Statutory fee (S) of Discretionary	Actual Charge as at 1 April 2015	Actual Increase 2016	Proposed Charge from April 2016 Rounded	Increase %
Rechargeable Repairs						
Replacement Key/Key Fob	S	D	12.00	-6.00	6.00	-50.0%
Lock Change	S	D	0.00	66.00	66.00	100.0%
Single Glaze Window Replacement upto 1 Square Metre	S	D	0.00	60.00	60.00	100.0%
Single Glaze Window Replacement over 1 Square Metre	S	D	0.00	90.00	90.00	100.0%
Double Glazed Window Replacement upto 1 Square Metre	S	D	0.00	102.00	102.00	100.0%
Double Glazed Window Replacement over 1 Square Metre	S	D	0.00	150.00	150.00	100.0%
Internal Fire door Replacement	S	D	0.00	150.00	150.00	100.0%
External Door Replacement	S	D	0.00	720.00	720.00	100.0%
Paint Pack	S	D	0.00	84.00	84.00	100.0%
Correction of Unauthorised Alterations (Where Tenants have conducted works without the permission of the Council and retrospective permission can not be granted)	S	D	0.00	70.00	Cost Price - 30%	70.0%
Any other repair deemed re-chargeable	S	D	0.00	70.00	Cost Price - 30%	70.0%
Note: Pricing Mechanism: Cost Price - 30% rounded to the nearest £5 the % reduction will reduce by 10% each year until the full cost is recovered						

Appendix B

Analysis of Rent Increases/Decreases for 2016/17 (Excluding Service Charges)

The rent model has reduced actual rents for 2016/17 by 1% on General Need Housing and increased Supported Housing rents by 0.9%. By applying this to the rent calculation from the Rent Setting guidance, an average rent decrease of £0.82 per week. Further details are as follows:

Flats

No of Bedrooms	Average Rent £	Average decrease £	Average Decrease %	No of Properties
Bedsit	65.43	-0.66	1	35
1	78.08	-0.79	1	324
2	90.05	-0.91	1	403
3	95.04	-0.96	1	57
Total Average	81.62	-0.82	1	819

Houses/Bungalows

No of Bedrooms	Average Rent £	Average decrease £	Average Decrease %	No of Properties
Bedsit	72.08	-0.73	1	30
1	85.97	-0.87	1	86
2	99.47	-1.01	1	364
3	110.96	-1.12	1	627
4	133.76	-1.35	1	16
Total Average	102.21	-1.03	1	1,123

Supported Housing 0.9% Increase

No of Bedrooms	Average Rent £	Average Increase £	Average Increase %	No of Properties
Bedsit	68.63	0.61	0.9	55
1	84.46	0.75	0.9	359
2	105.49	0.94	0.9	33
Total Average	84.07	0.75	0.9	447

Supported Housing Rent Freeze

No of Bedrooms	Average Rent £	Average Increase £	Average Increase %	No of Properties
Bedsit	68.02	0.00	0.0	55
1	83.71	0.00	0.0	359
2	104.55	0.00	0.0	33
Total Average	83.32	0.00	0.0	447

Appendix C
HRA Business Plan Summary

Brentwood Borough Council											
Summary Business Plan											
Year	2015/16	2016/17	2017/18	2018/19	2019/20	2020/25	2025/30	2030/35	2035/40	2040/45	TOTAL
Details of Expenditure	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Repairs and Maintenance	2,670	2,420	2,670	2,670	2,737	14,745	16,682	18,875	21,355	24,161	108,985
General Management	1,531	1,612	1,621	1,640	1,661	8,634	9,214	9,841	10,522	11,261	57,537
Special Services	1,055	1,177	1,225	1,234	1,256	6,619	7,231	7,911	8,666	9,506	45,879
Supervision and Management Total	2,586	2,789	2,846	2,874	2,917	15,252	16,445	17,752	19,188	20,767	103,416
Rent, Rates, Taxes and Other Charges	194	194	198	202	207	1,116	1,262	1,428	1,616	1,828	8,244
Subsidy Payable	0	0	0	0	0	0	0	0	0	0	0
Depreciation and Impairment of Property	2,184	2,318	2,318	2,318	2,318	10,150	10,150	10,150	10,150	10,150	62,206
Increased Provision for Bad Debts	85	85	85	85	40	214	238	264	294	328	1,718
Loan Repayment		5,000				5,000	10,000	15,000	15,000	14,166	64,166
TOTAL EXPENDITURE	7,719	12,806	8,117	8,149	8,219	46,477	54,777	63,469	67,603	71,400	348,736
Capital Charges Reversal	0	(5,000)	0	0	0	(5,000)	(10,000)	(15,000)	(15,000)	(14,166)	(64,166)
Interest on Loan	2,062	2,062	2,000	2,000	2,000	9,882	9,156	7,645	5,149	2,589	44,545
Interest on Balances	(57)	(35)	(44)	(61)	(61)	(305)	(305)	(305)	(305)	(305)	(1,783)
	9,724	9,833	10,073	10,088	10,158	51,054	53,628	55,809	57,447	59,518	327,332
Details of Income											
Dwelling Rents (net)	(12,261)	(12,136)	(12,016)	(11,895)	(11,776)	(62,645)	(69,413)	(76,912)	(85,221)	(94,428)	(448,703)
Non Dwelling Rents (net)	(543)	(539)	(539)	(539)	(552)	(2,974)	(3,364)	(3,809)	(4,319)	(4,903)	(22,080)
Charges for Services and Facilities	(825)	(825)	(825)	(825)	(852)	(4,698)	(5,521)	(6,488)	(7,625)	(8,962)	(37,447)
Contribution Towards Expenditure	(249)	(191)	(191)	(191)	(191)	(955)	(600)	(600)	(600)	(600)	(4,368)
Net Cost of HRA Services	(4,154)	(3,858)	(3,498)	(3,362)	(3,214)	(20,218)	(25,269)	(32,000)	(40,318)	(49,375)	(185,266)
CDC	452	471	472	476	484	2,547	2,775	3,027	3,306	3,616	17,626
Pension Interest Cost	259	300	300	300	315	1,828	2,333	2,977	3,799	4,849	17,260
Net Expenditure of HRA Services	(3,443)	(3,087)	(2,726)	(2,586)	(2,415)	(15,843)	(20,162)	(25,996)	(33,213)	(40,910)	(150,381)
Investment Fund	487	500	100	500	500	2,500	2,500	2,500	2,500	2,500	14,587
Loan Repayment	1,500	1,500	1,200	1,300	1,500	7,500	10,850	14,266	15,000	6,000	60,616
Capital Program Funding	1,216	795	1,612	487	487	4,887	5,500	5,500	5,500	5,500	31,484
(Surplus)/Deficit for HRA Services	(240)	(292)	186	(299)	72	(956)	(1,312)	(3,730)	(10,213)	(26,910)	(43,694)
Working Balance b/f	1,759	1,999	2,291	2,105	2,404	2,332	3,288	4,600	8,330	18,543	45,453
Accumulated Surplus	1,999	2,291	2,105	2,404	2,332	3,288	4,600	8,330	18,543	45,453	