



PROSPECT COMMUNITY HOUSING LIMITED

FINANCIAL STATEMENTS

AS AT 31 MARCH 2021

Financial Conduct Authority No 2290 R (S)

Registered Housing Association No. HAL 204

Scottish Charity No. SC029797

PROSPECT COMMUNITY HOUSING LIMITED

STATUTORY INFORMATION

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
- Mo Connolly Secretary
- Sheila Bunt Vice Chairperson
- Naomi MacKenzie Treasurer
- Mary MacRaid
- Peter Matthews
- Shulah Allan
- Alan Gee
- Chuks Ododo
- Amanda Miller
- Simon Campbell
- Jolly Oluka

Key Management Personnel

Brendan Fowler – Director

Colin James – Finance Manager (appointed 04/05/2021)

Lynne Bell – Finance Manager (retired 14/05/2021)

Neil Munro – Property Services Manager

Catherine Louch – Housing Manager

Registered Office

6 Westburn Avenue
Edinburgh
EH14 2TH

Auditor

Azets Audit Services
Titanium 1
King's Inch Place
Renfrew
PA4 8WF

Bankers

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

Solicitors

T C Young
69a George Street
Edinburgh
EH2 2JG

PROSPECT COMMUNITY HOUSING LIMITED

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021**

CONTENTS

| | Page |
|---|-------|
| Report of the Committee of Management (incorporating the Strategic Report) | 1-8 |
| Committee of Management's Statement on Internal Financial Control | 9 |
| Report by the Auditor to the members of Prospect Community Housing Association Limited on Internal Financial Control | 10 |
| Independent Auditor's Report to the members of Prospect Community Housing Association Limited on the Financial Statements | 11-14 |
| Statement of Comprehensive Income | 15 |
| Statement of Financial Position | 16 |
| Statement of Changes in Capital and Reserves | 17 |
| Statement of Cash Flows | 18 |
| Notes to the Financial Statements | 19-42 |

PROSPECT COMMUNITY HOUSING LIMITED

REPORT OF THE COMMITTEE OF MANAGEMENT (INCORPORATING THE STRATEGIC REPORT) FOR THE YEAR ENDED 31 MARCH 2021

The Committee have pleasure in presenting their thirty-second report on Prospect's affairs for the year ended 31 March 2021.

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 2018.

Area of Operation

Prospect Community Housing Limited has grown steadily since 1988 to become a medium sized Housing Association, managing 896 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 £164,729 (2020: £370,446) 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 £655,419 (2020: £835,921) 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. The performance this year has been affected by the Covid-19 pandemic.

| Indicator | 2020/21 | 2019/20 | 2018/19 | 2017/18 | 2016/17 | Target |
|---|----------------|----------------|----------------|----------------|----------------|---------------|
| Current Tenant Rent Arrears as % income | 5.85 | 5.05 | 4.2 | 4.1 | 4.36 | 4.50 |
| Voids turnaround times (days) | 39.6 | 11.8 | 24.7 | 18 | 16.4 | 19 |
| % rent loss due to voids | 0.64 | 0.35 | 0.37 | 0.23 | 0.196 | 0.40 |
| Staff costs as % of turnover | 22.9 | 24.7 | 24.69 | 24.81 | 25.30 | 25.95 |

PROSPECT COMMUNITY HOUSING LIMITED

REPORT OF THE COMMITTEE OF MANAGEMENT (INCORPORATING THE STRATEGIC REPORT) FOR THE YEAR ENDED 31 MARCH 2021

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 |
|---|--|
| ➤ Welfare benefit changes 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. |
| ➤ Cash flow is increasingly important at a time when there are pressures on our rental income and upward pressures on costs e.g. pensions. If Prospect 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. Flexible funding has been put in place for our development activities. |
| ➤ New developments. 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. |
| ➤ Not meeting the Scottish Housing Charter outcomes or the new Regulatory Standards set out by the Scottish Housing Regulator. | ➤ Regular review of our performance. Membership of HouseMark allows us to compare our performance and learn from others. Regular consideration and close monitoring by our Committee of the Regulatory Standards. |
| ➤ Impact of Covid-19 and associated restrictions on the organisation. | ➤ Monthly reporting of cashflow to Management Team and Committee have taken place throughout the pandemic. Ongoing management of situation by Management Team help us to manage the situation. |

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 2020/21 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 are a member of ARCHIE, a grouping of Edinburgh based independent social landlords.

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.

PROSPECT COMMUNITY HOUSING LIMITED

REPORT OF THE COMMITTEE OF MANAGEMENT (INCORPORATING THE STRATEGIC REPORT) FOR THE YEAR ENDED 31 MARCH 2021

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. Almost all of our properties meet the Energy Efficiency Standard for Social Housing (ESSH) target, and we are now turning our attention to meeting the ESSH2 targets set by government.

Statement of Comprehensive Income Turnover

Rental and Service Charge Income Receivable increased by 1.3% to £4,324,715 (2020: £4,267,420).

Surplus on Ordinary Activities

The surplus for the year was £1,480,118 (2020 £1,074,128). Following incorporation of other comprehensive income movements in respect of the SHAPS liability, the Association had total comprehensive income of £704,118 (2020 – total comprehensive income of £1,843,128). This is due to the actuarial loss in respect of the SHAPS in the current year of £776,000 (2020: gain of £769,000).

Further details regarding SHAPS can be found in note 18 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 £1,364,776. The revenue reserve increased by £704,118 from £9,082,465 to £9,786,583. The current revenue reserve meets this aim.

Going Concern

The Committee of Management has a reasonable expectation that the Association has adequate resources to continue in operational existence for the foreseeable future. This belief is grounded in the profitability of the organisation, allied to significant revenue reserves, the current holding of substantial cash balances and the existence of spare capacity to borrow further based upon available security. Key risks such as Covid-19 and welfare benefit changes have had some operational and financial impact, but any financial downside has been limited and managed and there is good reason to believe that this will continue to be contained. Thus, the going concern basis of accounting is adopted in preparing the financial statements.

Treasury Management

Prospect, as a matter of policy, does not enter into transactions of a speculative nature. At 31 March 2021, Prospect had a mix of fixed and variable rate loan finance.

PROSPECT COMMUNITY HOUSING LIMITED

REPORT OF THE COMMITTEE OF MANAGEMENT (INCORPORATING THE STRATEGIC REPORT) FOR THE YEAR ENDED 31 MARCH 2021

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. This programme has been disrupted due to the Covid-19 restrictions, but we have plans to catch up on the missed work when restrictions allow.

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 is logical and easily applied. 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 been affected by the Covid-19 restrictions. We did manage to hold a virtual strategy session focussing on rent affordability. The annual training weekend has been postponed and will be held when restrictions allow.

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 from the Registered Office. The new model rules were approved in September 2020.

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 2021**

Business Plan (continued)

Our strategic objectives for the period to 31 March 2021 are outlined in the table below:

| |
|--|
| <p>Independence - maintain this through good governance, strong financial performance and stronger partnerships with other independent housing organisations.</p> <ul style="list-style-type: none">• Continue to work to ensure that the organisation is financially secure by:<ul style="list-style-type: none">○ 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 assurance statement by October. |
| <p>Property and Neighbourhood improvements – invest £2m during the period of this business plan. Invest in improving our neighbourhood areas, co-producing the changes with tenants.</p> <ul style="list-style-type: none">• EESSH2 – keep up to date with sector regarding EESSH2, and the approach for decarbonisation related to on grid gas;• Complete all the anticipated property investment programme that is included in the 2021/22 budget; and• Complete the Neighbourhood Improvements work identified in the 2021/22 budget. |
| <p>New housing provision – invest £15m to build 95 properties within the period of the business plan, including the provision of Mid Market Rent properties through a subsidiary. Investigate other possible sites for development.</p> <ul style="list-style-type: none">• Get onsite with Kingsknowe; and• Achieve planning permission for the Woods Centre. |
| <p>Affordable rents – achieve rent increases of no more than inflation (CPI) plus 0.5%, whilst maintaining existing services and investment in our houses and neighbourhoods. Incorporate modelling of affordability into rent review process.</p> <ul style="list-style-type: none">• Through budget process, ensure that costs are contained so that rent increase can be no more than CPI plus 0.5%; and• Follow up work on the Committee Strategy Session on affordable rents. |
| <p>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. Specifically we will introduce a digital participation forum during the period of this Business Plan.</p> <ul style="list-style-type: none">• Work with the Prospect Scrutiny Group to carry out additional inspections and follow up reporting during the year (Covid restrictions lifted);• Engaging tenants in flexible ways to identify areas for improvement; and• Consider ways for digital participation to offer new ways for tenants to engage with us. |
| <p>Community Projects – working in partnership with local agencies to develop new projects that meet local priorities. This will help to give opportunities to all in our community.</p> <ul style="list-style-type: none">• Work towards the aims set out in the Community Action Plan; and• Continue with collaborative projects delivered with partners. |

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.

PROSPECT COMMUNITY HOUSING LIMITED

**REPORT OF THE COMMITTEE OF MANAGEMENT (INCORPORATING THE STRATEGIC REPORT)
FOR THE YEAR ENDED 31 MARCH 2021**

Progress towards achieving Strategic Objectives

This table indicates the progress made towards achieving these objectives as detailed at 31 March 2021.

| OBJECTIVE | ACHIEVEMENTS |
|--|--|
| Independence | <ul style="list-style-type: none">· We continue to perform well financially;· We have a 'Compliant' assessment from the Scottish Housing Regulator;· The budget we set looks ahead 25 years and demonstrates that we are viable in the long term;· Each year we carry out stress testing on our financial projections; and· Archie helps us in our partnership approach with other Housing Associations and Co-ops. |
| Property and neighbourhood improvements | <ul style="list-style-type: none">· In the past year we have invested £418,941 on planned and cyclical maintenance and new components. |
| New housing provision | <ul style="list-style-type: none">· We continue to work towards developing new homes on the Kingsknowe site, as well as exploring other options for new homes. |
| Affordable rents | <ul style="list-style-type: none">· We now link rents to CPI (August figure) and have maintained below average rent increases when compared to other RSL's. |
| Improving services through customer involvement | <ul style="list-style-type: none">· The Prospect Scrutiny Group has not been able to complete any work over the past year due to Covid-19 restrictions;· The Tenants' Forum has met virtually during the past year, but further meetings will be delayed until they can be in person;· We improve services by learning from customer feedback; and· We carried out a full tenant satisfaction survey in 2019 and have made progress on items in the workplan that came out of the survey. |
| Community projects | <ul style="list-style-type: none">· Excellent range of projects delivered via partners, including a strong focus on community support throughout the Covid-19 pandemic. |

PROSPECT COMMUNITY HOUSING LIMITED

REPORT OF THE COMMITTEE OF MANAGEMENT (INCORPORATING THE STRATEGIC REPORT) FOR THE YEAR ENDED 31 MARCH 2021

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 and the Determination of Accounting Requirements 2019 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 15 days (2020: 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. We have carried out two staff wellbeing surveys during the past year, to help us in supporting staff through the Covid-19 restrictions. The feedback from staff in both surveys has been extremely positive.

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

PROSPECT COMMUNITY HOUSING LIMITED

**REPORT OF THE COMMITTEE OF MANAGEMENT (INCORPORATING THE STRATEGIC REPORT)
FOR THE YEAR ENDED 31 MARCH 2021**

Committee of Management members:

The Committee of Management during the year ended 31 March 2021 and up to the date of signing these financial statements were:

| | | |
|--------------------|-------------------------|--------------------------------------|
| * Milind Kolhatkar | Chairperson | * Chuks Ododo |
| * Mo Connolly | Secretary | * Amanda Miller |
| * Sheila Bunt | Vice Chairperson | * Simon Campbell |
| * Naomi MacKenzie | Treasurer | * Jolly Oluka |
| * Mary MacRaid | | * Kudakwashe Moyo Left 25/11/2020 |
| * Peter Matthews | | |
| * Alan Gee | | |
| * Shulah Allan | | |

Disclosure of information to the auditor

Members of the Committee of Management 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

On 7 September 2020 Group Audit Service Limited trading as Scott Moncrieff Audit Services changed its name to Azets Audit Services Limited. The name they practice under is Azets Audit Services and accordingly they have signed their report in their new name.

The auditor, Azets Audit Services have expressed their willingness to continue in office as auditor and will be proposed for reappointment at the Annual General Meeting.

By order of the Committee of Management

Mo Connolly
Secretary

Date: 30 June 2021

PROSPECT COMMUNITY HOUSING LIMITED

**COMMITTEE OF MANAGEMENT'S STATEMENT ON INTERNAL FINANCIAL CONTROL
FOR THE YEAR ENDED 31 MARCH 2021**

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 2021. No weaknesses were found in internal financial control 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: 30 June 2021

PROSPECT COMMUNITY HOUSING LIMITED

REPORT BY THE AUDITOR TO THE MEMBERS OF PROSPECT COMMUNITY HOUSING LIMITED ON INTERNAL FINANCIAL CONTROL FOR THE YEAR ENDED 31 MARCH 2021

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 control 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 control 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 Control appropriately reflects the Association's compliance with the information required by the relevant Regulatory Standards in respect of internal financial control contained within the publication "Our Regulatory Framework" and associated Regulatory Advisory Notes issued by the Scottish

Azets Audit Services, Statutory Auditor
Eligible to act as an auditor in terms of Section 1212 of the Companies Act 2006
Chartered Accountants
Titanium 1
King's Inch Place
Renfrew
PA4 8WF

Date: 30 June 2021

PROSPECT COMMUNITY HOUSING LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PROSPECT COMMUNITY HOUSING LIMITED ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

Opinion

We have audited the financial statements of Prospect Community Housing Limited (the 'Association') for the year ended 31 March 2021 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes Capital and Reserves, the Statement of Cash Flows and the 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 Financial Reporting Standard 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 2021 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014, Part 6 of the Housing (Scotland) Act 2010 and the Determination of Accounting Requirements 2019 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 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

In auditing the financial statements, we have concluded that the Committee of Management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Association's ability to continue as a going concern for a period of at least 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Committee of Management with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Committee of Management is responsible for the other information. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

PROSPECT COMMUNITY HOUSING LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PROSPECT COMMUNITY HOUSING LIMITED ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

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.

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 2021, 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 in relation to which 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 need for our audit.

Responsibilities of the Committee of Management

As explained more fully in the Statement of the Committee of Management's Responsibilities set out on page 7 the Committee of Management 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 of Management determine 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 of Management 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 of Management either intend 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

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 is available on the Financial Reporting Council's website at: 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 FOR THE YEAR ENDED 31 MARCH 2021

The extent to which the audit was considered capable of detecting irregularities including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above and on the FRC's website, to detect material misstatements in respect of irregularities, including fraud.

We obtain and update our understanding of the entity, its activities, its control environment, and likely future developments, including in relation to the legal and regulatory framework applicable and how the entity is complying with that framework. Based on this understanding, we identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. This includes consideration of the risk of acts by the entity that were contrary to applicable laws and regulations, including fraud.

Our approach to identifying and assessing the risks of material misstatement in respect of irregularities, including non-compliance with laws and regulations, was as follows:

- the engagement partner ensured that the engagement team collectively had the appropriate competence, capabilities and skills to identify or recognise non-compliance with applicable laws and regulations;
- we identified the laws and regulations applicable to the Association through discussions with the Committee of Management members and the senior management team, and from our knowledge and experience of the RSL sector;
- we focused on specific laws and regulations which we considered may have a direct material effect on the financial statements or the operations of the Association, including the Co-operative and Community Benefit Societies Act 2014, Part 6 of the Housing (Scotland) Act 2010, the Determination of Accounting Requirements 2019 issued by the Scottish Housing Regulator, taxation legislation and data protection, anti-bribery, employment, environmental and health and safety legislation;
- we assessed the extent of compliance with the laws and regulations identified above through making enquiries of the senior management team and the Committee of Management and inspecting legal correspondence; and
- identified laws and regulations were communicated within the audit team regularly and the team remained alert to instances of non-compliance throughout the audit.

In response to the risk of irregularities and non-compliance with laws and regulations, we designed procedures which included, but were not limited to:

- agreeing financial statement disclosures to underlying supporting documentation;
- reading the minutes of meetings of the Committee of Management and relevant sub-committees;
- enquiring of the senior management team and the Committee of Management as to actual and potential litigation and claims;
- reviewing legal and professional fees paid in the year for indication of any actual and potential litigation and claims; and
- reviewing correspondence with HMRC, the Scottish Housing Regulator and the Association's legal advisors.

We assessed the susceptibility of the Association's financial statements to material misstatement, including obtaining an understanding of how fraud might occur, by:

- making enquiries of the senior management team and the Committee of Management as to where they considered there was susceptibility to fraud, their knowledge of actual, suspected and alleged fraud; and
- considering the internal controls in place to mitigate risks of fraud and non-compliance with laws and regulations.

PROSPECT COMMUNITY HOUSING LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PROSPECT COMMUNITY HOUSING LIMITED ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021


Auditor's responsibilities for the audit of the financial statements (continued)

To address the risk of fraud through management bias and override of controls, we:

- performed analytical procedures to identify any unusual or unexpected relationships;
- tested journal entries to identify unusual transactions;
- assessed whether judgements and assumptions made in determining the accounting estimates were indicative of potential bias; and
- investigated the rationale behind significant or unusual transactions.

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.



Azets Audit Services
Statutory Auditor
Chartered Accountants
Titanium 1
King's Inch Place
Renfrew
PA4 8WF

Date: 30 June 2021

Azets Audit Services is eligible for appointment as auditor of the Association by virtue of its eligibility for appointment as auditor of a company under section 1212 of the Companies Act 2006.

PROSPECT COMMUNITY HOUSING LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2021**

| | Notes | 2021 £ | 2020 £ |
|--|-------|------------------|------------------|
| Turnover | 2 | 4,981,449 | 4,883,069 |
| Operating expenditure | 2 | (3,308,206) | (3,598,402) |
| Operating surplus | 2, 7a | 1,673,243 | 1,284,667 |
| Gain on disposal of property plant and equipment | | 300 | 20,199 |
| Interest receivable | | 18,489 | 35,016 |
| Interest and financing costs | 5 | (211,914) | (265,754) |
| Surplus before tax | | 1,480,118 | 1,074,128 |
| Taxation | 7b | - | - |
| Surplus for the year | | 1,480,118 | 1,074,128 |
| Other comprehensive income | | | |
| Actuarial (loss)/gain in respect of pension scheme | 18 | (776,000) | 769,000 |
| Total comprehensive income for the year | | 704,118 | 1,843,128 |

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 2021**

| | Notes | 2021 £ | 2020 £ |
|---|-------|-------------------|-------------------|
| Fixed assets | | | |
| Intangible assets | 8 | 10,089 | 18,267 |
| Housing properties | 9a | 39,467,360 | 40,198,526 |
| Other fixed assets | 9b | 722,315 | 748,272 |
| | | <u>40,199,764</u> | <u>40,965,065</u> |
| Current assets | | | |
| Trade and other debtors | 10a | 245,774 | 275,764 |
| Cash and cash equivalents | 10b | 3,295,246 | 2,364,045 |
| Investments | 10c | 2,000,000 | 2,000,000 |
| | | <u>5,541,020</u> | <u>4,639,809</u> |
| Current liabilities | | | |
| Creditors: Amounts falling due within one year | 11 | (1,560,192) | (1,460,914) |
| Net current assets | | <u>3,980,828</u> | <u>3,178,895</u> |
| Total assets less current liabilities | | <u>44,180,592</u> | <u>44,143,960</u> |
| Creditors: Amounts falling due after more than one year | 12 | (33,710,330) | (34,976,094) |
| Pension – defined benefit liability | 18 | (683,627) | (85,348) |
| Net assets | | <u>9,786,635</u> | <u>9,082,518</u> |
| Capital and Reserves | | | |
| Share Capital | 16a | 52 | 53 |
| Revenue reserve | 16b | 9,786,583 | 9,082,465 |
| | | <u>9,786,635</u> | <u>9,082,518</u> |

The financial statements were authorised for issue by the Committee of Management on 30 June 2021 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 2021**

| | Share Capital £ | Revenue Reserve £ | Total £ |
|----------------------------------|--------------------------------|----------------------------------|--------------------|
| Balance at 1 April 2020 | 53 | 9,082,465 | 9,082,518 |
| Total comprehensive income | | 704,118 | 704,118 |
| Shares issued during the year | - | - | - |
| Shares cancelled during the year | (1) | - | (1) |
| Balance at 31 March 2021 | 52 | 9,786,583 | 9,786,635 |

**STATEMENT OF CHANGES IN CAPITAL AND RESERVES
FOR THE YEAR ENDED 31 MARCH 2020**

| | Share Capital £ | Revenue Reserve £ | Total £ |
|----------------------------------|--------------------------------|----------------------------------|--------------------|
| Balance at 1 April 2019 | 54 | 7,239,337 | 7,239,391 |
| Total comprehensive income | - | 1,843,128 | 1,843,128 |
| Shares issued during the year | 4 | - | 4 |
| Shares cancelled during the year | (5) | - | (5) |
| Balance at 31 March 2020 | 53 | 9,082,465 | 9,082,518 |

The notes form part of these financial statements.

PROSPECT COMMUNITY HOUSING LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2021

| | Note | 2021 £ | 2020 £ |
|---|------|--------------------|------------------|
| Net cash generated from operating activities | 17 | 2,275,903 | 1,838,245 |
| Cash Flow from Investing activities | | | |
| Purchase of tangible fixed assets | | (210,478) | (414,425) |
| Purchase of intangible fixed assets | | (510) | (11,896) |
| Proceeds from sale of tangible fixed assets | | 300 | 37,493 |
| HAG repaid | | - | (7,604) |
| Interest received | | 18,489 | 35,016 |
| Withdrawals from investments | | - | 1,000,000 |
| Net cash (used in) investing activities | | (192,199) | 638,584 |
| Cash flow from financing activities | | | |
| Interest paid | | (211,914) | (243,754) |
| New Loan | | - | 233,486 |
| Repayment of borrowings | | (762,868) | (729,552) |
| Issue of share capital | | - | 4 |
| Contributions to the past service deficit | | (177,721) | (182,653) |
| Net cash (used in) financing activities | | (1,152,503) | (922,469) |
| Net increase in cash and cash equivalents | | 931,201 | 1,554,360 |
| Cash and cash equivalents at beginning of year | 10b | 2,364,045 | 809,685 |
| Cash and cash equivalents at end of year | 10b | 3,295,246 | 2,364,045 |

Analysis of changes in net debt

| | At 1 April 2020 £ | Cash flows £ | Other non- cash changes £ | At 31 March 2021 £ |
|---|-------------------------|------------------|------------------------------------|--------------------------|
| Cash, cash equivalents and investments | | | | |
| Cash | 2,364,045 | 931,201 | - | 3,295,246 |
| Overdrafts | - | - | - | - |
| Cash equivalents | - | - | - | - |
| Investments | 2,000,000 | - | - | 2,000,000 |
| | <u>4,364,045</u> | <u>931,201</u> | <u>-</u> | <u>5,295,246</u> |
| Borrowings | | | | |
| Debt due within one year | (768,336) | 762,868 | (764,435) | (769,903) |
| Debt due after one year | (6,595,343) | - | 764,435 | (5,830,908) |
| | <u>(7,363,679)</u> | <u>762,868</u> | <u>-</u> | <u>(6,600,811)</u> |
| Total | <u>(2,999,634)</u> | <u>1,694,069</u> | <u>-</u> | <u>(1,305,565)</u> |

The notes form part of these financial statements.

PROSPECT COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

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 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 2018 "Statement of Recommended Practice for Registered Housing Providers" and the Determination of Accounting Requirements 2019 issued by the Scottish Housing Regulator.

The effect of events relating to the year ended 31 March 2021, which occurred before the date of approval of the financial statements by the Committee of Management have been included in the statements to the extent required to show a true and fair view of the state of affairs as at 31 March 2021 and of the results for the year ended on that date.

Critical 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 members of the Board of Management consider the following to be critical judgements in preparing the financial statements:

- The categorisation of housing properties as property, plant and equipment in line with the requirements of the SORP;
- The amount disclosed as 'operating surplus' is representative of activities that would normally be regarded as 'operating'; and
- The identification of a cash-generating unit for impairment purposes.

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 2021

1. Accounting policies (continued)

Critical Accounting Estimates and Areas of Judgement (continued)

| <u>Estimate</u> | <u>Basis of estimation</u> |
|--|--|
| 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. |

PROSPECT COMMUNITY HOUSING LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021**

1. Accounting policies (continued)

Going Concern

The Management Committee have regularly reviewed the detailed financial projections included in the Business Plan 2020-23 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 £1,480,118, had year-end cash balances and deposit investments of £5,295,246, net current assets of £3,980,828 and net assets of £9,786,635.

On that basis, the Committee of Management, has a reasonable expectation that Prospect has adequate resources to continue in operational existence for the foreseeable future. The coronavirus pandemic has interrupted our operations whilst the office building was closed to the public, but the financial impact is limited with minor change to our turnover experienced and expected. Thus, the going concern basis of accounting is adopted 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 turnover from the factoring of properties for private owners as the provision of factoring services is accounted for on a principal 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 2021**

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 |
| Smoke Detectors | 10 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 2021**

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 2021

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.

The SHAPS is accounted for as a defined benefit scheme and as such the amount charged to the Statement of Comprehensive Income in respect of pension costs and other post retirement benefits is the estimated regular cost of providing the benefits accrued in the year, adjusted to reflect variations from that cost. The interest cost is included within other finance costs/income. Actuarial gains and losses arising from new valuations and from updating valuations to the reporting date are recognised in Other Comprehensive Income.

Defined benefit schemes are funded, with the assets held separately from the Association in separate trustee administered funds. Full actuarial valuations, by a professionally qualified actuary, are obtained at least every three years, and updated to reflect current conditions at each reporting date.

The pension scheme assets are measured at fair value. The pension scheme liabilities are measured using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency. A pension scheme asset is recognised on the Statement of Financial Position only to the extent that the surplus may be recovered by reduced future contributions or to the extent that the trustees have agreed a refund from the scheme at the reporting date. A pension scheme liability is recognised to the extent that the Association has a legal or constructive obligation to settle the liability.

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 2021

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 Association 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 2021**

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

| | Turnover £ | Operating expenditure £ | Operating Surplus/ (Deficit) 2021 £ | Operating Surplus/ (Deficit) 2020 £ |
|-------------------------------|----------------------|---------------------------------------|---|---|
| Affordable Lettings (note 3a) | 4,831,444 | (3,121,797) | 1,709,647 | 1,359,090 |
| Other Activities (note 3b) | 150,005 | (186,409) | (36,404) | (74,423) |
| 2021 Total | <u>4,981,449</u> | <u>(3,308,206)</u> | <u>1,673,243</u> | |
| 2020 Total | <u>4,883,069</u> | <u>(3,598,402)</u> | | <u>1,284,667</u> |

PROSPECT COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

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

| | 2021 General Needs Housing £ | 2021 Shared Ownership £ | 2021 Total £ | 2020 Total £ |
|---|---------------------------------------|----------------------------------|--------------------|--------------------|
| Rent Receivable net of Service Charges | 4,129,822 | 25,414 | 4,155,236 | 4,085,466 |
| Service Charges | 169,479 | - | 169,479 | 181,954 |
| Gross income from rents and service charges | 4,299,301 | 25,414 | 4,324,715 | 4,267,420 |
| Less Voids | (27,693) | - | (27,693) | (14,719) |
| Net income from rents & service charges | 4,271,608 | 25,414 | 4,297,022 | 4,252,701 |
| Grants released from deferred income | 501,329 | - | 501,329 | 501,376 |
| Revenue grants from Scottish Ministers | 8,328 | - | 8,328 | 13,392 |
| Furlough grant | 12,876 | - | 12,876 | - |
| Stage 3 adaptation grants | 11,889 | - | 11,889 | 13,844 |
| Total turnover from affordable letting activities | 4,806,030 | 25,414 | 4,831,444 | 4,781,313 |
| Management and Maintenance Administration Costs | 1,275,657 | 7,850 | 1,283,507 | 1,430,568 |
| Service Costs | 170,166 | - | 170,166 | 163,201 |
| Planned & Cyclical Maintenance including Major Repair Costs | 254,212 | - | 254,212 | 414,707 |
| Reactive Maintenance Costs | 401,207 | - | 401,207 | 421,214 |
| Bad Debts-Rents & Service Charges | 88,871 | - | 88,871 | 89,286 |
| Depreciation of affordable let properties | 919,918 | 3,916 | 923,834 | 903,247 |
| Operating expenditure for affordable letting activities | 3,110,031 | 11,766 | 3,121,797 | 3,422,223 |
| Operating surplus for affordable letting activities for 2021 | 1,695,999 | 13,648 | 1,709,647 | |
| Operating surplus for affordable lettings activities for 2020 | 1,342,584 | 16,506 | | 1,359,090 |

The amount of service charges receivable on housing accommodation not eligible for Housing Benefit was £Nil (2020 – £Nil).

PROSPECT COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

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

| | Grants from Scottish Ministers £ | Other Revenue Grants £ | Other Income £ | Total Turnover £ | Operating Costs Bad Debts £ | Other Operating Costs £ | Total Operating Costs £ | Operating (Deficit)/ Surplus 2021 £ | Operating (Deficit)/ Surplus 2020 £ |
|--|--|---------------------------------|----------------------|------------------------|--------------------------------------|----------------------------------|----------------------------------|---|---|
| Wider Role Activities undertaken to support the community, other than the provision, construction, improvement and management of housing | - | - | - | - | - | (46,680) | (46,680) | (46,680) | (46,336) |
| Factoring | - | - | 25,056 | 25,056 | - | (25,056) | (25,056) | - | 284 |
| Other (Good Things Foundation, SFHA, National Lottery and Scottish Government) (1) | 5,688 | 85,392 | - | 91,080 | - | (91,080) | (91,080) | - | (29,000) |
| Other Activities | - | - | 33,869 | 33,869 | (9,416) | (14,177) | (23,593) | 10,276 | 629 |
| Total from other Activities | 5,688 | 85,392 | 58,925 | 150,005 | (9,416) | (176,993) | (186,409) | (36,406) | |
| Total from other activities – 2020 | - | 28,005 | 73,751 | 101,756 | (12,894) | (163,285) | (176,179) | | (74,423) |

(1) During the year Prospect received grants of £71,503 (2020: £20,505) from Good Things Foundation, £7,976 (2020: £Nil) from SFHA Fuel Support Fund, £5,913 (2020: £Nil) from National Lottery Heritage Fund and £5,688 (2020: £Nil) from Scottish Government Communities Recovery Fund. 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 2021**

4. Housing stock

| | 2021 | 2020 |
|---|-------------------|-------------|
| | No. | No. |
| The number of units in Management at 31 March was as follows: | | |
| General Needs | 882 | 882 |
| Supported Housing | 4 | 4 |
| Shared Ownership | 10 | 10 |
| | <u>896</u> | <u>896</u> |

5. Interest payable and financing costs

| | 2021 | 2020 |
|-------------------------------|-----------------------|----------------|
| | £ | £ |
| Net cost on pension (note 19) | - | 22,000 |
| | <u>211,914</u> | <u>265,754</u> |

6. Employees

| | 2021 | 2020 |
|---|-------------------------|------------------|
| | £ | £ |
| Staff costs (including key management personnel) during year | | |
| Wages and Salaries | 870,629 | 901,539 |
| Social Security Costs | 81,211 | 85,857 |
| Other Pension Costs | 189,521 | 218,252 |
| | <u>1,141,361</u> | <u>1,205,648</u> |

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

| | 2021 | 2020 |
|-----------------------|------------------|-------------|
| | No. | No. |
| Corporate and Finance | 6 | 6 |
| Property Services | 13 | 14 |
| Housing Management | 8 | 8 |
| | <u>27</u> | <u>28</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

| | 2021 | 2020 |
|---|----------------------|---------------|
| | £ | £ |
| Aggregate Emoluments payable to key management personnel (excluding pensions contributions but including employer's NI) | 244,533 | 214,379 |
| Emoluments payable to the Director (excluding pension contributions and excluding employer's NI) | 77,734 | 100,870 |
| Pensions payable for key management personnel | <u>71,883</u> | <u>72,020</u> |

PROSPECT COMMUNITY HOUSING LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021**

6. Employees (continued)

| | 2021 | 2020 |
|--|----------|----------|
| The number of employees whose emoluments excluding employer contributions exceeded £60,000 were: | | |
| £70,001 - £75,000 | <u>1</u> | <u>1</u> |

The Association's contributions to the pension scheme for the Director amounted to £16,117 (2020: £15,864), 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.

| | 2021 £ | 2020 £ |
|--|------------|--------------|
| Total expenses reimbursed insofar as not chargeable to UK Income Tax | <u>252</u> | <u>3,448</u> |

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.

Year ended 31 March 2021

During the year past service deficit contributions of £183,638 (2020 - £188,140) were paid. Of this payment £177,721 (2020 - £182,653) was a payment in respect of the SHAPS pension liability. The remainder of £5,917 (2020 - £5,487) 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 2021**

7a. Operating surplus

The operating surplus is stated after charging:

| | 2021 | 2020 |
|---|---------|---------|
| | £ | £ |
| Depreciation of housing properties (note 9(a)) | 923,834 | 903,247 |
| Depreciation of other tangible fixed assets (note 9(b)) | 43,767 | 43,148 |
| Amortisation of intangible assets (note 8) | 8,688 | 38,263 |

Fees payable to Azets Audit Services (2020: Scott-Moncrieff Audit Services) in respect of both audit and non-audit services are as follows:

| | 2021 | 2020 |
|---|--------|--------|
| | £ | £ |
| Audit services - statutory audit of the Association including VAT | 12,300 | 11,124 |
| All other non-audit services including VAT | 126 | 306 |

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 (2020: nil) is due from its other activities.

8. Intangible assets

| | IT Software |
|--|-------------|
| | 2021 |
| | £ |
| Cost | |
| At 1 April 2020 | 241,336 |
| Additions | 510 |
| At 31 March 2021 | 241,846 |
| Amortisation | |
| At 1 April 2020 | 223,069 |
| Charge for Year | 8,688 |
| At 31 March 2021 | 231,757 |
| Net Book Value at 31 March 2021 | 10,089 |
| Net Book Value at 31 March 2020 | 18,267 |

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

Amortisation of the intangible asset is recognised within management and maintenance administration costs.

PROSPECT COMMUNITY HOUSING LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021**

9. Tangible fixed assets

| a) Housing Properties | Housing Properties Held For Letting £ | Shared Ownership Properties £ | Housing Properties Under Construction £ | Total £ |
|------------------------|---|--|---|-------------------|
| Cost | | | | |
| At start of period | 54,862,457 | 383,622 | 38,124 | 55,284,203 |
| Additions - components | 164,729 | - | - | 164,729 |
| Additions - other | - | - | 27,939 | 27,939 |
| Disposals | (10,109) | - | - | (10,109) |
| | <u>55,017,077</u> | <u>383,622</u> | <u>66,063</u> | <u>55,466,762</u> |
| | | | | |
| Depreciation | | | | |
| At start of period | 14,991,383 | 94,294 | - | 15,085,677 |
| Charged during period | 919,918 | 3,916 | - | 923,834 |
| Disposals | (10,109) | - | - | (10,109) |
| | <u>15,901,192</u> | <u>98,210</u> | <u>-</u> | <u>15,999,402</u> |
| | | | | |
| Net book value | | | | |
| At 31 March 2021 | <u>39,115,885</u> | <u>285,412</u> | <u>66,063</u> | <u>39,467,360</u> |
| At 31 March 2020 | <u>39,871,074</u> | <u>289,328</u> | <u>38,124</u> | <u>40,198,526</u> |

Included within housing properties is land of £10,810,814 that is not depreciated (2020 £10,810,814).

At 31 March 2021, none of the cost of the properties included in letting properties were held under a lease (2020: none).

Component replacements totalling £164,729 (2020: £370,446) were capitalised in the year.

During the year components with a cost of £10,109 (2020: £86,903) and accumulated depreciation of £10,109 (2020: £86,903) were disposed.

PROSPECT COMMUNITY HOUSING LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021**

9b) Other Fixed Assets

| | Office Accommodation £ | Estate Assets £ | Office Equipment £ | Computer Equipment £ | Total £ |
|-------------------------------|------------------------------|-----------------------|--------------------------|----------------------------|------------------|
| Cost | | | | | |
| At start of period | 1,104,549 | 42,554 | 58,006 | 126,884 | 1,331,993 |
| Additions | - | - | 5,856 | 11,954 | 17,810 |
| Disposals | - | (5,134) | (5,421) | (7,044) | (17,599) |
| At end of period | <u>1,104,549</u> | <u>37,420</u> | <u>58,441</u> | <u>131,794</u> | <u>1,332,204</u> |
| Aggregate depreciation | | | | | |
| At start of period | 409,041 | 32,010 | 52,355 | 90,315 | 583,721 |
| Charge for period | 23,328 | 1,917 | 2,655 | 15,867 | 43,767 |
| Disposals for period | - | (5,134) | (5,421) | (7,044) | (17,599) |
| At end of period | <u>432,369</u> | <u>28,793</u> | <u>49,589</u> | <u>99,138</u> | <u>609,889</u> |
| Net book value | | | | | |
| At 31 March 2021 | <u>672,180</u> | <u>8,627</u> | <u>8,852</u> | <u>32,656</u> | <u>722,315</u> |
| At 31 March 2020 | <u>695,508</u> | <u>10,544</u> | <u>5,651</u> | <u>36,569</u> | <u>748,272</u> |

10a. Debtors

| | 2021 £ | 2020 £ |
|--------------------------|----------------|----------------|
| Rental arrears | 291,536 | 246,853 |
| Less: Bad debt provision | (212,504) | (138,670) |
| | <u>79,032</u> | <u>108,183</u> |
| Accrued income | 7,419 | 12,198 |
| Prepayments | 114,945 | 93,179 |
| Other debtors | 44,378 | 62,204 |
| | <u>245,774</u> | <u>275,764</u> |

10b. Cash and cash equivalents

| | 2021 £ | 2020 £ |
|--------------|------------------|------------------|
| Cash at bank | <u>3,295,246</u> | <u>2,364,045</u> |

10c. Investments

| | 2021 £ | 2020 £ |
|---------------|------------------|------------------|
| Bank deposits | <u>2,000,000</u> | <u>2,000,000</u> |

Bank deposits mature in greater than 3 months.

PROSPECT COMMUNITY HOUSING LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021**

11. Creditors: Amounts falling due within one year

| | 2021 | 2020 |
|--|------------------|------------------|
| | £ | £ |
| Housing loans (note 14) | 769,903 | 768,336 |
| Trade creditors | 45,970 | 59,421 |
| Other taxation and social security | 21,907 | - |
| Rent received in advance | 86,327 | 73,535 |
| Accruals and deferred income | 134,709 | 58,246 |
| Deferred Government capital grants (note 13) | 501,376 | 501,376 |
| | <u>1,560,192</u> | <u>1,460,914</u> |

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

| | 2021 | 2020 |
|--|-------------------|-------------------|
| | £ | £ |
| Housing loans (Note 14) | 5,830,908 | 6,595,343 |
| Deferred Government capital grants (Note 13) | 27,879,422 | 28,380,751 |
| | <u>33,710,330</u> | <u>34,976,094</u> |

13. Deferred Government capital grants

| | 2021 | 2020 |
|----------------------------|-------------------|-------------------|
| | £ | £ |
| As at 1 April | 28,882,127 | 29,388,054 |
| Capital grant released | (501,329) | (501,376) |
| Capital grant repaid | - | (4,551) |
| | <u>28,380,798</u> | <u>28,882,127</u> |
| Due within 1 year | 501,376 | 501,376 |
| Between 1 – 2 years | 501,376 | 501,376 |
| Between two and five years | 1,504,128 | 1,504,128 |
| After five years | 25,873,918 | 26,375,247 |
| | <u>28,380,798</u> | <u>28,882,127</u> |

PROSPECT COMMUNITY HOUSING LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021**

14. Debt analysis: Borrowings

| | 2021 | 2020 |
|---------------|------------------|------------------|
| | £ | £ |
| Housing Loans | <u>6,600,811</u> | <u>7,363,679</u> |

Housing loans are secured by specific charges on the Association's properties. The net book value of housing properties secured at the year-end was £27,981,270 (2020 - £28,431,624). Also included is a 5 year loan from the Scottish Government. These loans are repayable at rates of interest of between 0% and 4.36% in instalments due as follows: -

| | | |
|--|------------------|------------------|
| Due within 1 year | 769,903 | 768,336 |
| Between 1 – 2 years | 770,019 | 768,585 |
| Between two and five years | 3,525,054 | 4,111,444 |
| After five years | 1,535,835 | 1,715,314 |
| | <u>6,600,811</u> | <u>7,363,679</u> |
| Included in creditors: amounts falling due within one year (note 11) | <u>(769,903)</u> | <u>(768,336)</u> |
| | <u>5,830,908</u> | <u>6,595,343</u> |

15. Commitments under operating lease

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

| | 2021 | 2020 |
|---|---------------|--------------|
| | £ | £ |
| No later than one year | 10,246 | 4,365 |
| Later than one year and not later than two | 6,972 | 3,274 |
| Later than one year and not later than five years | 5,629 | - |
| Later than five years | - | - |
| | <u>22,847</u> | <u>7,639</u> |

During the year, lease payments of £6,328 (2020: £3,658) was recognised within management and maintenance administration costs

16a. Share capital

| | 2021 | 2020 |
|--|-----------|-----------|
| | £ | £ |
| Shares of £1 each fully paid and issued | | |
| At start of period | 53 | 54 |
| Issued during period | - | 4 |
| Cancelled during period | (1) | (5) |
| | <u>52</u> | <u>53</u> |
| At end of period | | |

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 2021**

16b. Reserves

Revenue Reserve

The revenue reserve includes all current and prior year retained surpluses or deficits.

| | 2021 | 2020 |
|---|------------------|------------------|
| | £ | £ |
| 17. Reconciliation of surplus to net cash inflow from activities | | |
| Surplus for the year | 1,480,118 | 1,074,128 |
| Cancelled shares | (1) | (5) |
| Depreciation of tangible fixed assets | 923,834 | 903,247 |
| Depreciation of other fixed assets | 43,767 | 43,148 |
| Amortisation of intangible assets | 8,688 | 38,263 |
| Amortisation of deferred Government capital grants | (501,329) | (501,376) |
| Interest charge in respect of the defined benefit pension liability | | 22,000 |
| (Gain) on disposal of tangible fixed assets | (300) | (20,199) |
| Interest received | (18,489) | (35,016) |
| Interest payable | 211,914 | 243,754 |
| Revenue grants in respect of interest free SG loan | (8,328) | (13,392) |
| Release of deferred capital grant | - | (4,551) |
| | <hr/> | <hr/> |
| Operating cash flows before movement in working capital | 2,139,874 | 1,750,001 |
| | | |
| Decrease in debtors | 29,990 | 91,193 |
| Increase/(decrease) in trade and other creditors | 106,039 | (2,949) |
| | <hr/> | <hr/> |
| Cash generated from operations | 2,275,903 | 1,838,245 |

18. Retirement benefits

SHAPS Defined Benefit Scheme

Year ended 31 March 2021

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. 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 2020

18. 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.

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.

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

| | 31 March 2021 | 31 March 2020 |
|---|---------------|---------------|
| | £'000 | £'000 |
| Fair value of plan assets | 6,063 | 5,736 |
| Present value of defined benefit obligation | (6,746) | (5,821) |
| Defined benefit liability to be recognised | (683) | (85) |

PROSPECT COMMUNITY HOUSING LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

18. Retirement benefits (continued)

Reconciliation of opening and closing balances of the defined benefit obligation

| | Year ended 31 March 2021 £'000 | Year ended 31 March 2020 £'000 |
|--|--------------------------------------|--------------------------------------|
| Defined benefit obligation at start of period | 5,821 | 6,597 |
| Current service cost | - | - |
| Expenses | 6 | 5 |
| Interest expense | 136 | 152 |
| Actuarial (gains) due to scheme experience | (215) | (74) |
| Actuarial losses/(gains) due to changes in demographic assumptions | - | (37) |
| Actuarial losses (gains) due to changes in financial assumptions | 1,198 | (712) |
| Benefits paid and expenses | (200) | (110) |
| Defined benefit liability at the end of the period | 6,746 | 5,821 |

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

| | Year ended 31 March 2021 £'000 | Year ended 31 March 2020 £'000 |
|--|--------------------------------------|--------------------------------------|
| Fair value of plan assets at start of the period | 5,736 | 5,582 |
| Interest income | 136 | 130 |
| Experience on plan assets (excluding amounts included in interest income) – gain/(loss) | 207 | (54) |
| Contributions by the employer | 184 | 188 |
| Benefits paid and expenses | (200) | (110) |
| Fair value of plan assets at end of period | 6,063 | 5,736 |

Defined benefit costs recognised in the Statement of Comprehensive Income

| | Year ended 31 March 2021 £'000 | Year ended 31 March 2020 £'000 |
|--|--------------------------------------|--------------------------------------|
| Current service cost | - | - |
| Expenses | 6 | 5 |
| Net interest expense | - | 22 |
| Defined benefit costs recognised in Statement of Comprehensive Income | 6 | 27 |

PROSPECT COMMUNITY HOUSING LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021**

18. Retirement benefits (continued)

Defined benefit costs recognised in Other Comprehensive Income

| | Year ended 31 March 2021 £'000 | Year ended 31 March 2020 £'000 |
|--|---|---|
| Experience on plan assets (excluding amounts included in net interest cost – gain/(loss)) | 207 | (54) |
| Experience gains and losses arising on the plan liabilities – gain | 215 | 74 |
| Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation – gain | - | 37 |
| Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation – (loss)/gain | (1,198) | 712 |
| Total amount recognised in other comprehensive income – (loss)/gain | (776) | 769 |

Fund allocation for employer's calculated share of assets

| | 31 March 2021 £'000 | 31 March 2020 £'000 |
|-------------------------------|--------------------------------|--------------------------------|
| Global Equity | 938 | 789 |
| Absolute Return | 299 | 352 |
| Distressed Opportunities | 207 | 105 |
| Credit Relative Value | 175 | 138 |
| Alternative Risk Premia | 243 | 460 |
| Emerging Markets Debt | 244 | 204 |
| Risk Sharing | 217 | 182 |
| Insurance-Linked Securities | 127 | 154 |
| Property | 109 | 107 |
| Infrastructure | 338 | 338 |
| Private Debt | 143 | 114 |
| Opportunistic illiquid credit | 155 | 140 |
| High Yield | 159 | - |
| Opportunistic Credit | 166 | - |
| Cash | 2 | - |
| Corporate Bond Fund | 457 | 419 |
| Liquid Credit | 105 | 150 |
| Long Lease Property | 141 | 140 |
| Secured Income | 333 | 318 |
| Over 15 Year Gilts | 3 | 73 |
| Liability Driven Investment | 1,457 | 1,510 |
| Net Current Assets | 45 | 43 |
| Total Assets | 6,063 | 5,736 |

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

| Assumptions as at | 31 March 2021 % per annum |
|---|--------------------------------------|
| Discount rate | 2.17 |
| Inflation (RPI) | 3.28 |
| Inflation (CPI) | 2.86 |
| Salary growth | 3.86 |
| Allowance for commutation of pension for cash at retirement | 75% of maximum allowance |

PROSPECT COMMUNITY HOUSING LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021**

18. Retirement benefits (continued)

The mortality assumptions adopted at 31 March 2021 imply the following life expectancies:

| | Life expectancy at age 65 (years) |
|-------------------------|--|
| Male retiring in 2021 | 21.5 |
| Female retiring in 2021 | 23.4 |
| Male retiring in 2040 | 22.8 |
| Female retiring in 2040 | 25.0 |

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.

Member data summary

Active members

| | Number | Total earnings (£'000s p.a.) | Average age (unweighted) |
|----------------|---------------|---|-------------------------------------|
| Males | 2 | 138 | 49 |
| Females | 9 | 286 | 53 |
| Total | 11 | 424 | 52 |

Deferred members

| | Number | Deferred pensions (£'000s p.a.) | Average age (unweighted) |
|----------------|---------------|--|-------------------------------------|
| Males | 6 | 17 | 49 |
| Females | 13 | 29 | 50 |
| Total | 19 | 46 | 50 |

Pensioners

| | Number | Pensions (£'000s p.a.) | Average age (unweighted) |
|----------------|---------------|-----------------------------------|-------------------------------------|
| Males | 5 | 35 | 65 |
| Females | 9 | 77 | 65 |
| Total | 14 | 112 | 65 |

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 2021**

18. Retirement benefits (continued)

Employer debt on withdrawal (continued)

The Association has been notified by the Pensions Trust of the estimated employer debt on withdrawal from the Scheme based on the financial position of the Scheme as at 30 September 2019. As of this date the estimated employer debt for the Association was £4,478,056.

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.

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. Employer contributions are capped at 12%.

19. 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 2021 were £1.

Prospect Community Projects Limited has not been consolidated in the accounts of Prospect Community Housing Limited, for the year ended 31 March 2021, due to the immateriality of the amounts involved.

Prospect Community Housing Limited is considered to be the ultimate parent undertaking of the group.

PROSPECT COMMUNITY HOUSING LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021**

20. 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
Jolly Oluka
Kudakwashe Moyo (until 25/11/2020)

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

Total rent charged in the year was £41,384 (2020: £42,360) with arrears of £1,006 at the year-end (2020: £2,691) and prepaid rent of £249 (2020: £160).

21. Secure tenancy rents

| | 2021 | 2020 |
|--|--------------|--------------|
| | £ | £ |
| Annual average secure tenancy rent for housing accommodation | 4,835 | 4,765 |
| | <u>4,835</u> | <u>4,765</u> |

The basic rent increase for 2021 was 1.7%.