



**PROSPECT COMMUNITY HOUSING LIMITED**  
**FINANCIAL STATEMENTS**  
**AS AT 31 MARCH 2019**

**Financial Conduct Authority No 2290 R (S)**  
**Registered Housing Association No. HAL 204**  
**Scottish Charity No. SC029797**

# PROSPECT COMMUNITY HOUSING LIMITED

## STATUTORY INFORMATION

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### Registration Particulars

Financial Conduct Authority

Co-operative and Community Benefit Society Act  
Registered Number SP 2290 R (S)

Scottish Housing Regulator

Housing (Scotland) Act 2010  
Registered Number HAL 204

Charity Number

SC029797

### Committee of Management

- |                                |                   |
|--------------------------------|-------------------|
| • Milind Kolhatkar Chairperson | • Shulah Allan    |
| • Mo Connolly Secretary        | • Alan Gee        |
| • Sheila Bunt Vice Chairperson | • Chuks Ododo     |
| • Naomi MacKenzie Treasurer    | • Neeru Bhatnagar |
| • Mary MacRaid                 | • Kudakwashe Moyo |
| • Keith Noble                  |                   |
| • Peter Matthews               |                   |

### Key Management Personnel

Brendan Fowler – Director

Lynne Bell – Finance Manager

Neil Munro – Property Services Manager

Catherine Louch – Housing Manager

### Registered Office

6 Westburn Avenue  
Edinburgh  
EH14 2TH

### Bankers

Royal Bank of Scotland  
239 St John's Road  
Edinburgh  
EH12 7XA

### Auditor

Scott-Moncrieff  
Chartered Accountants  
25 Bothwell Street  
Glasgow G2 6NL

### Solicitors

T C Young  
69a George Street  
Edinburgh  
EH2 2JG

# **PROSPECT COMMUNITY HOUSING LIMITED**

## **FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019**

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### **CONTENTS**

|                                                                                                                           | Page  |
|---------------------------------------------------------------------------------------------------------------------------|-------|
| Report of the Committee of Management (incorporating the Strategic Report)                                                | 1-8   |
| Committee of Management Statement on Internal Financial Controls                                                          | 9     |
| Report by the Auditor to the members of Prospect Community Housing Association Limited on Internal Financial Controls     | 10    |
| Independent Auditor's Report to the members of Prospect Community Housing Association Limited on the Financial Statements | 11-13 |
| Statement of Comprehensive Income                                                                                         | 14    |
| Statement of Financial Position                                                                                           | 15    |
| Statement of Changes in Capital and Reserves                                                                              | 16    |
| Statement of Cash Flows                                                                                                   | 17    |
| Notes to the Financial Statements                                                                                         | 18-42 |

## PROSPECT COMMUNITY HOUSING LIMITED

### REPORT OF THE COMMITTEE OF MANAGEMENT (INCORPORATING THE STRATEGIC REPORT) FOR THE YEAR ENDED 31 MARCH 2019

The Committee have pleasure in presenting their thirtieth report on Prospect's affairs for the year ended 31 March 2019.

#### **BUSINESS OVERVIEW**

##### **Constitution & Legal Framework**

Prospect Community Housing Limited ('Prospect') was founded in 1988. It was constituted under the Co-operative and Community Benefit Society Act in that year. It is a registered Scottish Charity. The financial statements comply with Financial Reporting Standard 102 ('FRS 102') and the Statement of Recommended Practice for Registered Social Landlords 2014.

##### **Area of Operation**

Prospect Community Housing Limited has grown steadily since 1988 to become a medium sized Housing Association, managing 897 homes and providing factoring services to a further 39 in West Edinburgh. Prospect's subsidiary, Prospect Community Projects Ltd, remains dormant.

##### **Principal Activities**

The principal activities of Prospect are the provision, management and maintenance of high quality rented housing at rents which are affordable to people on low incomes and contributing to the physical, economic and social regeneration of West Edinburgh.

#### **REVIEW OF BUSINESS**

##### **Growth and Innovation**

Prospect continued investing in its properties during the year, spending a further £424,764 (2018: £463,220) in the refurbishment of homes in the Wester Hailes area for rent, including the continuation of our component replacement programme.

Prospect continued its investment in the maintenance of its existing properties, spending £975,575 (2018: £965,722) on routine maintenance and major repair works and the upgrading of environmental areas around its stock. This investment was not only consistent with Prospect's aim to maintain its properties to the highest standard, but also contributed to its pro-active strategy of minimising the potential cost and disruption of anti-social behaviour.

Investment also continued in the provision of varied and targeted training programmes for both staff and Committee members.

##### **Performance**

Performance in key areas is monitored and reviewed on a quarterly basis.

| Indicator                               | 2018/19 | 2017/18 | 2016/17 | 2015/16 | Target |
|-----------------------------------------|---------|---------|---------|---------|--------|
| Current Tenant Rent Arrears as % income | 4.2     | 4.1     | 4.36    | 4.20    | 4.50   |
| Voids turnaround times (days)           | 24.7    | 18      | 16.4    | 13.5    | 19     |
| % rent loss due to voids                | 0.37    | 0.23    | 0.196   | 0.3     | 0.40   |
| Staff costs as % of turnover            | 24.69   | 24.81   | 25.30   | 28.90   | 25.95  |

## PROSPECT COMMUNITY HOUSING LIMITED

### REPORT OF THE COMMITTEE OF MANAGEMENT (INCORPORATING THE STRATEGIC REPORT) FOR THE YEAR ENDED 31 MARCH 2019

#### Risks

Prospect has a comprehensive system of risk management which is kept under regular review. Risks which were considered high in both likelihood and potential impact during the year were:

| RISK                                                                                                                                                                                                                                                               | CONTROL ACTIONS                                                                                                                                                                                                                                                |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| ➤ <b>Welfare benefit changes</b> which could lead to a reduction in income for tenants and/or rent payments being made directly to the tenant, with the possible resulting increase in rent arrears.                                                               | ➤ Personal approach to working with tenants. Up to date profiling of tenants and households. Enhanced support for tenants, using a variety of projects. Proactive arrears work, and involvement of Welfare Rights Officer providing advice to maximise income. |
| ➤ <b>Cash flow</b> is increasingly important at a time when there are pressures on our rental income and upward pressures on costs e.g. pensions. If Prospect decided to develop new homes, close monitoring of our cash flow would become increasingly important. | ➤ Effective budget setting and monitoring. Minimising costs where possible. Considerable efficiencies have been achieved across the organisation, and we will continue to look at further efficiencies in the future.                                          |
| ➤ <b>New developments.</b> If Prospect were to start to develop new homes, this would bring with it significant risks.                                                                                                                                             | ➤ Close consideration of the various risks prior to committing to any new development. If a new development is to proceed, then there would need to be regular reviews of the risks identified.                                                                |
| ➤ <b>Not meeting the Scottish Housing Charter outcomes or the new Regulatory Standards set out by the Scottish Housing Regulator.</b>                                                                                                                              | ➤ Regular review of our performance. Membership of HouseMark allows us to compare our performance and learn from others. Early consideration and close monitoring by our Committee of the Regulatory Standards.                                                |

The risk in respect of the SHAPS defined benefit pension liability is being managed by being kept informed of the current developments through membership of the SHAPS Employer Support Group run by Employers in Voluntary Housing.

#### Grants and Funding

Prospect has not developed any new homes over the year 2018/19 so therefore did not receive any Housing Association Grant funding. Prospect does, however, receive grant funding from a variety of sources to support its wider role activities.

#### Partnership Working

Prospect continued to develop its collaborative approach to its work by actively contributing to the Edinburgh Affordable Housing Partnership, West Edinburgh Voluntary Sector Forum, Wester Hailes Community Trust and other similar bodies.

We have a Community Projects Officer post to help develop further this type of working with a range of partners in West Edinburgh for the benefit of Prospect's client group and the wider community.

#### Sustainability

Prospect has made a commitment to Sustainable Development by including energy efficient technology in its most recent housing developments and by examining all aspects of its business and activities to minimise waste, pollution and energy consumption. Prospect is currently working towards meeting the energy efficiency targets set within the new 2020 Energy Efficiency Standard for Social Housing (EESHS) target.

## **PROSPECT COMMUNITY HOUSING LIMITED**

### **REPORT OF THE COMMITTEE OF MANAGEMENT (INCORPORATING THE STRATEGIC REPORT) FOR THE YEAR ENDED 31 MARCH 2019**

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#### **Statement of Comprehensive Income Turnover**

Rental and Service Charge Income Receivable increased by 2% to £4,194,500 (2018: £4,096,558)

#### **Surplus on Ordinary Activities**

The surplus for the year was £1,063,771 (2018 £1,142,141). Following incorporation of other comprehensive income movements in respect of the SHAPS liability, the Association had total comprehensive income of £599,270 (2018 – total comprehensive income of £1,142,141). This is due to the one off charge on initial recognition of the SHAPS defined benefit liability of £103,168 together with the actuarial loss in respect of the SHAPS in the current year of £361,333. Further information regarding the change in accounting treatment of the SHAPS scheme is detailed below.

In order to mitigate the risk in relation to the Scottish Housing Association Pension Scheme (SHAPS), the Association closed the defined benefit scheme with all members transferring to the defined contribution scheme from 1 April 2014. Up until the end of the 31 March 2018 year end, the defined benefit Scheme was actually accounted for as a defined contribution scheme. From 1 April 2018, information became available in order to separate out the assets and liabilities between scheme members and thus SHAPS is accounted for as a defined benefit pension scheme from 1 April 2018 onwards. Further details regarding SHAPS can be found in note 19 of the financial statements.

#### **Revenue Reserve**

Prospect aims to generate and maintain an unrestricted revenue reserve which approximates to their requirements to meet a 4-month working capital requirement on an ongoing basis. The current average 4-month working capital requirement amounts to approximately £1,419,800. The revenue reserve increased by £599,270 from £6,640,067 (restated) to £7,239,337. The current revenue reserve meets this aim and is backed by cash reserves.

#### **Going Concern**

The Management Committee has a reasonable expectation that the Association has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

#### **Treasury Management**

Prospect, as a matter of policy, does not enter into transactions of a speculative nature. At 31 March 2019, Prospect had a mix of fixed and variable rate finance.

## **PROSPECT COMMUNITY HOUSING LIMITED**

### **REPORT OF THE COMMITTEE OF MANAGEMENT (INCORPORATING THE STRATEGIC REPORT) FOR THE YEAR ENDED 31 MARCH 2019**

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#### **Maintenance policies**

Prospect seeks to maintain its properties to the highest standard. To this end, programmes of planned maintenance are carried out in the medium term to deal with the gradual and predictable deterioration of building components.

In addition, Prospect has a long term programme of major repairs to cover for works which have become necessary since the original development was completed, including works required by subsequent legislative changes. This includes replacement or repairs to components of the properties which have come to the end of their economic lives. Where a component has been replaced, or there is an improvement to a component that enhances the economic benefit of the tangible fixed asset, this is capitalised under the terms of the Housing SORP. All other repair and maintenance expenditure is charged to the Statement of Comprehensive Income.

#### **Rent Policy**

Prospect's aim is to have a common level of rents for all similar properties. The policy should be logical, easily applied and allow for regional variations in marketability. Income from rents should also be sufficient to meet the financial commitments of Prospect in order to maintain continued financial viability.

#### **Committee Recruitment and Induction**

New Board members are elected at Prospect's Annual General Meeting. All new members undergo induction training.

#### **Committee Training**

Prospect invests substantially in terms of time and money in ensuring its Committee members have the skills and knowledge required to manage a successful business. These expectations are set out in a Training Policy. Training during the financial year under review has focussed on understanding financial statements, regulatory standards of governance and financial management and development. Committee members' attendance at training events is monitored regularly and feedback obtained and actioned.

#### **Corporate Rules**

The governing document of Prospect is the Rules, which are based on the SFHA standard set of Charitable Rules and adapted through time by properly constituted meetings of the members of Prospect. The Rules are the equivalent of a company's Articles and Memorandum of Association. A copy of the Rules can be obtained on request at the Registered Office.

#### **Business Plan**

Prospect's business plan sets out the direction and aims of the Association over a three year period. Central to the document are the organisation's Vision, Values and Strategic Objectives which were developed in consultation with tenants and staff and through discussion with the Business Plan working group.

Our vision: Providing homes and building communities together. Our values: Pioneering, reliability, listening, fairness, partnership.

## PROSPECT COMMUNITY HOUSING LIMITED

### REPORT OF THE COMMITTEE OF MANAGEMENT (INCORPORATING THE STRATEGIC REPORT) FOR THE YEAR ENDED 31 MARCH 2019

#### Business Plan (continued)

Our strategic objectives for the period to 31 March 2019 are outlined in the table below:

**Independence** – maintain this through good governance, strong financial performance and stronger partnerships with other independent housing organisations.

- Continue to work to ensure that the organisation is financially secure by:
  - Keeping to within planned budgeted expenditure;
  - Undertaking sensitivity analysis on our long term financial projections;
  - Focussing on good value for money; and
  - Through annual budget process, achieving cost reductions where possible, and minimising any areas where costs increase.
- Comply with the new Scottish Housing Regulator Regulatory Framework. Work to ensure that we can evidence compliance and produce our first assurance statement.

**Property and Neighbourhood improvements** – invest £3m during the period of this business plan. Invest in improving our neighbourhood areas, co-producing the changes with tenants.

- Consider and agree work required for Energy Efficiency Standard for Social Housing 2 (ESSH2);
- Complete all the anticipated property investment programme that is included in the 2019/20 budget; and
- Complete the Neighbourhood Improvements work identified in the 2019/20 budget.

**New housing provision** – be intentional about resourcing the work required to secure sites within Wester Hailes, or the areas surrounding Wester Hailes, and to develop these sites.

- Intentionally investigate development opportunities by investing time in networking with developers, agents, elected members, lenders and Council officials;
- Work with the Development Working Group to progress existing development options and come up with proposals for our future development strategy; and
- Progress with plans to develop the Kingsknowe site.

**Affordable rents** – achieve rent increases of no more than inflation (RPI) less 0.5%, whilst maintaining existing services and investment in our houses and neighbourhoods. Incorporate modelling of affordability into rent review process.

- Through budget process, ensure that costs are contained so that rent increase can be no more than RPI less 0.5%;
- Utilising HouseMark data to identify higher cost areas, where efficiencies may be possible; and
- Achieve cost reductions through our procurement activities.

**Improving services through customer involvement** – building on the work of the Tenants' Forum and the Prospect Scrutiny Group, we want to improve the service we provide to customers through their direct involvement in shaping services. We will use a wide variety of ways to involve tenants.

- Work with the Prospect Scrutiny Group to carry out two further inspections and follow up reporting during the year;
- Engaging tenants in a wide variety of ways to identify areas for improvement; and



## PROSPECT COMMUNITY HOUSING LIMITED

### REPORT OF THE COMMITTEE OF MANAGEMENT (INCORPORATING THE STRATEGIC REPORT) FOR THE YEAR ENDED 31 MARCH 2019

#### Business Plan (continued)

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"><li>• Openness and transparency – work towards the implementation of Freedom of Information (FOI) by being proactive in our approach to routinely publishing information.</li></ul>                                                                                                                                                                                                                                                               |
| <p><b>Community Projects</b> – working in partnership with local agencies to develop new projects that meet local priorities. This will build on the collaborative approach taken with Tasting Change, developing our approach from the learning coming out of this project.</p> <ul style="list-style-type: none"><li>• Work towards the aims set out in the Community Action Plan; and</li><li>• Continue with collaborative projects delivered with partners.</li></ul>          |
| <p><b>Supporting Tenants</b> – focus on providing increased support to tenants through ongoing tenancy support including Welfare Rights and Housing First and linking more effectively with health and social care professionals to identify and meet the needs of our vulnerable tenants.</p> <ul style="list-style-type: none"><li>• Follow up with appropriate measures to assist vulnerable or isolated tenants, learning from the research that we have carried out.</li></ul> |

In order to ensure that the above priorities are progressed, they have been broken down into tasks and allocated to appropriate staff members, through agreed work plans with regularly reviewed performance targets, throughout the organisation.

#### Progress towards achieving Strategic Objectives

This table indicates the progress made towards achieving these objectives as detailed at 31 March 2019.

| OBJECTIVE                                              | ACHIEVEMENTS                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|--------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Independence</b>                                    | <ul style="list-style-type: none"><li>• We continue to perform well financially, with our spend being close to budget;</li><li>• The budget we set looks ahead 25 years and demonstrates that we are viable in the long term;</li><li>• Each year we carry out stress testing on our financial projections; and</li><li>• The launch of Archie is a significant step in our partnership approach with other Housing Associations and Co-ops.</li></ul> |
| <b>Property and neighbourhood improvements</b>         | <ul style="list-style-type: none"><li>• In the first year of this business plan we have invested £975,575 on improvements. This is exactly where we should be after one year of the three year business plan.</li></ul>                                                                                                                                                                                                                                |
| <b>New housing provision</b>                           | <ul style="list-style-type: none"><li>• Excellent progress has been made on this, with a site for 69 units secured and another site for around 25 units in the process of being negotiated.</li></ul>                                                                                                                                                                                                                                                  |
| <b>Affordable rents</b>                                | <ul style="list-style-type: none"><li>• We use the July RPI as our benchmark, and the latest rent increase came in at 2.2% compared with RPI of 3.2%.</li></ul>                                                                                                                                                                                                                                                                                        |
| <b>Improving services through customer involvement</b> | <ul style="list-style-type: none"><li>• The Prospect Scrutiny Group continues to be active. Their latest report on Anti-Social behavior has been presented to Committee, and we have met with the group to discuss progress against their recommendations on previous reports; and</li><li>• The Tenants Forum continues to meet regularly.</li></ul>                                                                                                  |
| <b>Community projects</b>                              | <ul style="list-style-type: none"><li>• Excellent range of projects delivered via partners; and</li><li>• Successful delivery of Tasting Change project.</li></ul>                                                                                                                                                                                                                                                                                     |
| <b>Supporting tenants</b>                              | <ul style="list-style-type: none"><li>• Agreement has been reached with the Health Agency to work jointly with them on this area. The details of this, and funding, are still to be worked on.</li></ul>                                                                                                                                                                                                                                               |

## **PROSPECT COMMUNITY HOUSING LIMITED**

### **REPORT OF THE COMMITTEE OF MANAGEMENT (INCORPORATING THE STRATEGIC REPORT) FOR THE YEAR ENDED 31 MARCH 2019**

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#### **Statement of the Committee of Management's Responsibilities**

The Co-operative and Community Benefit Societies Act 2014 requires the Committee of Management to prepare Financial Statements for each financial year which give a true and fair view of the state of affairs of Prospect and of the income and expenditure of Prospect for that period. In preparing these Financial Statements, the Committee of Management is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that Prospect will continue in business.

The Committee of Management is responsible for keeping proper accounting records, which disclose with reasonable accuracy, at any time, the financial position of Prospect and to enable them to ensure that the Financial Statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing (Scotland) Act 2014 issued by the Scottish Housing Regulator and the Determination of Accounting Requirements 2014 issued by the Scottish Housing Regulator. It is also responsible for safeguarding the assets of Prospect and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### **Credit Payment Policy**

Prospect's policy concerning the payment of its trade creditors complies with the Confederation of British Industry guidelines. The average payment period is 21 days (2018: 22 days).

#### **Employee Involvement and Health & Safety**

Prospect encourages employee involvement in all major initiatives. Staff have opportunities to discuss and contribute to strategic objectives through Working Groups, Departmental and Staff Meetings. Working Groups that met over the year to March 2019 on which staff are represented include:

- Health and Safety working group;
- Equalities working group;
- Budget working group;
- IT working group; and
- Business Plan working group.

A Health and Safety Working Group, meets quarterly to review health and safety issues. Each department has a representative on this Group who raises health and safety issues on behalf of their colleagues.

#### **Tenant Involvement**

Prospect actively involves tenants to help direct and improve what we do. We recognise that tenants will want to engage in different ways, so we provide a variety of mechanisms for tenants to be involved. This includes:

- the Tenant Forum;
- the Tenant scrutiny panel;
- the tenant Management Committee members;
- learning from tenant comments or complaints;
- full scale tenant surveys;
- ongoing surveys relating to specific areas of our work; and
- the annual rent consultation.

## PROSPECT COMMUNITY HOUSING LIMITED

### REPORT OF THE COMMITTEE OF MANAGEMENT (INCORPORATING THE STRATEGIC REPORT) FOR THE YEAR ENDED 31 MARCH 2019

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#### Committee of Management members:

The Committee of Management during the year ended 31 March 2019 and up to the date of signing these financial statements were:

|                    |                         |                   |                        |
|--------------------|-------------------------|-------------------|------------------------|
| * Milind Kolhatkar | <b>Chairperson</b>      | * Shulah Allan    |                        |
| * Mo Connolly      | <b>Secretary</b>        | * Alan Gee        |                        |
| * Sheila Bunt      | <b>Vice Chairperson</b> | * Chuks Ododo     |                        |
| * Naomi MacKenzie  | <b>Treasurer</b>        | * Neeru Bhatnagar | (Appointed 25.04.2018) |
| * Mary MacRaid     |                         | * Kudakwashe Moyo | (Appointed 4.09.2018)  |
| * Keith Noble      |                         | * Gary Marchbank  | (Resigned 25.02.2019)  |
| * Peter Matthews   |                         |                   |                        |

#### Disclosure of Information to Auditor

Members of the Management Committee who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, there is no relevant audit information of which the auditor is unaware. Each of the Members have confirmed that they have taken all the steps that they ought to have taken as Members in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

#### Auditor

Following a formal tender exercise, Scott-Moncrieff was appointed external auditor for the 2018/19 financial statements.

A resolution will be put to the Annual General Meeting proposing the re-appointment of Scott-Moncrieff.



By Order of the Committee  
Mo Connolly, Secretary

Date: 26 June 2019

## PROSPECT COMMUNITY HOUSING LIMITED

### COMMITTEE OF MANAGEMENT STATEMENT ON INTERNAL FINANCIAL CONTROLS FOR THE YEAR ENDED 31 MARCH 2019

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The Committee of Management acknowledge their ultimate responsibility for ensuring that the Association has in place a system of controls that is appropriate to the various business environments in which it operates. These controls are designed to give reasonable assurance with respect to:

- The reliability of financial information used within the Association or for publication;
- The maintenance of proper accounting records; and
- The safeguarding of assets (against unauthorised use or disposition).

It is the Committee of Management's responsibility to establish and maintain systems of internal financial control. Such systems can only provide reasonable, and not absolute, assurance against material financial misstatement or loss. Key elements include ensuring that:

- Formal policies and procedures are in place, including the ongoing documentation of key systems and rules relating to the delegation of authorities, which allow the monitoring of controls and restrict the unauthorised use of the Association's assets;
- Experienced and suitably qualified staff take responsibility for important business functions. Annual appraisal procedures have been established to maintain standards of performance;
- Forecasts and budgets are prepared regularly which allow the Committee of Management and staff to monitor the key business risks and financial objectives, and progress towards financial plans set for the year and the medium term;
- Regular management accounts are prepared promptly, providing relevant, reliable and up-to-date financial and other information and significant variances from budgets are investigated as appropriate;
- Regulatory returns are prepared, authorised and submitted promptly to the relevant regulatory bodies;
- All significant new initiatives, major commitments and investment projects are subject to formal authorisation procedures, through relevant sub-committees comprising Committee of Management members and others;
- The Association has appointed a firm, on a consultancy basis, as internal auditor with the specific responsibility of assessing the adequacy and reliability of the system of internal financial controls;
- The Committee of Management reviews reports from management, from directors, staff and from the external and internal auditors to provide reasonable assurance that control procedures are in place and are being followed. This includes a general review of the major risks facing the Association; and
- Formal procedures have been established for instituting appropriate action to correct weaknesses identified from the above reports.

The Committee of Management has reviewed the system of internal financial control in the Association during the year ended 31 March 2019. No weaknesses were found in internal financial controls which could result in material losses, contingencies, or uncertainties which require disclosure in the financial statements or in the auditors' report on the financial statements.

The above arrangements are considered appropriate to the scale and range of the Association's activities, and comply with the requirements contained in the Scottish Housing Regulator's Guidance.

**By order of the Committee of Management**

  
**Mo Connolly**  
**Secretary**

Date: 26 June 2019

## **PROSPECT COMMUNITY HOUSING LIMITED**

### **REPORT BY THE AUDITOR TO THE MEMBERS OF PROSPECT COMMUNITY HOUSING LIMITED ON INTERNAL FINANCIAL CONTROLS**

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In addition to our audit of the Financial Statements, we have reviewed your statement on page 9 concerning the Association's compliance with the information required by the Regulatory Standards in respect of internal financial controls contained within the publication "Our Regulatory Framework" and associated Regulatory Advisory Notes which are issued by the Scottish Housing Regulator.

#### **Basis of Opinion**

We carried out our review having regard to the requirements to corporate governance matters within Bulletin 2009/4 issued by the Financial Reporting Council. The Bulletin does not require us to review the effectiveness of the Association's procedures for ensuring compliance with the guidance notes, nor to investigate the appropriateness of the reason given for non-compliance.

#### **Opinion**

In our opinion the Statement on Internal Financial Control on page 9 has provided the disclosures required by the relevant Regulatory Standards within the publication "Our Regulatory Framework" and associated Regulatory Advisory Notes issued by the Scottish Housing Regulator in respect of internal financial controls and is consistent with the information which came to our attention as a result of our audit work on the Financial Statements.

Through our enquiry of certain members of the Committee of Management and Officers of the Association and examination of relevant documents, we have satisfied ourselves that the Committee of Management's Statement on Internal Financial Controls appropriately reflects the Association's compliance with the information required by the relevant Regulatory Standards in respect of internal financial controls contained within the publication "Our Regulatory Framework" and associated Regulatory Advisory Notes issued by the Scottish Housing Regulator in respect of internal financial controls.

*Scott-Moncrieff*

**Scott-Moncrieff, Statutory Auditor**

**Eligible to act as an auditor in terms of Section 1212 of the Companies Act 2006**

Chartered Accountants

25 Bothwell Street

Glasgow

G2 6NL

Date: 26 June 2019

## **PROSPECT COMMUNITY HOUSING LIMITED**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PROSPECT COMMUNITY HOUSING LIMITED ON THE FINANCIAL STATEMENTS**

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#### **Opinion**

We have audited the financial statements of Prospect Community Housing Limited (the 'Association') for the year ended 31 March 2019 which comprise the Statement of Comprehensive Income, Statement of Financial Position, the Statement of Changes in Capital and Reserves and Statement of Cashflows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Association's affairs as at 31 March 2019 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the Co-operative and Community Benefit Societies Act 2014, Part 6 of the Housing (Scotland) Act 2010 and the Determination of Accounting Requirements 2014 issued by the Scottish Housing Regulator.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Committee's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Committee has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Association's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### **Other information**

The Committee is responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PROSPECT COMMUNITY HOUSING LIMITED ON THE FINANCIAL STATEMENTS**

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**Group accounts: Section 99(3) of the Co-operative and Community Benefit Societies Act 2014**

We agree with the opinion of the Committee of Management of the Association that it would be of no real value to the members of the Association to consolidate or include the financial statements of the Association's subsidiary in group financial statements required to be prepared under the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969 for the year ended 31 March 2019, because the subsidiary was dormant during the current and prior year.

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Co-operative and Community Benefit Societies Act 2014 requires us to report to you if, in our opinion:

- a satisfactory system of control over transactions has not been maintained; or
- the Association has not kept proper accounting records; or
- the financial statements are not in agreement with the books of account; or
- we have not received all the information and explanations we require for our audit.

**Responsibilities of the Committee**

As explained more fully in the Statement of the Committee of Management's Responsibilities set out on page 7, the Committee is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Committee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Committee is responsible for assessing the Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Committee either intends to liquidate the Association or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the financial statements**

We have been appointed as auditor under the Co-operative and Community Benefit Society Act 2014 and report in accordance with the Act and relevant regulations made or having effect thereunder.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

**PROSPECT COMMUNITY HOUSING LIMITED**

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PROSPECT COMMUNITY HOUSING  
LIMITED ON THE FINANCIAL STATEMENTS**

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**Use of our report**

This report is made solely to the Association's members, as a body, in accordance with Section 87 of the Co-operative and Community Benefit Societies Act 2014.

Our audit work has been undertaken so that we might state to the Association's members, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association and the Association's members, as a body, for our audit work, for this report, or for the opinions we have formed.

*Scott - Moncrieff*

**Scott-Moncrieff, Statutory Auditor**

**Eligible to act as an auditor in terms of Section 1212 of the Companies Act 2006**

Chartered Accountants

25 Bothwell Street

Glasgow

G2 6NL

Date: 26 June 2019



**PROSPECT COMMUNITY HOUSING LIMITED**

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 MARCH 2019**

|                                                              | Notes | 2019<br>£          | 2018<br>£   |
|--------------------------------------------------------------|-------|--------------------|-------------|
| <b>Turnover</b>                                              | 2     | <b>5,003,780</b>   | 4,785,981   |
| Operating expenditure                                        | 2     | <b>(3,664,887)</b> | (3,355,818) |
| <b>Operating surplus</b>                                     | 2     | <b>1,338,893</b>   | 1,430,163   |
| (Loss) on disposal of property plant and equipment           |       | (50)               | (7,116)     |
| Interest receivable                                          |       | 25,601             | 25,176      |
| Interest and financing costs                                 | 5     | <b>(300,673)</b>   | (306,082)   |
| <b>Surplus before tax</b>                                    |       | <b>1,063,771</b>   | 1,142,141   |
| Taxation                                                     | 7b    | -                  | -           |
| <b>Surplus for the year</b>                                  |       | <b>1,063,771</b>   | 1,142,141   |
| <b>Other comprehensive income</b>                            |       |                    |             |
| Initial recognition of multi-employer defined benefit scheme | 19    | <b>(103,168)</b>   | -           |
| Actuarial gain/(loss) in respect of pension scheme           | 19    | <b>(361,333)</b>   | -           |
| <b>Total comprehensive income for the year</b>               |       | <b>599,270</b>     | 1,142,141   |

The results relate wholly to continuing activities.

The accompanying notes form part of these financial statements.

**PROSPECT COMMUNITY HOUSING LIMITED**

**STATEMENT OF FINANCIAL POSITION  
AS AT 31 MARCH 2019**

|                                                         | Notes | 2019<br>£         | Restated<br>2018<br>£ |
|---------------------------------------------------------|-------|-------------------|-----------------------|
| <b>Fixed assets</b>                                     |       |                   |                       |
| Intangible assets                                       | 8     | 44,634            | 95,325                |
| Housing properties                                      | 9a    | 40,709,591        | 41,185,996            |
| Other fixed assets                                      | 9b    | 778,867           | 808,249               |
|                                                         |       | <u>41,533,092</u> | <u>42,089,570</u>     |
| <b>Current assets</b>                                   |       |                   |                       |
| Trade and other debtors                                 | 10a   | 366,957           | 336,378               |
| Cash and cash equivalents                               | 10b   | 809,685           | 637,255               |
| Investments                                             | 10c   | 3,000,000         | 3,010,000             |
|                                                         |       | <u>4,176,642</u>  | <u>3,983,633</u>      |
| <b>Current liabilities</b>                              |       |                   |                       |
| Creditors: Amounts falling due within one year          | 11    | (1,417,006)       | (1,552,239)           |
| <b>Net current assets</b>                               |       | <u>2,759,636</u>  | <u>2,431,394</u>      |
| <b>Total assets less current liabilities</b>            |       | <u>44,292,728</u> | <u>44,520,964</u>     |
| Creditors: Amounts falling due after more than one year | 12    | (36,038,337)      | (37,880,840)          |
| Pension – defined benefit liability                     | 19    | (1,015,000)       | -                     |
| <b>Net assets</b>                                       |       | <u>7,239,391</u>  | <u>6,640,124</u>      |
| <b>Capital and Reserves</b>                             |       |                   |                       |
| Share Capital                                           | 16    | 54                | 57                    |
| Revenue reserve                                         |       | 7,239,337         | 6,640,067             |
|                                                         |       | <u>7,239,391</u>  | <u>6,640,124</u>      |

The financial statements were authorised for issue by the Management Committee on 26 June 2019 and signed on their behalf by:

  
Milind Kolhatkar  
Chairperson

  
Mo Connolly  
Secretary

  
Naomi MacKenzie  
Treasurer

**PROSPECT COMMUNITY HOUSING LIMITED**

**STATEMENT OF CHANGES IN CAPITAL AND RESERVES  
FOR THE YEAR ENDED 31 MARCH 2019**

|                                    | Share<br>Capital<br>£ | Revenue<br>Reserve<br>£ | Total<br>£       |
|------------------------------------|-----------------------|-------------------------|------------------|
| Balance at 1 April 2018 (restated) | 57                    | 6,640,067               | 6,640,124        |
| Total comprehensive income         |                       | 599,270                 | 599,270          |
| Shares issued during the year      | 3                     | -                       | 3                |
| Shares cancelled during the year   | (6)                   | -                       | (6)              |
| Balance at 31 March 2019           | <u>54</u>             | <u>7,239,337</u>        | <u>7,239,391</u> |

**STATEMENT OF CHANGES IN CAPITAL AND RESERVES  
FOR THE YEAR ENDED 31 MARCH 2018**

|                                     | Share<br>Capital<br>£ | Revenue<br>Reserve<br>£ | Total<br>£       |
|-------------------------------------|-----------------------|-------------------------|------------------|
| Balance at 1 April 2017 (restated)  | 59                    | 5,497,926               | 5,497,985        |
| Total comprehensive income          | -                     | 1,142,141               | 1,142,141        |
| Shares issued during the year       | 1                     | -                       | 1                |
| Shares cancelled during the year    | (3)                   | -                       | (3)              |
| Balance at 31 March 2018 (restated) | <u>57</u>             | <u>6,640,067</u>        | <u>6,640,124</u> |

The notes form part of these financial statements.

**PROSPECT COMMUNITY HOUSING LIMITED**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 MARCH 2019**

|                                                       | <b>Note</b> | <b>2019<br/>£</b>  | <b>2018<br/>£</b>  |
|-------------------------------------------------------|-------------|--------------------|--------------------|
| <b>Net cash generated from operating activities</b>   | <b>17</b>   | <b>1,693,467</b>   | <b>1,937,384</b>   |
| <b>Cash Flow from Investing activities</b>            |             |                    |                    |
| Purchase of tangible fixed assets                     |             | (456,962)          | (500,602)          |
| Purchase of intangible fixed assets                   |             | (2,262)            | (8,472)            |
| Proceeds from sale of tangible fixed assets           |             | 34,949             | 2,598              |
| HAG Received                                          |             | -                  | -                  |
| HAG repaid                                            |             | (7,604)            | -                  |
| Interest received                                     |             | 25,601             | 25,176             |
| Withdrawals/(increase) from/(to) investments          |             | 10,000             | (260,000)          |
| <b>Net cash (used in) investing activities</b>        |             | <b>(396,278)</b>   | <b>(741,300)</b>   |
| <b>Cash flow from financing activities</b>            |             |                    |                    |
| Interest paid                                         |             | (282,673)          | (298,082)          |
| Interest element of finance lease rental payments     |             | -                  | (733)              |
| Repayment of borrowings                               |             | (664,756)          | (550,663)          |
| Issue of share capital                                |             | 3                  | 1                  |
| Capital element of finance lease rental payments      |             | -                  | (5,511)            |
| Contributions to the past service deficit             |             | (177,333)          | (172,168)          |
| <b>Net cash (used in) financing activities</b>        |             | <b>(1,124,759)</b> | <b>(1,027,156)</b> |
| <b>Net increase in cash and cash equivalents</b>      |             | <b>172,430</b>     | <b>168,928</b>     |
| <b>Cash and cash equivalents at beginning of year</b> | <b>10b</b>  | <b>637,255</b>     | <b>468,327</b>     |
| <b>Cash and cash equivalents at end of year</b>       | <b>10b</b>  | <b>809,685</b>     | <b>637,255</b>     |

The notes form part of these financial statements.

# PROSPECT COMMUNITY HOUSING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

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### 1. Accounting policies

#### **General Information**

The Association is registered under the Co-operative and Community Benefit Societies Act 2014 and is registered with the Scottish Housing Regulator under the Housing (Scotland) Act 2010.

The address of the Company's registered office and principal place of business is 6 Westburn Avenue, Edinburgh, EH14 2TH.

The Association's principal activities are the provision of Social Rented Housing.

Prospect Community Housing is a Public Benefit Entity.

The financial statements are prepared in Sterling (£).

#### **Basis of Accounting**

The Financial Statements are prepared on the historical cost basis of accounting. Prospect Community Projects Limited has not been consolidated as it is dormant and thus these financial statements are in respect of the Association only. These financial statements have been prepared in accordance with United Kingdom Accounting Standards (UK GAAP) including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") (United Kingdom Generally Accepted Accounting Practice), the Housing SORP 2014 "Statement of Recommended Practice for Registered Housing Providers" and the Determination of Accounting Requirements 2014 issued by the Scottish Housing Regulator.

The Association has taken advantage of the provisions made available through Financial Reporting Exposure Draft (FRED) 71, "Draft amendments to FRS 102 on Multi-employer defined benefit plans". These provisions will become effective as part of FRS 102 for accounting periods commencing on or after 1 January 2020, however the Association has chosen to early adopt these provisions for the current accounting period. For the year ended 31 March 2018, SHAPS was accounted for as a defined contribution scheme although the past service deficit liability was recognised as a liability. For the year ended 31 March 2019, SHAPS is accounted for as a defined benefit pension liability with the adjustment to reflect the movement between the past service deficit liability at 1 April 2018 and the SHAPS defined benefit liability at 1 April 2018 being recognised within Other Comprehensive Income in the Statement of Comprehensive Income as outlined in FRED 71. Further details in respect of this can be found in Note 19 to these financial statements.

#### **Accounting Estimates and Areas of Judgement**

Preparation of the financial statements requires management to make judgements and estimates concerning the future. Estimates and judgements are continually evaluated and are based on historical experience, advice from qualified experts and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The resulting accounting estimates and assumptions will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are included below.

PROSPECT COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2019

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1. Accounting policies (continued)

**Critical Accounting Estimates and Areas of Judgement (continued)**

| <b><u>Estimate</u></b>                                           | <b><u>Basis of estimation</u></b>                                                                                                                                                                                                                                               |
|------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Useful lives of property, plant and equipment                    | The useful lives of property, plant and equipment are based on the knowledge of senior management, with reference to expected asset life cycles.                                                                                                                                |
| The main components of housing properties and their useful lives | The cost of housing properties is split into separately identifiable components. These components were identified by knowledgeable and experienced staff members and based on expected asset life cycles.                                                                       |
| Recoverable amount of rental and other trade receivables         | Rental arrears and other trade receivables are reviewed by appropriately experienced senior management team members on a case by case basis with the balance outstanding together with the payment history of the debtor being taken into account.                              |
| The obligations under the SHAPS                                  | This has relied on the actuarial assumptions of a qualified actuary which have been reviewed and are considered reasonable and appropriate. Additionally, the impact of Guaranteed Minimum Pension (GMP) equalisation has been included in the SHAPS defined benefit liability. |
| The allocation of costs for shared ownership                     | Management and maintenance administration costs are allocated on the basis of rental income that shared ownership properties represent of the Association's total gross rental income.                                                                                          |

## PROSPECT COMMUNITY HOUSING LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

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#### 1. Accounting policies (continued)

##### Going Concern

The Management Committee have regularly reviewed the detailed financial projections included in the Business Plan 2018-21 and beyond with particular focus on the cash flow position and believe that it is appropriate to prepare the financial statements on a going concern basis.

The Association generated a surplus in the year of £1,063,771, had year-end cash balances of £3,809,685, net current assets of £2,759,636 and net assets of £7,239,391.

On that basis, the Management Committee, has a reasonable expectation that Prospect has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

##### Turnover

Turnover represents rental and service charge income receivable, fees receivable and revenue grants receivable from the Scottish Government, the City of Edinburgh Council and other agencies. Tenant service charges are levied on a basis intended to cover appropriate service costs each year.

Also included is any income from first tranche shared ownership disposals and management fees for the factoring of properties for private owners as the provision of factoring services is accounted for on an agency basis.

Income from rental and service charges and factoring activities is recognised when the Association is entitled to it, it is probable it will be received and it can be measured reliably.

Income from revenue grants receivable have been covered in a separate accounting policy below.

##### Interest receivable

Interest receivable is recognised in the Statement of Comprehensive Income using the effective interest rate method.

##### Interest payable

Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

## PROSPECT COMMUNITY HOUSING LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

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#### 1. Accounting policies (continued)

##### Government Capital Grants

Government Capital Grants, at amounts approved by The Scottish Government or City of Edinburgh Council, are paid directly to the Association as required to meet its liabilities during the development process. This is treated as a deferred capital grant and is released to income in accordance with the accrual model over the useful life of the asset it relates to on completion of the development phase. The accrual model requires the Association to recognise income on a systematic basis over the period in which the Association recognises the related costs for which the grant is intended to compensate.

##### Government Revenue Grants

Government revenue grants are recognised using the accrual model which means the Association recognises the grant in income on a systematic basis over the period in which the Association recognises the related costs for which the grant is intended to compensate.

##### Non-government capital and revenue grants

Non-government capital and revenue grants are recognised using the performance model. If there are no performance conditions attached the grants are recognised as revenue when the Association is entitled to them, it is probable they will be received and they can be measured reliably.

A grant that imposes specific future performance related conditions on the recipient is recognised as revenue only when the performance related conditions are met.

A grant received before the revenue recognition criteria are satisfied is recognised as a liability.

##### Sale of Housing Properties

Properties are disposed of under the appropriate legislation and guidance. All costs and grants relating to the share of property sold are removed from the financial statements at the date of sale, except for first tranche sales. Any grants received that cannot be repaid from the proceeds of sale are abated and the grants removed from the financial statements.

##### Depreciation

###### (i) Housing Properties

Depreciation is charged on a straight line basis over the expected economic useful lives of each major component, to its estimated residual value, that makes up the housing property as follows:

|               |                 |
|---------------|-----------------|
| Land          | not depreciated |
| Structure     | 80 years        |
| Roofs         | 70 years        |
| Kitchens      | 15 years        |
| Windows/doors | 35 years        |
| Boilers       | 15 years        |
| Radiators     | 40 years        |
| Electrics     | 40 years        |
| Bathrooms     | 30 years        |
| Showers       | 15 years        |

###### (ii) Shared Ownership Properties

Depreciation is charged on a straight line basis over the expected economic useful live which is 80 years.



# PROSPECT COMMUNITY HOUSING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

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### 1. Accounting policies (continued)

#### Development Administration Costs

Development administration costs relating to development activities are capitalised based on an apportionment of the staff time spent directly on this activity.

#### Depreciation (continued)

##### (ii) Other Fixed Assets

Expenditure incurred is written-off at the following annual percentages of cost on a straight line basis: -

|                      |              |
|----------------------|--------------|
| Office equipment     | 15%          |
| Computer equipment   | 25%          |
| Office accommodation | 2%           |
| Estate Assets        | 12.5% to 25% |

Depreciation is charged for each month that the asset is in use.

#### Intangibles

All intangible assets shall be considered to have a finite useful life of 4 years on a straight line basis. The useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights, but maybe shorter depending on the period over which the entity expects to use the asset. Amortisation of intangible assets is shown within operating expenditure.

#### Leases

The annual rentals in relation to operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the lease term.

#### Cash and cash equivalents

Cash includes all short-term bank deposits maturing within 3 months, which the Committee regards as part of the Association's bank balances.

#### Investments

These are bank deposits maturing in greater than 3 months.

#### Value Added Tax

The Association deregistered for VAT on 28 September 2017 as a large proportion of its income is exempt for VAT purposes. Expenditure is therefore shown inclusive of VAT.

#### Pensions

On 1 April 2014, the Association closed the Final Salary and Core Related Schemes in the centralised Scottish Housing Association's Pension Scheme (SHAPS) and now only operates a Defined Contribution Scheme in respect of existing and new employees. The pension cost in respect of this scheme is charged to the Statement of Comprehensive Income on an accruals basis.

## PROSPECT COMMUNITY HOUSING LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

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#### 1. Accounting policies (continued)

##### Pensions (continued)

The Association participates in The Scottish Housing Associations' Defined Benefits Pension Scheme (SHAPS) and retirement benefits to employees of the Association are funded by the contributions from all participating employers and employees in the scheme. Payments are made in accordance with periodic calculations by consulting actuaries and are based on pension costs applicable across the various participating Associations taken as a whole.

Up until 31 March 2018, it was not possible to identify the share of underlying assets and liabilities belonging to individual participating employers. Thus, up until the end of the 31 March 2018 year end, the Scheme was accounted for as a defined contribution scheme. However the Association entered into a past service deficit repayment agreement with TPT and per FRS 102, this discounted past service deficit liability was recognised in the Statement of Financial Position.

From 1 April 2018, information became available in order to separate out the assets and liabilities between scheme members and thus the SHAPS defined benefit pension liability is accounted for as a defined benefit pension scheme from 1 April 2018 onwards. In accordance with FRS 102 section 28, the operating and financing costs of pension and post retirement schemes (determined by TPT) are recognised separately in the Statement of Comprehensive Income. Service costs are systematically spread over the service lives of the employees and financing costs are recognised in the period in which they arise. The difference between actual and expected returns on assets during the year, including changes in the actuarial assumptions, is recognised in Other Comprehensive Income.

##### Taxation

The Association has charitable status and is therefore not required to account for tax on its charitable activities.

##### Financial Instruments

The Association only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other accounts receivable and payable, loans from banks and related parties.

Financial assets and financial liabilities are recognised when the Association becomes a party to the contractual provisions of the instrument, and are offset only when the Association currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

##### **Financial assets**

###### *Debtors*

Debtors which are receivable within one year and which do not constitute a financing transaction are initially measured at the transaction price. Trade debtors are subsequently measured at amortised cost, being the transaction price less any amounts settled and any impairment losses.

Where the arrangement with a trade debtor constitutes a financing transaction, the debtor is initially and subsequently measured at the present value of future payments discounted at a market rate of interest for a similar debt instrument.

## PROSPECT COMMUNITY HOUSING LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

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#### 1. Accounting policies (continued)

##### Financial Instruments (continued)

###### *Debtors (continued)*

A provision for impairment of debtors is established when there is objective evidence that the amounts due will not be collected according to the original terms of the contract. Impairment losses are recognised in the Statement of Comprehensive Income for excess of the carrying value of the trade debtor over the present value of the future cash flows discounted using the original effective interest rate. Subsequent reversals of an impairment loss that objectively relate to an event occurring after the impairment loss was recognised, are recognised immediately in the Statement of Comprehensive Income.

##### Financial liabilities

###### *Trade creditors*

Trade creditors payable within one year that do not constitute a financing transaction are initially measured at the transaction price and subsequently measured at amortised cost, being the transaction price less any amounts settled.

Where the arrangement with a trade creditor constitutes a financing transaction, the creditor is initially and subsequently measured at the present value of future payments discounted at a market rate of interest for a similar instrument.

###### *Borrowings*

Borrowings are initially recognised at the transaction price, including transaction costs, and subsequently measured at amortised cost using the effective interest method. Interest expense is recognised on the basis of the effective interest method and is included in interest payable and other similar charges.

###### *Derecognition of financial assets and liabilities*

A financial asset is derecognised only when the contractual rights to cash flows expire or are settled, or substantially all the risks and rewards of ownership are transferred to another party, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party. A financial liability (or part thereof) is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

##### Provisions

Provisions are recognised when the RSL has an obligation at the reporting date as a result of a past event which it is probable will result in the transfer of economic benefits and that obligation can be estimated reliably.

Provisions are measured at the best estimate of the amounts required to settle the obligation. Where the effect of the time value of money is material, the provision is based on the present value of those amounts, discounted at the pre-tax discount rate that reflects the risks specific to the liability. The unwinding of the discount is recognised within interest payable and similar charges.

PROSPECT COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2019

2. Analysis of turnover, operating expenditure and operating surplus or deficit

|                  |           | Turnover<br>£    | Operating<br>Costs<br>£ | Operating<br>Surplus/<br>(Deficit)<br>£ | Operating<br>Surplus/<br>(Deficit)<br>2018<br>£ |
|------------------|-----------|------------------|-------------------------|-----------------------------------------|-------------------------------------------------|
| Social Lettings  | (note 3a) | 4,692,039        | (3,300,218)             | 1,391,821                               | 1,448,661                                       |
| Other Activities | (note 3b) | 311,741          | (364,669)               | (52,928)                                | (18,498)                                        |
| 2019 Total       |           | <u>5,003,780</u> | <u>(3,664,887)</u>      | <u>1,338,893</u>                        |                                                 |
| 2018 Total       |           | <u>4,785,981</u> | <u>(3,355,818)</u>      |                                         | <u>1,430,163</u>                                |

PROSPECT COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2019

3(a) Particulars of turnover, operating expenditure and operating surplus or deficit from social letting activities

|                                                                     | 2019<br>General<br>Needs Housing<br>£ | 2019<br>Shared<br>Ownership<br>£ | 2019<br>Total<br>£ | 2018<br>Total<br>£ |
|---------------------------------------------------------------------|---------------------------------------|----------------------------------|--------------------|--------------------|
| Rent Receivable net of Service Charges                              | 3,970,299                             | 31,154                           | 4,001,453          | 3,913,472          |
| Service Charges                                                     | 193,047                               | -                                | 193,047            | 183,086            |
| Gross income from rents and service charges                         | 4,163,346                             | -                                | 4,194,500          | 4,096,558          |
| Less Voids                                                          | (15,714)                              | -                                | (15,714)           | (20,182)           |
| <b>Net income from rents &amp; service charges</b>                  | <b>4,147,632</b>                      | <b>31,154</b>                    | <b>4,178,786</b>   | <b>4,076,376</b>   |
| Grants released from deferred income                                | 501,471                               | -                                | 501,471            | 497,417            |
| Revenue grants from Scottish Ministers                              | 11,782                                | -                                | 11,782             | 9,091              |
| Stage 3 adaptation grants                                           | -                                     | -                                | -                  | -                  |
| <b>Total turnover from affordable letting activities</b>            | <b>4,660,885</b>                      | <b>31,154</b>                    | <b>4,692,039</b>   | <b>4,582,884</b>   |
| Management and Maintenance Administration Costs                     | 1,399,863                             | 9,451                            | 1,409,314          | 1,303,199          |
| Service Costs                                                       | 177,796                               | -                                | 177,796            | 162,554            |
| Planned & Cyclical Maintenance including Major Repair Costs         | 408,398                               | -                                | 408,398            | 370,850            |
| Reactive Maintenance Costs                                          | 394,497                               | -                                | 394,497            | 433,871            |
| Bad Debts—Rents & Service Charges                                   | 29,269                                | -                                | 29,269             | 11,187             |
| Depreciation of affordable let properties                           | 880,944                               | -                                | 880,944            | 858,562            |
| Remeasurement of past service deficit provision                     | -                                     | -                                | -                  | (6,000)            |
| <b>Operating expenditure for affordable letting activities</b>      | <b>3,290,767</b>                      | <b>9,451</b>                     | <b>3,300,218</b>   | <b>3,134,223</b>   |
| <b>Operating surplus for affordable letting activities for 2019</b> | <b>1,370,118</b>                      | <b>21,703</b>                    | <b>1,391,821</b>   | <b>1,448,661</b>   |
| Operating surplus for affordable lettings activities for 2018       | 1,430,949                             | 17,712                           |                    |                    |

The amount of service charges receivable on housing accommodation not eligible for Housing Benefit was £Nil (2018 – £Nil)  
The prior year operating expenditure included an incorrect reallocation of overheads from management and maintenance administration costs to service costs and planned and cyclical maintenance including major repair costs. This has been corrected. It has not impacted on the overall operating expenditure for 2018

PROSPECT COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2019

3(b) Turnover, operating expenditure and operating surplus or deficit from other activities

|                                                                                                                                          | Grants<br>from<br>Scottish<br>Ministers<br>£ | Other<br>Revenue<br>Grants<br>£ | Other<br>Income<br>£ | Total<br>Turnover<br>£ | Operating<br>Costs Bad<br>Debts<br>£ | Other<br>Operating<br>Costs<br>£ | Total<br>Operating<br>Costs<br>£ | Operating<br>(Deficit)/<br>Surplus<br>2019<br>£ | Operating<br>(Deficit)/<br>Surplus<br>2018<br>£ |
|------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------|---------------------------------|----------------------|------------------------|--------------------------------------|----------------------------------|----------------------------------|-------------------------------------------------|-------------------------------------------------|
| Wider Role Activities undertaken to support the community, other than the provision, construction, improvement and management of housing | -                                            | -                               | -                    | -                      | -                                    | (46,718)                         | (46,718)                         | (46,718)                                        | (44,349)                                        |
| Factoring                                                                                                                                | -                                            | -                               | 20,002               | 20,002                 | -                                    | (18,652)                         | (18,652)                         | 1,350                                           | 90                                              |
| Other (Big Lottery and Wester Hailes Community Trust) (1)                                                                                | -                                            | 235,225                         | -                    | 235,225                | -                                    | (235,225)                        | (235,225)                        | -                                               | 28,793                                          |
| Other Activities                                                                                                                         | -                                            | -                               | 56,514               | 56,514                 | (18,867)                             | (45,207)                         | (64,074)                         | (7,560)                                         | (3,032)                                         |
| <b>Total from other Activities</b>                                                                                                       | <b>-</b>                                     | <b>235,225</b>                  | <b>76,516</b>        | <b>311,741</b>         | <b>(18,867)</b>                      | <b>(345,802)</b>                 | <b>(364,669)</b>                 | <b>(52,928)</b>                                 |                                                 |
| Total from other activities – 2018                                                                                                       | -                                            | 148,499                         | 54,598               | 203,097                | (12,389)                             | (209,206)                        | (221,595)                        |                                                 | (18,498)                                        |

(1) During the year Prospect received Big Lottery grant of £50,344 (2018: £49,845), Scottish Government grant of £179,525 (2018: £71,381) and grant of £5,356 (2018: £20,000) from Wester Hailes Community Trust. Prior to applying for these grants, Prospect enters into a service level agreement with a delivery partner. The grant monies received by Prospect are granted on to the delivery partner. Prospect monitors the performance of the delivery partner to ensure all project objectives are met. If the objectives of the project are not met, then the grant provider could seek a partial or full reclaim of the grants originally paid over to Prospect.

PROSPECT COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2019

4. Housing stock

|                                                               | 2019<br>No. | 2018<br>No. |
|---------------------------------------------------------------|-------------|-------------|
| The number of units in Management at 31 March was as follows: |             |             |
| General Needs                                                 | 882         | 882         |
| Supported Housing                                             | 4           | 4           |
| Shared Ownership                                              | 11          | 11          |
|                                                               | <u>897</u>  | <u>897</u>  |

5. Interest payable and financing costs

|                                  | 2019<br>£      | 2018<br>£      |
|----------------------------------|----------------|----------------|
| Total interest incurred on loans | 282,673        | 298,082        |
| Net cost on pension (note 19)    | 18,000         | 8,000          |
|                                  | <u>300,673</u> | <u>306,082</u> |

6. Employees

|                                                                     | 2019<br>£        | Restated<br>2018<br>£ |
|---------------------------------------------------------------------|------------------|-----------------------|
| <b>Staff costs (including key management personnel) during year</b> |                  |                       |
| Wages and Salaries                                                  | 1,012,082        | 987,532               |
| Social Security Costs                                               | 116,511          | 95,857                |
| Other Pension Costs                                                 | 106,600          | 91,447                |
|                                                                     | <u>1,235,193</u> | <u>1,174,836</u>      |

In the prior year accounts, the past service deficit contributions were included as a cost above. This is not correct as these contributions were in respect of a liability recognised in the Statement of Financial Position.

The average full time equivalent number of persons employed by the Association during the year were as follows:

|                       | 2019<br>No. | 2018<br>No. |
|-----------------------|-------------|-------------|
| Corporate and Finance | 6           | 6           |
| Property Services     | 16          | 16          |
| Housing Management    | 8           | 8           |
|                       | <u>30</u>   | <u>30</u>   |

The key management personnel (KMP) are defined as the members of the Committee of Management, the Director and any other person reporting directly to the Directors or the Committee of Management

|                                                                                                                          | 2019<br>£     | 2018<br>£     |
|--------------------------------------------------------------------------------------------------------------------------|---------------|---------------|
| Aggregate Emoluments payable to key management personnel (excluding pensions contributions but including employer's NI)) | 279,849       | 276,613       |
| Pensions payable for key management personnel                                                                            | 30,072        | 29,770        |
| Emoluments payable to the Director (excluding pension contributions and excluding employer's NI)                         | <u>74,461</u> | <u>70,531</u> |

**PROSPECT COMMUNITY HOUSING LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2019**

**6. Employees (continued)**

| Emoluments paid to KMP including pension contributions (and excluding employer's NI) can be analysed as: | 2019 | 2018 |
|----------------------------------------------------------------------------------------------------------|------|------|
| £60,001 - £65,000                                                                                        | -    | -    |
| £65,001 - £70,000                                                                                        | 3    | 3    |
| £70,001 - £75,000                                                                                        | -    | -    |
| £75,001 - £80,000                                                                                        | -    | -    |
| £80,001 - £85,000                                                                                        | 1    | 1    |

The Association's contributions to the pension scheme for the Director amounted to £8,711 (2018: £8,464), based on the employer's contribution rate which is currently 12% of salary. In addition to the contributions there is an additional cost of 11.36% Past Service Deficit on relevant September 2009 salaries, as part of the agreed past service deficit repayment plan.

The Director is an ordinary member of the SHAPS Pension Scheme, with no enhanced/special terms. No additional contributions are made by Prospect Community Housing for any individual pension arrangements for the highest paid Director.

|                                                                      | 2019<br>£ | 2018<br>£ |
|----------------------------------------------------------------------|-----------|-----------|
| Total expenses reimbursed insofar as not chargeable to UK Income Tax | 1,671     | 1,260     |

Expenses are incurred wholly, exclusively and necessarily on behalf of the Association.

No member of the Committee of Management received emoluments in respect of their services to the Association.

In addition to the above, operating surplus for the year ending 31 March 2018 includes a remeasurement of the SHAPS past service deficit provision of £6,000. Further notes are provided in note 19.

The SHAPS liability is subject to remeasurement each financial year.

|                                                                                       | 2019<br>£ | 2018<br>£ |
|---------------------------------------------------------------------------------------|-----------|-----------|
| Remeasurement – impact of any change in assumptions to past service deficit liability | -         | (6,000)   |
|                                                                                       | -         | (6,000)   |

**Year ended 31 March 2019**

During the year past service deficit contributions of £177,333 (2018 - £172,168) were paid. Of this payment £172,333 (2018 - £166,168) was a payment in respect of the SHAPS pension liability. The remainder of £5,000 (2018 - £6,000) was pension management costs which has been included in management and maintenance administration costs.



PROSPECT COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2019

7a. Operating surplus

Operating surplus stated after charging:

|                                                         | 2019    | 2018    |
|---------------------------------------------------------|---------|---------|
|                                                         | £       | £       |
| Operating surplus is stated after charging/(crediting): |         |         |
| Depreciation of housing properties (note 9(a))          | 880,944 | 858,572 |
| Depreciation of other tangible fixed assets (note 9(b)) | 54,410  | 61,079  |
| Amortisation of intangible assets (note 8)              | 52,953  | 44,845  |

Fees payable to Scott-Moncrieff (2018: RSM UK AUDIT LLP) in respect of both audit and non-audit services are as follows:

|                                                                   | 2019   | 2018   |
|-------------------------------------------------------------------|--------|--------|
|                                                                   | £      | £      |
| Audit services - statutory audit of the Association including VAT | 10,800 | 11,040 |
| All other non-audit services including VAT                        | 4,680  | -      |

7b. Taxation

The Association is a registered charity (Charity number SC029797) and thus surpluses from its charitable activities are not subject to taxation.

No corporation tax (2018: nil) is due from its other activities.

8. Intangible assets

|                                        | IT Software |
|----------------------------------------|-------------|
|                                        | 2019        |
|                                        | £           |
| <b>Cost</b>                            |             |
| At 1 April 2018                        | 227,178     |
| Additions                              | 2,262       |
| At 31 March 2019                       | 229,440     |
| <b>Amortisation</b>                    |             |
| At 1 April 2018                        | 131,853     |
| Charge for Year                        | 52,953      |
| At 31 March 2019                       | 184,806     |
| <b>Net Book Value at 31 March 2019</b> | 44,634      |
| <b>Net Book Value at 31 March 2018</b> | 95,325      |

The intangible assets relate to IT Software, including the Civica CX system.

PROSPECT COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2019

9. Tangible fixed assets

| a) Housing Properties         | Housing<br>Properties<br>Held For<br>Letting<br>£ | Shared<br>Ownership<br>Properties<br>£ | Housing<br>Properties<br>Under<br>Construction<br>£ | Total<br>£ |
|-------------------------------|---------------------------------------------------|----------------------------------------|-----------------------------------------------------|------------|
| <b>Cost</b>                   |                                                   |                                        |                                                     |            |
| At start of period (Restated) | 54,380,607                                        | 410,944                                | -                                                   | 54,791,551 |
| Additions                     | 424,764                                           | -                                      | 6,958                                               | 431,722    |
| Disposals                     | (226,457)                                         | (13,661)                               | -                                                   | (240,118)  |
| At end of period              | 54,578,914                                        | 397,283                                | 6,958                                               | 54,983,155 |
| <b>Depreciation</b>           |                                                   |                                        |                                                     |            |
| At start of period (Restated) | 13,510,962                                        | 94,593                                 | -                                                   | 13,605,555 |
| Charged during period         | 876,830                                           | 4,114                                  | -                                                   | 880,944    |
| Disposals                     | (208,836)                                         | (4,099)                                | -                                                   | (212,935)  |
| At end of period              | 14,178,956                                        | 94,608                                 | -                                                   | 14,273,564 |
| <b>Net book value</b>         |                                                   |                                        |                                                     |            |
| At 31 March 2019              | 40,399,958                                        | 302,675                                | 6,958                                               | 40,709,591 |
| At 31 March 2018 (Restated)   | 40,869,645                                        | 316,351                                | -                                                   | 41,185,996 |

Included within housing properties is land of £10,815,671 that is not depreciated (2018 £10,818,796).

At 31 March 2019, none of the cost of the properties included in letting properties were held under a lease (2018: none).

Component replacements totalling £424,764 (2018: £463,220) were capitalised in the year.

During the year components with a cost of £226,457 (2018: £235,208) and accumulated depreciation of £208,836 (2018: £226,728) were disposed.

PROSPECT COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2019

9b) Other Fixed Assets

|                               | Office<br>Accommodation<br>£ | Estate<br>Assets<br>£ | Office<br>Equipment<br>£ | Computer<br>Equipment<br>£ | Total<br>£ |
|-------------------------------|------------------------------|-----------------------|--------------------------|----------------------------|------------|
| <b>Cost</b>                   |                              |                       |                          |                            |            |
| At start of period            | 1,104,549                    | 42,554                | 55,809                   | 117,509                    | 1,320,421  |
| Additions                     | -                            | -                     | 2,764                    | 22,476                     | 25,240     |
| Disposals                     | -                            | -                     | -                        | (886)                      | (886)      |
| At end of period              | 1,104,549                    | 42,554                | 58,573                   | 139,099                    | 1,344,775  |
| <b>Aggregate depreciation</b> |                              |                       |                          |                            |            |
| At start of period            | 362,386                      | 28,176                | 49,155                   | 72,455                     | 512,172    |
| Charge for period             | 23,327                       | 1,917                 | 2,117                    | 27,049                     | 54,410     |
| Disposals for period          | -                            | -                     | -                        | (674)                      | (674)      |
| At end of period              | 385,713                      | 30,093                | 51,272                   | 98,830                     | 565,908    |
| <b>Net book value</b>         |                              |                       |                          |                            |            |
| At 31 March 2019              | 718,836                      | 12,461                | 7,301                    | 40,269                     | 778,867    |
| At 31 March 2018              | 742,163                      | 14,378                | 6,654                    | 45,054                     | 808,249    |

10a. Debtors

|                          | 2019<br>£ | 2018<br>£ |
|--------------------------|-----------|-----------|
| Rental arrears           | 187,499   | 168,511   |
| Less: Bad debt provision | (67,606)  | (58,645)  |
|                          | 119,893   | 109,866   |
| Accrued income           | 70,126    | 62,275    |
| Prepayments              | 108,723   | 94,698    |
| Other debtors            | 68,215    | 69,539    |
|                          | 366,957   | 336,378   |

10b. Cash and cash equivalents

|              | 2019<br>£ | 2018<br>£ |
|--------------|-----------|-----------|
| Cash at bank | 809,685   | 637,255   |

10c. Investments

|               | 2019<br>£ | 2018<br>£ |
|---------------|-----------|-----------|
| Bank deposits | 3,000,000 | 3,010,000 |

Bank deposits mature in greater than 3 months.

**PROSPECT COMMUNITY HOUSING LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2019**

**11. Creditors:** Amounts falling due within one year

|                                               | 2019             | <i>Restated</i><br>2018 |
|-----------------------------------------------|------------------|-------------------------|
|                                               | £                | £                       |
| Housing loans (note 14)                       | 721,384          | 586,640                 |
| Trade creditors                               | 45,474           | 90,203                  |
| Other creditors                               | -                | 4,941                   |
| Other taxation and social security            | 26,331           | 24,643                  |
| Rent received in advance                      | 86,770           | 93,386                  |
| Accruals and retentions unpaid                | 35,576           | 83,009                  |
| Deferred Government capital grants (note 13)  | 501,471          | 497,417                 |
| SHAPS past service deficit liability < 1 year | -                | 172,000                 |
|                                               | <u>1,417,006</u> | <u>1,552,239</u>        |

**12. Creditors:** Amounts falling due after more than one year

|                                               | 2019              | <i>Restated</i><br>2018 |
|-----------------------------------------------|-------------------|-------------------------|
|                                               | £                 | £                       |
| Housing loans (Note 14)                       | 7,151,754         | 7,951,254               |
| Deferred Government capital grants (Note 13)  | 28,886,583        | 29,396,754              |
| SHAPS past service deficit liability > 1 year | -                 | 532,832                 |
|                                               | <u>36,038,337</u> | <u>37,880,840</u>       |

**13. Deferred Government capital grants**

|                                                        | 2019              | <i>Restated</i><br>2018 |
|--------------------------------------------------------|-------------------|-------------------------|
|                                                        | £                 | £                       |
| As at 1 April (Restated)                               | 29,894,171        | 30,391,588              |
| Capital grant released                                 | (501,471)         | (497,417)               |
| Capital grant received                                 | -                 | -                       |
| Capital grant repaid                                   | (4,646)           | -                       |
| Capital grant abated                                   | -                 | -                       |
| As at 31 March                                         | <u>29,388,054</u> | <u>29,894,171</u>       |
| Amounts to be released within one year (note 11)       | 501,471           | 497,417                 |
| Amounts to be released in more than one year (note 12) | 28,886,583        | 29,396,754              |
|                                                        | <u>29,388,054</u> | <u>29,894,171</u>       |

**PROSPECT COMMUNITY HOUSING LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2019**

**14. Debt analysis: Borrowings**

|               | <b>2019</b>             | <b>2018</b>             |
|---------------|-------------------------|-------------------------|
|               | <b>£</b>                | <b>£</b>                |
| Housing Loans | <b><u>7,873,138</u></b> | <b><u>8,537,894</u></b> |

Bank loans are secured by specific charges on the Association's properties. The net book value of housing properties secured at the year-end was £28,635,522 (2018 - £29,050,860). Housing Loans are secured by a standard security on the Association's properties. They are repayable at rates of interest of between 1.15% and 4.36% in instalments due as follows: -

|                                                                      |                         |                         |
|----------------------------------------------------------------------|-------------------------|-------------------------|
| Due within 1 year                                                    | <b>721,384</b>          | <b>586,640</b>          |
| Between 1 – 2 years                                                  | <b>721,631</b>          | <b>699,337</b>          |
| Between two and five years                                           | <b>2,267,212</b>        | <b>2,108,791</b>        |
| After five years                                                     | <b>4,162,911</b>        | <b>5,143,126</b>        |
|                                                                      | <b><u>7,873,138</u></b> | <b><u>8,537,894</u></b> |
| Included in creditors: amounts falling due within one year (note 11) | <b><u>(721,384)</u></b> | <b><u>(586,640)</u></b> |
|                                                                      | <b><u>7,151,754</u></b> | <b><u>7,951,254</u></b> |

**15. Commitments under operating lease**

At the year end, the total future minimum lease payments under non-cancellable operating leases were as follows:-

|                                                   | <b>2019</b>          | <b>2018</b>          |
|---------------------------------------------------|----------------------|----------------------|
|                                                   | <b>£</b>             | <b>£</b>             |
| No later than one year                            | <b>4,365</b>         | <b>11,239</b>        |
| Later than one year and not later than two        | <b>7,639</b>         | <b>-</b>             |
| Later than one year and not later than five years | <b>-</b>             | <b>-</b>             |
| Later than five years                             | <b>-</b>             | <b>-</b>             |
|                                                   | <b><u>12,004</u></b> | <b><u>11,239</u></b> |

**16. Share capital**

|                                                | <b>2019</b>      | <b>2018</b>      |
|------------------------------------------------|------------------|------------------|
|                                                | <b>£</b>         | <b>£</b>         |
| <b>Shares of £1 each fully paid and issued</b> |                  |                  |
| At start of period                             | <b>57</b>        | <b>59</b>        |
| Issued during period                           | <b>3</b>         | <b>1</b>         |
| Cancelled during period                        | <b>(6)</b>       | <b>(3)</b>       |
|                                                | <b><u>54</u></b> | <b><u>57</u></b> |

The Association is limited by guarantee and consequently has no capital. Each member of the Association holds one share of £1 in the Association. These shares carry no rights to dividends or distributions on a winding-up. When a shareholder ceases to be a member, that person's share is cancelled and the amount paid thereon becomes the property of the Association. Each member has a right to vote at members meetings.

**PROSPECT COMMUNITY HOUSING LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2019**

**17. Notes to Statement of Cash Flows**

|                                                                     | 2019             | 2018             |
|---------------------------------------------------------------------|------------------|------------------|
|                                                                     | £                | £                |
| <b>Reconciliation of surplus to net cash inflow from activities</b> |                  |                  |
| Surplus for the year                                                | 1,063,771        | 1,142,141        |
| Cancelled shares                                                    | (6)              | (3)              |
| Depreciation of tangible fixed assets                               | 880,944          | 858,572          |
| Depreciation of other fixed assets                                  | 54,410           | 61,079           |
| Amortisation of intangible assets                                   | 52,953           | 44,845           |
| Amortisation adjustment to intangible assets                        | -                | (11,169)         |
| Amortisation of deferred Government capital grants                  | (501,471)        | (497,417)        |
| Interest charge in respect of the defined benefit pension liability | 18,000           | 8,000            |
| Remeasurement of past service deficit pension liability             | -                | (6,000)          |
| Leases                                                              | -                | 6,244            |
| (Gain)/loss on disposal of tangible fixed assets                    | 50               | 7,116            |
| Interest received                                                   | (25,601)         | (25,176)         |
| Interest payable                                                    | 282,673          | 298,082          |
| SHAPS admin expenses                                                | 5,000            | -                |
| Release of deferred capital grant                                   | (4,646)          | -                |
| <b>Operating cash flows before movement in working capital</b>      | <b>1,826,077</b> | <b>1,886,314</b> |
| (Increase) in debtors                                               | (30,579)         | (15,701)         |
| Increase/(decrease) in trade and other creditors                    | (102,031)        | 66,771           |
| <b>Cash generated from operations</b>                               | <b>1,693,467</b> | <b>1,937,384</b> |

**18. Secure tenancy rents**

|                                                              | 2019         | 2018         |
|--------------------------------------------------------------|--------------|--------------|
|                                                              | £            | £            |
| Annual average secure tenancy rent for housing accommodation | 4,703        | 4,590        |
|                                                              | <b>4,703</b> | <b>4,590</b> |

The basic rent increase for 2019 was 2%.

**19. Retirement benefits**

**SHAPS Defined Benefit Scheme**

**Year ended 31 March 2018**

Prospect Community Housing Limited participates in the scheme, a multi-employer scheme which provides benefits to over 150 non-associated employers. The scheme is a defined benefit scheme in the UK. Up until 31 March 2018 it was not possible for the Association to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme. Therefore it accounted for the scheme as a defined contribution scheme. All employees were transferred out of the defined benefit scheme and moved to a defined contribution scheme from 1 April 2014.

The scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator and Technical Actuarial Standards issued by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension schemes in the UK.

The scheme is classified as a 'last-man standing arrangement'. Therefore the Association is potentially liable for other participating employers' obligations if those employers are unable to meet their share of the scheme deficit following withdrawal from the scheme. Participating employers are legally required to meet their share of the scheme deficit on an annuity purchase basis on withdrawal from the scheme.

**PROSPECT COMMUNITY HOUSING LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2019**

**19. Retirement benefits (continued)**

**SHAPS Defined Benefit Scheme**

A full actuarial valuation for the scheme was carried out at 30 September 2015. This actuarial valuation showed assets of £616m, liabilities of £814m and a deficit of £198m. To eliminate this funding shortfall, the Trustee has asked the participating employers to pay additional contributions to the scheme as follows:

**Deficit contributions**

|                                       |                                                                          |
|---------------------------------------|--------------------------------------------------------------------------|
| From 1 April 2018 to 28 February 2022 | £25,735,092 per annum (payable monthly, increasing by 3% each 1st April) |
| From 1 April 2018 to 30 June 2025     | £727,217 per annum (payable monthly, increasing by 3% each 1st April)    |
| From 1 April 2018 to 31 October 2026: | £1,239,033 per annum (payable monthly, increasing by 3% each 1st April)  |

Unless a concession has been agreed with the Trustee the term to 28 February 2022 applies.

The recovery plan contributions are allocated to each participating employer in line with their estimated share of the scheme liabilities.

Where the scheme is in deficit and where the entity has agreed to a deficit funding arrangement the entity recognises a liability for this obligation. The amount recognised is the net present value of the deficit reduction contributions payable under the agreement that relates to the deficit. The present value is calculated using the discount rate detailed in these disclosures. The unwinding of the discount rate is recognised as a finance cost.

**Present values of provision**

**Reconciliation of opening and closing provisions**

|                                                          | <b>Year<br/>Ending<br/>31 March<br/>2018<br/>(£000s)</b> |
|----------------------------------------------------------|----------------------------------------------------------|
| Provision at start of period                             | 875                                                      |
| Unwinding of the discount factor (interest expense)      | 8                                                        |
| Deficit contribution paid                                | (172)                                                    |
| Remeasurements - impact of any change in assumptions     | (6)                                                      |
| Remeasurements - amendments to the contribution schedule | -                                                        |
| Provision at end of period                               | <u>705</u>                                               |

**PROSPECT COMMUNITY HOUSING LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2019**

**19. Retirement benefits (continued)**  
**SHAPS Defined Benefit Scheme**  
**Year ended 31 March 2019**

**Income and expenditure impact**

**Year  
Ending  
31 March  
2018  
(£000s)**

|                                                          |     |
|----------------------------------------------------------|-----|
| Interest expense                                         | 8   |
| Remeasurements – impact of any change in assumptions     | (6) |
| Remeasurements – amendments to the contribution schedule | -   |
| Contributions paid in respect of future services         | -   |

**Assumptions**

|                  | <b>31 March 2018<br/>% per annum</b> | <b>31 March 2017<br/>% per annum</b> |
|------------------|--------------------------------------|--------------------------------------|
| Rate of discount | 1.51                                 | 1.06                                 |

The discount rates shown above are the equivalent single discount rates which, when used to discount the future recovery plan contributions due, would give the same results as using a full AA corporate bond yield curve to discount the same recovery plan contributions.

**Year ended 31 March 2019**

**Accounting treatment from 1 April 2018**

From 1 April 2018, information became available in order to separate out the assets and liabilities between scheme members and thus the SHAPS defined benefit pension liability is accounted for as a defined benefit pension scheme from 1 April 2018 onwards. In accordance with FRS 102 section 28, the operating and financing costs of pension and post retirement schemes (determined by TPT) are recognised separately in the Statement of Comprehensive Income. Service costs are systematically spread over the service lives of the employees and financing costs are recognised in the period in which they arise. The difference between actual and expected returns on assets during the year, including changes in the actuarial assumptions, is recognised in Other Comprehensive Income.

At 31 March 2018, in respect of the SHAPS deficit repayment plan, amounts included within creditors due less than one year were £172,000 and amounts included within creditors due greater than one year were £532,832. At 1 April 2018, on initial recognition of the multi-employer defined benefit scheme, the opening adjustment to the liability was £103,168 to recognise a liability of £808,000 as at 1 April 2018.

**Present values of defined benefit obligation, fair value of assets and defined benefit liability**

|                                                   | <b>31 March 2019<br/>£'000</b> |
|---------------------------------------------------|--------------------------------|
| Fair value of plan assets                         | 5,582                          |
| Present value of defined benefit obligation       | (6,597)                        |
| <b>Defined benefit liability to be recognised</b> | <b>(1,015)</b>                 |



**PROSPECT COMMUNITY HOUSING LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2019**

**19. Retirement benefits (continued)**

**Reconciliation of opening and closing balances of the defined benefit obligation**

|                                                                    | <b>Year ended<br/>31 March 2019<br/>£'000</b> |
|--------------------------------------------------------------------|-----------------------------------------------|
| Defined benefit obligation at start of period                      | 6,282                                         |
| Current service cost                                               | -                                             |
| Expenses                                                           | 5                                             |
| Interest expense                                                   | 157                                           |
| Actuarial losses/(gains) due to scheme experience                  | 79                                            |
| Actuarial losses/(gains) due to changes in demographic assumptions | 18                                            |
| Actuarial losses (gains) due to changes in financial assumptions   | 430                                           |
| Benefits paid and expenses                                         | (374)                                         |
| <b>Defined benefit liability at the end of the period</b>          | <b>6,597</b>                                  |

**Reconciliation of opening and closing balances of the fair value of plan assets**

|                                                                                  | <b>Year ended<br/>31 March 2019<br/>£'000</b> |
|----------------------------------------------------------------------------------|-----------------------------------------------|
| Fair value of plan assets at start of the period                                 | 5,474                                         |
| Interest income                                                                  | 139                                           |
| Experience on plan assets (excluding amounts included in interest income) - gain | 166                                           |
| Contributions by the employer                                                    | 177                                           |
| Benefits paid and expenses                                                       | (374)                                         |
| <b>Fair value of plan assets at end of period</b>                                | <b>5,582</b>                                  |

**Defined benefit costs recognised in the Statement of Comprehensive Income**

|                                                                              | <b>Period from<br/>31 March 2018 to<br/>31 March 2019<br/>£'000</b> |
|------------------------------------------------------------------------------|---------------------------------------------------------------------|
| Current service cost                                                         | -                                                                   |
| Expenses                                                                     | 5                                                                   |
| Net interest expense                                                         | 18                                                                  |
| <b>Defined benefit costs recognised in Statement of Comprehensive Income</b> | <b>23</b>                                                           |

**PROSPECT COMMUNITY HOUSING LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2019**

**19. Retirement benefits (continued)**

**Defined benefit costs recognised in Other Comprehensive Income**

|                                                                                                                           | <b>Period ended<br/>31 March 2019<br/>£'000</b> |
|---------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------|
| Experience on plan assets (excluding amounts included in net interest cost - gain                                         | 166                                             |
| Experience gains and losses arising on the plan liabilities – gain                                                        | (79)                                            |
| Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation – (loss) | (18)                                            |
| Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation – (loss)   | (430)                                           |
| <b>Total amount recognised in other comprehensive income – (loss)</b>                                                     | <b>(361)</b>                                    |

The main financial assumptions used by the Scheme Actuary, TPT, in their FRS 102 calculations are as follows:

| <b>Assumptions as at</b>                                    | <b>31 March 2019<br/>% per annum</b> |
|-------------------------------------------------------------|--------------------------------------|
| Discount rate                                               | 2.31                                 |
| Inflation (RPI)                                             | 3.29                                 |
| Inflation (CPI)                                             | 2.29                                 |
| Salary growth                                               | 3.29                                 |
| Allowance for commutation of pension for cash at retirement | 75% of maximum allowance             |

The mortality assumptions adopted at 31 March 2019 imply the following life expectancies:

|                         | <b>Life expectancy at<br/>age 65<br/>(years)</b> |
|-------------------------|--------------------------------------------------|
| Male retiring in 2019   | 21.7                                             |
| Female retiring in 2019 | 23.4                                             |
| Male retiring in 2039   | 23.1                                             |
| Female retiring in 2039 | 24.7                                             |

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2017 model with an allowance for smoothing of recent mortality experience and long term rates of 1.25% p.a. for males and 1% p.a. for females.

**Employer debt on withdrawal**

Following a change in legislation in September 2005 there is a potential debt on the employer that could be levied by the Trustee of the Scheme. The debt is due in the event of the employer ceasing to participate in the Scheme or the Scheme winding up. The debt for the Scheme as a whole is calculated by comparing the liabilities for the Scheme (calculated on a buyout basis i.e. the cost of securing benefits by purchasing annuity policies from an insurer, plus an allowance for expenses) with the assets of the Scheme. If the liabilities exceed assets there is a buy-out debt.

The leaving employer's share of the buy-out debt is the proportion of the Scheme's liability attributable to employment with the leaving employer compared to the total amount of the Scheme's liabilities (relating to employment with all the employers). The leaving employer's debt therefore includes a share of any 'orphan' liabilities in respect of previously participating employers. The amount of the debt therefore depends on many factors including total Scheme liabilities, Scheme investment performance, the liabilities in respect of current and former employees of the employer, financial conditions at the time of the cessation event and the insurance buy-out market. The amounts of debt can therefore be volatile over time.

## **PROSPECT COMMUNITY HOUSING LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019**

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#### **19. Retirement benefits (continued)**

##### **Employer debt on withdrawal (continued)**

The Association has been notified by TPT of the estimated employer debt on withdrawal from the Scheme based on the financial position of the Scheme as at 30 September 2017. As of this date the estimated employer debt for the Association was £5,412,485. The employer debt on withdrawal based on the valuation as at 30 September 2018 is not yet available from TPT.

##### **GMP equalisation**

Guaranteed Minimum Pension (GMP) is the minimum pension which an occupational pension scheme in the UK has to provide for those employees who were contracted out of the State Earnings-Related Pension Scheme (SERPS). Both pension scheme members and sponsoring employers paid lower National Insurance contributions at the time of accrual given the lower benefits being accrued for the member by the state. Women can currently receive their GMP benefits at age 60 compared to age 65 for men. GMP also accrued at a faster rate for women than men.

Historically some defined benefit schemes had different retirement ages for men and women. Therefore schemes are required to "equalise" pension ages and overall benefit scales between males and females. The Scheme actuary is therefore required to estimate the impact of GMP and include an allowance for the increase in calculated liabilities.

The impact of GMP equalisation for the Association is 0.1% of liabilities, which is expected to be approximately £7,000. This is included within the opening and closing defined benefit liability as detailed above.

##### **SHAPS Defined Contribution Scheme**

Defined Contribution pension arrangements have been put in place since April 2014 with The Pensions Trust. These arrangements are open to all employees.

Employer contributions vary with the level of contributions chosen by the individual employee member, and range from 1% to 15% for employees. Employer contributions are capped at 12%.

#### **20. Subsidiary**

The Association has a subsidiary company, Prospect Community Projects Limited. This is a wholly owned subsidiary of the Association having a share capital of £1. The company is dormant.

The objective of this subsidiary is to carry out appropriate non-charitable activities.

The net assets of the company as at 31 March 2019 were £1.

Prospect Community Projects Limited has not been consolidated in the accounts of Prospect Community Housing Limited, for the year ended 31 March 2019, due to the immateriality of the amounts involved.

Prospect Community Housing Limited is considered to be the ultimate parent undertaking of the group. Separate Group accounts are not required as the Group has been exempted from this requirement by the Financial Conduct Authority.

## PROSPECT COMMUNITY HOUSING LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

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#### 21. Related party transactions

The following members of the Committee of Management hold tenancies with the Association:

Sheila Bunt  
Naomi MacKenzie  
Alan Gee  
Mo Connolly  
Milind Kolhatkar  
Chuks Ododo  
Kudakwashe Moyo  
Gary Marchbank (Resigned 25.04.18)

All tenancies were granted under the Association's allocations policy, with rent under normal terms.

Total rent charged in the year was £36,426 (2018: £36,063) with arrears of £1,007 at the year-end (2018: £161) and prepaid rent of £165 (2018: £146).

| 22. Financial instruments                        | 2019<br>£        | 2018<br>£        |
|--------------------------------------------------|------------------|------------------|
| <b>Financial Assets</b>                          |                  |                  |
| Cash and cash equivalents                        | 809,685          | 647,255          |
| Investments – deposit accounts                   | 3,000,000        | 3,010,000        |
| Financial assets measured at amortised cost      | 258,234          | 241,680          |
|                                                  | <u>4,067,919</u> | <u>3,898,935</u> |
| <b>Financial Liabilities</b>                     |                  |                  |
| Financial liabilities measured at amortised cost | <u>7,954,188</u> | <u>9,420,879</u> |

Financial assets measured at amortised cost comprises rental arrears, other debtors and accrued income.

Financial liabilities measured at amortised cost comprises housing loans, trade creditors, other creditors, accruals and the SHAPS past service deficit liability.

No financial assets or liabilities are held at fair value.

Financial liabilities are derecognised only once the liability has been extinguished through discharge, cancellation or expiry.

**PROSPECT COMMUNITY HOUSING LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2019**

**23. Prior year adjustments**

**As at 1 April 2017**

**1) Housing properties held for letting**

Since the introduction of component accounting in 2011/12 bathrooms were not separately identified but were included within the 'Structure' component, depreciated over 80 years. A prior year adjustment of £225,017 has been debited to reserves to depreciate bathrooms over a 30 year life.

**2) Shared ownership properties**

Prior to April 2018 shared ownership properties were depreciated over 50 years when they should have been depreciated over 80 years in line with the useful life of the structure component of the housing properties held for letting, this has resulted in a prior year adjustment of £91,298 Cr to the revenue reserve. In addition to this in 2016/17, a 25% sale of a shared ownership property was incorrectly accounted for; this has resulted in a prior year adjustment of £15,485 Dr to the revenue reserve.

**3) Deferred Government capital grants**

Prior to April 2018, deferred Government capital grants received for shared ownership properties were not amortised. A prior year adjustment of £92,161 has been credited to reserves to bring amortisation of shared ownership properties in line with FRS102.

**Impact on the financial statements**

|                                         | Capital and<br>revenue<br>reserve at<br>1 April 2017<br>£ | Capital and<br>revenue<br>reserve at<br>1 April 2018<br>£ | Total<br>comprehensive<br>income for the<br>year ended<br>31 March 2018<br>£ |
|-----------------------------------------|-----------------------------------------------------------|-----------------------------------------------------------|------------------------------------------------------------------------------|
| As previously stated                    | 5,555,028                                                 | 6,697,167                                                 | 1,142,141                                                                    |
| <u>Prior year adjustment</u>            |                                                           |                                                           |                                                                              |
| Housing properties held for letting (1) | (225,017)                                                 | (225,017)                                                 | -                                                                            |
| Shared ownership properties (2)         | 75,813                                                    | 75,813                                                    | -                                                                            |
| Deferred Government capital grants (3)  | 92,161                                                    | 92,161                                                    | -                                                                            |
|                                         | <u>5,497,985</u>                                          | <u>6,640,124</u>                                          | <u>1,142,141</u>                                                             |