
PARAGON HOUSING ASSOCIATION LTD
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

Paragon Housing Association Limited

**Report and Financial Statements
For the year ended 31 March 2021**

Contents	Page
Management Committee, Executives and Advisers	2
Report of the Management Committee	3-10
Statement of Management Committee's Responsibilities	11
Management Committee's Statement of Internal Financial Control	12
Independent Auditor's Report on Corporate Governance Matters	13
Independent Auditor's Report	14-16
Statement of Comprehensive Income	17
Statement of Financial Position	18
Statement of Changes in Reserves	19
Statement of Cashflows	20
Notes to the Financial Statements	21-41

Registration Particulars:

Financial Conduct Authority	Co-operative and Community Benefit Societies Act 2014 Registered Number 2521R (S)
Scottish Housing Regulator	Housing (Scotland) Act 2010 Registered Number 298
Charity Number	SC 036262

Paragon Housing Association Limited

**Management Committee, Executives and Advisers
For the year ended 31 March 2021**

Management Committee

Flora Wallace	Chair
Michael Hesketh	Joint Vice Chair
June Anderson	Joint Vice Chair
Susan Robertson	Treasurer
Elisabeth Campbell	
Louisa Hesketh	Resigned 09/12/2020
Rosie Murray	
Fiona Speirs	
Elizabeth McNie	
Malcolm Richards	
Kathleen Menzies	
Sandy Young	Appointed 23/09/2020

Executive Officers

Margaret Torrance	Director
Pamela Milne	Finance & Investment Manager
William Baxter	Programme and Regeneration Manager
Evelyn Mathershaw	Housing Manager

Registered Office

Invergrange House
Station Road
Grangemouth
FK3 8DG

External Auditor

RSM UK Audit LLP
First Floor, Quay 2
139 Fountainbridge
Edinburgh
EH3 9QG

Internal Auditors

MHA Henderson Loggie
The Vision Building
20 Greenmarket
Dundee
DD1 4QB

Bankers

Royal Bank of Scotland plc
Kirkstane House
139 St Vincent Street
Glasgow
G2 5JF

GB Social Housing plc
35 Great St Helen's Street
London
EC3A 6AP

Solicitors

Addleshaw Goddard LLP
Exchange Tower
19 Canning Street
Edinburgh
EH3 8EH

Paragon Housing Association Limited

Report of the Management Committee For the year ended 31 March 2021

The Management Committee presents their report and audited financial statements for the year ended 31 March 2021.

Principal Activities

The principal activity of the Association is the provision of social rented accommodation.

Objectives

The Association has set a Mission and Values for the organisation. These are supported by clear strategic and operational objectives. These have been developed by the Management Committee with input from staff and taking into consideration service user feedback.

Strategy for Achieving Objectives

The strategy for achieving these objectives is clearly articulated through a number of plans and strategies. Principally this is set out in the 30 year Business Plan and supported by the Internal Management Plan and other strategies.

Covid 19 Impact

The impact of the Covid 19 pandemic continued into 2020-21 from the previous year. Despite this progress was made in meeting objectives throughout the year however lockdown restrictions have inevitably affected progress.

At the start of the pandemic in March 2020 the Association was in a strong position to respond to the situation having an up to date Contingency Plan in place, capacity for homeworking for staff, the ability to continue with governance and participation activities on a remote basis and a relatively strong financial position. These foundations provided a solid footing to continue providing services and delivering key objectives throughout the year.

The effects of the pandemic and its impact on the activities of the Association remain under review. Working from home remains the default position in line with Scottish Government guidance. Where staff are engaged in office based or on site working, Risk Assessment Method Statements are in place. A Wellbeing Strategy and assistance is in place to support staff and Management Committee members in order to maintain resilience during this difficult time. The financial position is under constant review with performance monitoring and sensitivity analysis in place and positive discussions with lenders on how to take account of any changes to major investment expenditure going forward.

JRW Repairs & Gas Maintenance Contracts

The McDougall Group continued as JRW Repairs Contractors and City Technical Services continued as Gas Contractors. The work of their teams was greatly appreciated and both contractors have been able to provide a full emergency service in response to the Covid 19 Pandemic. Target repair response times remain suspended, being temporarily replaced with Covid 19 categories and good progress is being made in working towards a catch up of the repair backlog and to restoring pre Covid 19 target times. A small number of gas safety checks were unable to be carried out within target time due to shielding by tenants however these were carried out at the earliest opportunity.

Housing Management Services

The allocation of properties continued as soon as lockdown restrictions permitted with an emphasis on dealing with homelessness. While turnover was down to 87 units, average relet days increased to 66.48 in Quarter 2, falling to 55.45 in Quarter 4, giving an annual average relet figure of 57.8 days. Work on void properties and allocations recommenced as soon as the guidance allowed. A risk assessed re-let procedure was developed. This included leaving properties left empty for a number of days at either end of the void process to ensure risk of infection was minimised. Viewings of properties still took place and a procedure was developed which saw minimal face to face interaction between staff and prospective tenants.

Arrears performance in 2019/20 had been strong however the first quarter of 2020/21 saw a significant rise in the both the number of tenants in arrears and the amount owed. The Association's procedures were reviewed with a renewed emphasis on support and sustainability and the Scottish Government introduced a hold on all planned evictions. The position started to improve in July 2020. This was in part due to a change in the way in which Universal Credit paid direct rent payments and by March 2021 arrears were back to comparable levels of March 2020.

Tenancy sustainment was supported through an ongoing innovative partnership project with Link Housing Association delivering a tenancy support service via LinkLiving providing intensive one to one support to tenants requiring help to manage their tenancy and other day to day affairs, particularly in challenging conditions. The project is called HoME – "Help on Managing Everything "and the response and outcomes to date have been very positive.

The Association also employs an in-house Tenancy Sustainment Officer offering benefits advice to tenants.

Tenant/Owner Engagement

There is a well-established Tenant Scrutiny Panel in place. Members have met virtually during lockdown They have continued to scrutinise overall performance and the Association's response to Covid 19. They also continued to closely monitor performance in reactive repairs and provided a tenant's perspective in the development of the consultants brief for the rent harmonisation exercise which will commence in 2021/22.

They were also involved in the review of the Association's Tenant Participation Strategy and an updated version was published in October 2020 covering a two-year period.

An owners' working group has been recently established looking at the impact of changes to the Factors Code of Conduct. This is part of the Property Factors (Scotland) Act 2011 which property factors are required to abide by. The group is also undertaking a review of the Association's Factoring Policy.

The Association remains committed to collecting meaningful tenant feedback and continues to work with Knowledge Partnership who provide survey services to the Association. In July 2020, a survey was undertaken looking specifically at the Association's response to the Covid 19 pandemic and there was a positive response to this with 93.2% of tenants reporting being satisfied with the way in which the Association managed housing and maintenance services during the lock down.

Communications

The pandemic has affected how the Association interacts with service users and the need to communicate the pandemic impact on services remains a priority. During the year, a new web site was set up and a Facebook Page established. Traditional methods of communication such as letters and newsletters were also employed.

A successful bid was made to the Connecting Scotland project with IT kit being provided for priority households to drive forward the national digital inclusion agenda. In addition to providing IT kit, training was offered on digital inclusion with some staff members successfully completing an 'Essential Skills for Digital Champions skills' Consideration is now being given to how assistance can be given to tenants who feel they would benefit from enhanced access to digital services.

Development and Performance

Financial Performance

The Association achieved an operating surplus for the year of £2m (2020-£1.7m). The total comprehensive income for the year was £764k (2020-£1.6m). The decrease in the prior year's results includes an actuarial loss in respect of the pension scheme of £605k compared to an actuarial gain of £515k in 2020 and has resulted in an increase of the pension liability of £459k. The increase in the pension liability has arisen due to changes in the underlying assumptions used to calculate the liability at the year end and does not reflect the amount that the Association contributes to the scheme.

Paragon Housing Association Limited
Report of the Management Committee (continued)
For the year ended 31 March 2021

The operating expenditure for the year was £4.4m (2020 £4.4m). Included in these operating costs is expenditure on reactive, cyclical and planned maintenance. The Association spent £1.7m(2020-£1.9m) on these activities. Included in this expenditure is work on the installation of smoke detectors and heat detectors. This is a requirement of The Housing (Scotland) Act 1987 which was amended to incorporate this. The Association received a Scottish Government interest free loan of £996k for this work which is included in the loan balance in the financial statements, and an initial repayment of £199k has been made prior to the year end. This work will be completed by September 2021. A further £394k (2020-£1m) of work to existing properties was treated as capital expenditure.

Our Rent Arrears have decreased by £64k this year to £335k (2020-£399k). The primary reason for this is an improvement in the timing of Universal Credit Managed Payments of Rent. Prior to August 2020 these payments were sometimes being received 8 -12 weeks in arrears. From August payments have been made in a similar fashion to Housing Benefit payments ie 4 weeks in arrears.

Our Voids have increased in the year. This year our void loss is £58k (2020-£42k) with void days increasing from 3026 days to 5029 days. This is due to an initial hold on allocations in April and May (due to Covid-19 restrictions) and Covid-19 procedures thereafter adding 6 – 7 days to the void process.

BBOOM – Buy Back Open Market/ MTR – Mortgage to Rent Scheme

The successful BBOOM policy continued to operate within the Falkirk Council area and it is supported by HAG funding. This policy allows the Association to acquire properties which achieve specific strategic aims such as meeting the Scottish Housing Quality Standard in multi tenure blocks or meeting a particular type of housing demand. During 2020/21 the purchase of 5 units were concluded at a cost of £383k which is included in fixed assets for the year and to date for 2021/22 the acquisition of 1 unit has been concluded with a further 2 offers being accepted.

There were no acquisitions under the Scottish Government's Mortgage to Rent Scheme during the year.

SHQS & EESSH

Prior to Covid 19 Lockdown in mid- March 2020 good progress was being made to maintain and meet the SHSQ and EESSH through the delivery of the 2019/20 investment programme. At various points during 2020/21 work was halted due to restrictions. However, from end April 2021 contractors were able to resume works on site.

The projects affected by this are gas boiler and gas system installations, sanitaryware replacement, kitchen replacements, electrical works including meeting the new requirements around smoke detectors and heat detectors, painterwork, door entry systems and some minor works.

The total costs of the incomplete works due to the Covid 19 pandemic is assessed at:

2019/2020 - £0.19m
2020/2021 - £1.05m
2021/2022 - £0.10m Planned

In the 2019/20 thirty year Business Plan sent to our lenders, the Association included expenditure of £2.26m for 2019/20 on planned and cyclical maintenance and major repairs including components. The actual expenditure for 2019/20 per the 2019/20 Annual Accounts was £1.87m. This is a difference of £390k. The incomplete works for 2019/20 due to the Covid 19 pandemic is included in this figure.

Paragon Housing Association Limited

Report of the Management Committee (continued)

For the year ended 31 March 2021

Our 2020/21 thirty year Business plan sent to our lenders, included expenditure of £2.53m for 2020/21 on planned and cyclical maintenance and major repairs including components. In the 2020/21 Annual Accounts we have spent £1.29m on these costs. The 2020/21 and 2021/22 figures above for incomplete works due to the Covid 19 pandemic is included in the shortfall of £1.24m on actual expenditure against that projected in the Business Plan. Our current 2021/22 thirty year Business Plan is covenant compliant throughout the 30 years of the plan. We are in discussions with the Royal Bank of Scotland over relaxation of the interest cover covenant. Relaxation of this covenant will allow us to accelerate our investment programme on catch-up expenditure resulting from the Covid 19 pandemic.

Risk Assessments & Method Statements (RAMS) are in place and submitted to the Association's consultants dealing with Construction (Design and Management) Regulations 2007 requirements including health and safety management. These are approved and signed off prior to any site start. Lockdown restrictions, supply chain delays and additional requirements on contractors have had an impact on the works planned for 2020/21 and into the 2021/22 programme.

As at March 2021 91.21 % (1307/1433) of the Association's properties are meeting the Scottish Housing Quality Standard (SHQS) and 95.5% (1369/1433) are meeting the Energy Efficiency Standard Social Housing (ESSH), which had a target delivery date of December 2020. The 64 properties not meeting ESSH 1 were planned for energy efficiency works in 2020/21 and are now included in the 2021/22 programme.

The areas of non-compliance for the SHQS are where owners have not agreed to take part in Door Entry System (DES) improvement work or where access has not been granted for heating replacement works.

Only 1 property fails meeting the SHQS Energy Efficiency Standard at the year end. This is due to a refusal by the tenant of a new heating replacement.

Major investment was undertaken to improve energy efficiency through a programme of External Wall Insulation (EWI), Cavity Wall Insulation (CWI) and boiler replacement during 2019/20. Some of the planned works continued into 2020/21 and along with the works programmed from 2020/21, they have been affected by Covid 19. Since 26 April 2021 and through the 2021/22 programme, the boiler replacement has re-commenced.

The Housing (Scotland) Act 1987 was amended to reflect the new requirements around smoke detectors and heat detectors (FCMD). The Association made a successful bid for a Scottish Government interest free loan of £996k in the prior year to support the installations. There was good progress being made towards this before the lockdown and the programme was due for completion by the original target date of February 2021. In recognition of the impact of the pandemic the Scottish Government has extended the deadline until Feb 2022. Following the relaxation of Covid 19 restrictions at the end of April 2021 contractors have been able to get back on site and the revised completion date for the Association's FCMD programme is September 2021.

FCMD Spend Breakdown:

2019/20 - £454k

2020/21 - £446k

Stock Condition Survey

A full stock condition survey was commissioned for 2020/21 but completion has been delayed due to pandemic restrictions. This is due to be completed summer 2021.

Paragon Housing Association Limited
Report of the Management Committee (continued)
For the year ended 31 March 2021

Future Prospects

The Association continues to operate from a stable financial and organisational base. Development activities and buy backs continue to support planned growth, despite the pandemic restrictions

The planned stock investment programme going forward includes a major roofing and rendering programme, central heating upgrades, sanitaryware replacements, kitchens, environmental works, and door entry system installations.

Positive discussions have been held with lenders over reviewing covenants where Covid 19 and additional costs such as the FCMD programme may have a restricting impact on the ability to catch up on improvement expenditure. In addition to, and linked to the FCMD, is the requirement through the Housing Scotland Act 2006 amendment to organise Electrical Inspection Condition Report (EICR) every 5 years at all properties. Prior to this amendment, the Association undertook EICR every 10 years. This will result in additional costs on an intermediate 5-year cycle going forward.

Principal Risks and Uncertainties

The Association has a Risk Management Strategy and Risk Register in place.

An annual review is carried out with the Management Committee and Audit Committee being provided with quarterly risk updates. Risk is under review including the impact of the Covid 19 Pandemic which continues to bring uncertainties which are still difficult to quantify at this time.

Business Continuity and Risk Management was the subject of an Internal Audit Review during October 2019. There were no priority recommendations made as part of the review and it was recognised that there is a strong focus within the organisation on the identification and management of risk. During the year, the Management Committee commenced a review of its Risk Management and Internal Audit Strategy Policy and this was approved in June 2021.

Key Risks have been identified in the following areas. For each of these a risk response and control actions have been formulated. On considering Covid 19 Risks, the Audit Committee recognised that the impact was related to existing risks and the register was updated to reflect the Covid 19 specific impact and report produced.

Risk	Response / Control Action
Impact of the benefits system and its impact on rent arrears & voids performance. This is exacerbated by Covid 19 Pandemic impact.	<ul style="list-style-type: none"> • Specialist Tenancy Sustainment Officer in post • Liaise with DWP on universal credit matters • Process review findings on voids • Ongoing monitoring and reporting on arrears and voids performance • PHA Route Map to service restoration • Business plan sensitivity analysis
Achieving and maintaining investment to meet the Scottish Housing Quality Standard, Energy Efficiency Standard Social Housing 1 & 2 (Scotland) and any further standards. This is exacerbated by the Covid-19 pandemic impact as the programme of works has slowed due to lockdown measures. Service restoration under social distancing regulations will slow work progress on site.	<ul style="list-style-type: none"> • Business plan which sets out resources and targets to deliver both SHQS and EESSH 1 with EESSH 2 subject to the new Heat in Buildings Strategy (currently draft form) and changes planned to EPC measurements • Ongoing programme of investment in improvements such to achieve the standards • Support from Energy Action Scotland on

Paragon Housing Association Limited

Report of the Management Committee (continued)

For the year ended 31 March 2021

	<ul style="list-style-type: none">energy efficiency measures• Ongoing monitoring and reporting of progress against plan• Discussion with lenders re covenant impact on any project delays• PHA Route Map to service restoration being developed• Business plan sensitivity analysis
Pension liabilities	<ul style="list-style-type: none">• Membership of EVH SHAPS Support Group to monitor developments• Specialist advice sought and working group set up
Ensuring compliance with regulatory standards	<ul style="list-style-type: none">• Scrutiny by Sub Committees and Management Committee• Use of SFHA Toolkit• Internal Audit
Risks associated with undertaking development activities	<ul style="list-style-type: none">• Business plan which sets out resources to deliver development programme• Project approvals process in place• Development strategy in place which sets out clear approach• Working with experienced partners to deliver development services• Ongoing monitoring and reporting of progress
Cyber Security / fraud risks elevated due to more remote working	<ul style="list-style-type: none">• Cyber Essentials accreditation• Working towards Cyber Essentials Plus• Staff training and awareness• Monitoring by Audit Committee

The actions taken have generally been effective in controlling the identified risks however there are areas of uncertainty due to Covid 19 Pandemic impact.

Internal Audit

Internal audit (IA) services were provided by Henderson Loggie.

The IA programme for 2020/21 covered the following areas:

- Performance Management and Key Performance Indicators
- Tenant Participation
- Gas Safety
- Follow up review

There were no urgent recommendations made as part of any of the audits and Internal Audit Needs Assessment was also carried out to inform the forward programme.

The Internal Auditor's Annual Report concluded "the Association has adequate and effective arrangements for risk management, control and governance. Proper arrangements are in place to promote and secure Value for Money. This opinion has been arrived at taking into consideration the work we have undertaken during 2020/21 and in prior years since our appointment in December 2018."

The Association is a member of the Housing Associations Internal Audit Forum (HAIAF) and uses this membership to support its internal audit activities.

Paragon Housing Association Limited
Report of the Management Committee (continued)
For the year ended 31 March 2021

Pension

The Association's Pension is detailed in note 22 in the Financial Statements.

The effects of the defined benefit pension liability have been modelled in the Association's 30-year business plan going forward. It reduces the Association's expenditure in other areas but overall the business plan objectives can be met. The business plan is regularly reviewed and updated, information including changes in pension liabilities are taken account of. The current business plan shows compliance with covenants across the 30 year period. The Association takes a prudent approach to risk, including pensions, and the treatment of these liabilities is regularly reviewed with Management Committee members and senior staff keeping abreast of pension changes.

The Management Committee received specialist pension advice on the final salary pension scheme during the year and a working group is currently undertaking a further review of options and consultation with staff will follow.

Governance

Paragon Housing Association Ltd is incorporated under the Co-operative and Community Benefit Societies Act 2014 and is registered by the Financial Conduct Authority. Paragon is a Registered Social Landlord and a registered charity and was established under a Memorandum of Association which established the objects and powers of the Association.

The members of the Management Committee have suitable skills and experience for their role and these are regularly supplemented by training and attendance at conferences and seminars.

The Management Committee continue to meet virtually. Flora Wallace remained in the role of Chair with office bearer support being ably provided by Michael Hesketh and June Anderson as joint Vice Chairs and Susan Robertson as Treasurer. The Association's first ever virtual AGM was held in September 2020 and business was successfully concluded.

Officers of the Association are actively involved in the wider national housing movement with the Chair serving on the Executive Committee of Employers in Voluntary Housing as Treasurer, Michael Hesketh, Vice Chair serving on the Executive Committee of SHARE and Malcolm Richards was elected to the Board of the Tenants Information Service.

In October 2019 Scottish Registered Social Landlords became the subject of the Freedom of Information (Scotland) Act 2002 (FOISA). A Scheme of Publications is in place and statistical reports are made in line with the requirements of the Act. RGDP undertakes the formal role of Data Protection Officer in line with the requirements of the Act.

Increased risks around cyber-crime activity are recognised and Cyber Essentials accreditation was obtained in May 2020 with Stage 2 Cyber Essentials Plus accreditation being worked towards during 2021/22. There has been investment in upgrading the IT infrastructure with further investment planned during 2021/22.

The Association makes an Annual Return on the Charter (ARC) to the Scottish Housing Regulator (SHR) and publishes information to stakeholders. There were a number of activities undertaken using good practice guidance to prepare the Annual Assurance Statement. The Association was deemed compliant by SHR in its published engagement plan for the period 2021/22.

Going Concern

The Association has a strong cash position and continues to hold significant unencumbered assets.

The organisation remains financially stable. This view is supported by the most recent review of the 30-year cash flow going forward. These and other financial projections are regularly reviewed as part of the Business Planning cycle.

Paragon Housing Association Limited
Report of the Management Committee (continued)
For the year ended 31 March 2021

The Association has stress tested the impact of Covid 19 as part of the Business Planning process and has separately identified an additional assumption of 3% for voids and bad debts and £50k for exceptional Covid 19 related costs for 2021/22 and 2022/23. The Association has £8.3m cash at bank at 31 March 2021 (2020-£7.6m) and net current assets of £7.1m (2020-£6.2m). There are no material uncertainties in the Business Plan and all loan covenants are complied with for the duration of the plan.

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

Disclosure of Information to the Auditor

The members of the Management Committee at the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant information of which the auditors are unaware. They confirm that they have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditors.

Auditor

Despite lockdown a tender for external audit services was successfully concluded. RSM UK Audit LLP were successful bidders and were re-appointed auditors to the Association at the Annual General Meeting in September 2020.

By Order of the Management Committee

Chair

Date



18/8/21

Paragon Housing Association Limited

Statement of Board's Responsibilities Under the Co-operative and Community Benefit Societies Act 2014 for a Registered Social Landlord For the year ended 31 March 2021

The Co-operative and Community Benefit Societies Act 2014 and registered social housing legislation require the Management Committee to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Association and of the surplus or deficit for that period. In preparing these financial statements, the Management Committee is required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Association will continue in business.

The Board is responsible for instituting adequate systems of internal control and for:

- safeguarding assets
- taking reasonable steps for the prevention and detection of fraud and other irregularities.
- the maintenance and integrity of the corporate and financial information included on the Paragon Housing Association website.

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Association and to enable it to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing (Scotland) Act 2010 and the Determination of Accounting Requirements – February 2019.

Paragon Housing Association Limited

Management Committee's Statement of Internal Financial Control For the year ended 31 March 2021

The Management Committee acknowledges its ultimate responsibility for ensuring that the Association has in place a system of controls that is appropriate for the business environment 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 Management Committee'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 or failure to meet objectives. Key elements of the Association's systems include ensuring that:

- formal policies and procedures are in place, including the ongoing documentation of key systems and rules relating to the delegation of authority which allow the monitoring of controls and restrict the unauthorised use of the Association's assets;
- experienced and suitably qualified staff take responsibility for the important business functions and annual appraisal procedures have been established to maintain standards of performance;
- forecasts and budgets are prepared which allow the Management Team and Management Committee to monitor the key business risks, financial objectives and progress being made towards achieving the financial plans set for the year and for the medium term;
- monthly/quarterly management accounts are prepared promptly, providing relevant, reliable and up-to-date financial and other information, with significant variances from budget being 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 the Management Committee;
- the Audit Committee/Management Committee receives reports from management and from the external and internal auditors, to provide reasonable assurance that control procedures are in place and are being followed, and that a general review of the major risks facing the Association is undertaken; and
- formal procedures have been established for instituting appropriate action to correct any weaknesses identified through internal and external audit reports.

The effectiveness of the Association's system of internal financial control has been reviewed by the Audit Committee/Management Committee for the year ended 31 March 2021. No weaknesses were found in internal financial controls which resulted in material losses, contingencies, or uncertainties which require disclosure in these financial statements or in the auditor's report on the financial statements.

By Order of the Management Committee

Chair



Date:

18/8/21

Paragon Housing Association Limited

**Independent Auditor's Report to the Members of Paragon Housing Association Limited on
Internal Controls
For the year ended 31 March 2021**

In addition to our audit of the Financial Statements, we have reviewed your statement on Page 12 concerning the Association's compliance with the information required by the Regulatory Standards in respect of internal financial controls contained within the publication "Our Regulatory Framework" and associated Regulatory Advisory Notes which are issued by the Scottish Housing Regulator.

Basis of Opinion

We carried out our review having regard to the requirements to corporate governance matters within Bulletin 2006/5 issued by the Financial Reporting Council through enquiry of certain members of the Management Committee and Officers of the Association and examination of relevant documents. 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 12 has provided the disclosures required by the relevant Regulatory Standards within the publication "Our Regulatory Framework" and associated Regulatory Advisory Notes issued by the Scottish Housing Regulator in respect of internal financial controls and is consistent with the information which came to our attention as a result of our audit work on the Financial Statements.



RSM UK Audit LLP
Statutory Auditor
Chartered Accountants
First Floor, Quay 2
139 Fountainbridge
Edinburgh
EH3 9QG

Date 30 August 2021

**Independent Auditor's Report to the Members of Paragon Housing Association Limited
For the year ended 31 March 2021**

Opinion

We have audited the financial statements of Paragon Housing Association (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 in Reserves, the Statement of Cashflows, and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Association's affairs as at 31 March 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;
- 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 – February 2019.

Basis for opinion

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Management Committee'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 about the Association's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Management Committee with respect of 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 Management Committee is responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, we do not express any form of assurance conclusion thereon.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Independent Auditor's Report to the Members of Paragon Housing Association Limited
For the year ended 31 March 2021**

Matters on which we are required to report by exception

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

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

Responsibilities of the Management Committee

As explained more fully in the Management Committee's responsibilities statement set out on page 11, the Management Committee is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Management Committee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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.

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

Irregularities are instances of non-compliance with laws and regulations. The objectives of our audit are to obtain sufficient appropriate audit evidence regarding compliance with laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements, to perform audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements, and to respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit.

In relation to fraud, the objectives of our audit are to identify and assess the risk of material misstatement of the financial statements due to fraud, to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud through designing and implementing appropriate responses and to respond appropriately to fraud or suspected fraud identified during the audit.

However, it is the primary responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations and for the prevention and detection of fraud.

Paragon Housing Association Limited

Independent Auditor's Report to the Members of Paragon Housing Association Limited For the year ended 31 March 2021

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud, the audit engagement team:

- obtained an understanding of the nature of the sector, including the legal and regulatory framework that the Association operates in and how the Association is complying with the legal and regulatory framework;
- inquired of management, and those charged with governance, about their own identification and assessment of the risks of irregularities, including any known actual, suspected or alleged instances of fraud;
- discussed matters about non-compliance with laws and regulations and how fraud might occur including assessment of how and where the financial statements may be susceptible to fraud.

As a result of these procedures we consider the most significant laws and regulations that have a direct impact on the financial statements are FRS 102, the Housing (Scotland) Act 2010, the Scottish Housing Regulator's Determination of Accounting Requirements – February 2019 and the RSL SORP 2018. We performed audit procedures to detect non-compliances which may have a material impact on the financial statements which included reviewing financial statement disclosures.

The most significant laws and regulations that have an indirect impact on the financial statements are the Co-operative and Community Benefit Societies Act 2014, the Scottish Housing Regulator's Regulatory Framework (as published February 2019), and the Data Protection Act 2018. We performed audit procedures to inquire of management whether the company is in compliance with these law and regulations, inspected correspondence with the Scottish Housing Regulator, and reviewed the Information Commissioner's Office online portal for indications of any breaches or improvement notices.

The audit engagement team identified the risk of management override of controls as the area where the financial statements were most susceptible to material misstatement due to fraud. Audit procedures performed included but were not limited to testing manual journal entries and other adjustments, evaluating the business rationale in relation to significant, unusual transactions and transactions entered into outside the normal course of business, and challenging judgments and estimates.

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

Use of our report

This report is made solely to the Association's members as a body, in accordance with Part 7 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 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.



RSM UK Audit LLP
Statutory Auditor
Chartered Accountants
First Floor, Quay 2
139 Fountainbridge
Edinburgh
EH3 9QG

Date: 30 August 2021

Paragon Housing Association Limited

**Statement of Comprehensive Income
For the year ended 31 March 2021**

	<i>Notes</i>	2021 £	2020 £
TURNOVER	2	6,332,662	6,203,898
Operating expenditure	2	(4,354,313)	(4,440,805)
Loss on disposal of housing properties	8	<u>(16,952)</u>	<u>(27,532)</u>
OPERATING SURPLUS		1,961,397	1,735,561
Interest receivable	6	5,239	29,219
Interest and financing costs	7	(597,662)	(654,879)
SURPLUS BEFORE TAX		<u>1,368,974</u>	<u>1,109,901</u>
Taxation		-	-
SURPLUS FOR THE YEAR		1,368,974	1,109,901
Actuarial (loss)/gain in respect of pensions scheme	22	(605,000)	515,000
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>763,974</u>	<u>1,624,901</u>



Paragon Housing Association Limited

Statement of Financial Position
For the year ended 31 March 2021

	Notes	2021 £	2020 £
FIXED ASSETS			
Intangible assets	12	6,927	6,885
Housing properties	10	28,943,117	29,046,459
Other fixed assets	11	505,158	495,661
		<u>29,455,202</u>	<u>29,549,005</u>
CURRENT ASSETS			
Trade and other debtors	13	548,511	558,320
Cash and cash equivalents		8,261,097	7,606,522
		<u>8,809,608</u>	<u>8,164,842</u>
CURRENT LIABILITIES			
Creditors: amounts falling due within one year	14	<u>(1,705,639)</u>	<u>(1,925,396)</u>
NET CURRENT ASSETS			
		<u>7,103,969</u>	<u>6,239,446</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<u>36,559,171</u>	<u>35,788,451</u>
Creditors: Amounts falling due after more than one year			
	15	<u>(19,404,789)</u>	<u>(19,857,021)</u>
Defined benefit pension obligation			
	22	<u>(596,000)</u>	<u>(137,000)</u>
TOTAL NET ASSETS			
		<u>16,558,382</u>	<u>15,794,430</u>
RESERVES			
Share Capital	18	140	162
Income and expenditure reserve		16,558,242	15,794,268
TOTAL RESERVES		<u>16,558,382</u>	<u>15,794,930</u>

The financial statements were approved by the Management Committee and authorised for issue on 19/3/21 and are signed on its behalf by:

Chair: 
(Flora Wallace)

Vice Chair: 
(Michael Hesketh)

Secretary: 
(Margaret Torrance)

Paragon Housing Association Limited

Statement of Changes in Reserves
For the year ended 31 March 2021

	Income and expenditure reserve £
Balance at 31 March 2019	14,169,367
Surplus for the year	1,109,901
<i>Other comprehensive income:</i>	
Actuarial gains in respect of pension scheme	515,000
Balance as at 31 March 2020	<u>15,794,268</u>
Surplus for the year	1,368,974
<i>Other comprehensive income:</i>	
Actuarial losses in respect of pension scheme	(605,000)
Balance at 31 March 2021	<u><u>16,558,242</u></u>

Paragon Housing Association Limited

**Statement of Cashflows
For the year ended 31 March 2021**

	<i>Notes</i>	2021 £	2020 £
Net cash generated from operating activities	19	2,465,258	1,575,937
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of tangible fixed assets – housing properties		(776,493)	(1,391,067)
Purchase of intangible assets and other tangible fixed assets		(53,896)	(74,829)
Proceeds from sale of tangible fixed assets		-	-
Grants received		150,000	125,000
Interest received		5,239	29,129
NET CASH USED IN INVESTING ACTIVITIES		<u>(675,150)</u>	<u>(1,311,677)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Interest paid		(611,941)	(654,295)
New secured loans		-	995,981
Repayments of borrowings		(523,594)	(324,398)
Issued share capital		2	4
NET CASH USED IN FINANCING ACTIVITIES		<u>(1,135,533)</u>	<u>17,292</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		<u>654,575</u>	<u>281,552</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		<u>7,606,522</u>	<u>7,324,970</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u><u>8,261,097</u></u>	<u><u>7,606,522</u></u>

Paragon Housing Association Limited

Notes to the Financial Statements For the year ended 31 March 2021

1. ACCOUNTING POLICIES

LEGAL STATUS

The Association is registered in Scotland 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 Invergrange House, Station Road, Grangemouth, FK3 8DG.

The Association's principal activity is the provision of social rented accommodation. The nature of the Association's operations is discussed in the Management Committee report.

Paragon Housing Association Limited meets the definition of a Public Benefit Entity.

BASIS OF ACCOUNTING

These financial statements have been prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP) including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102"), the Housing SORP 2014 "Statement of Recommended Practice for Registered Housing Providers" and the comply with the Determination of Accounting Requirements 2019, and under the historical cost convention, modified to include certain financial instruments at fair value.

The financial statements are prepared in Sterling (£).

GOING CONCERN

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

The Association has stress tested the impact of Covid 19 as part of the Business Planning process and has separately identified an additional assumption of 3% for voids and bad debts and £50k for exceptional Covid 19 related costs for 2021/22 and 2022/23. The Association has £8.3m cash at bank at 31 March 2021 (2020-£7.6m) and net current assets of £7.1m (2020-£6.2m). There are no material uncertainties in the Business Plan and all loan covenants are complied with for the duration of the plan.

The organisation remains financially stable. This view is supported by the most recent review of the 30 year cash flow going forward. These and other financial projections are regularly reviewed as part of the Business Planning cycle.

TURNOVER AND REVENUE RECOGNITION

Turnover comprises rental and service charge income receivable in the period, other services provided at the invoice value (excluding VAT) and revenue grants receivable in the period.

Rental income is recognised from the point when properties under development reach practical completion or otherwise become available for letting, net of any voids.

GOVERNMENT GRANTS

Government grants received for housing properties are recognised in income over the useful economic life of the structure of the asset (excluding land) under the accruals model.

1. ACCOUNTING POLICIES (continued)

On disposal of an asset for which government grant was received, if there is no obligation to repay the grant, then any unamortised grant remaining is derecognised as a liability and recognised as income. Where there is a requirement to repay a grant, a liability is included in the Statement of Financial Position to recognise this obligation.

OTHER INCOME

Interest income

Interest income is accrued on a time-apportioned basis, by reference to the principal outstanding at the effective interest rate.

INTANGIBLE ASSETS

All intangible assets shall be considered to have a finite useful life. The use of intangible assets that arises from contractual or other legal rights but may be shorter depending on the period over which the entity expects to use the asset. Currently amortisation is over a period of 3 years using the straight line method. Amortisation of intangible assets is included in operating costs.

TANGIBLE FIXED ASSETS – HOUSING PROPERTIES

Housing properties are held to fulfil a social housing need and therefore, in accordance with the RSL SORP, they are disclosed as property plant and equipment and not investment properties. These properties are principally properties available for rent. Completed housing properties are stated at cost less accumulated depreciation and impairment losses.

Cost includes the cost of acquiring land and buildings, and expenditure incurred during the development period.

Works to existing properties which replace a component that has been treated separately for depreciation purposes, along with those works that enhance the economic benefits of the assets, are capitalised as improvements. Such enhancements can occur if improvements result in either:

- An increase in rental income;
- A material reduction in future maintenance costs; or
- A significant extension to the life of the property.

DEPRECIATION OF HOUSING PROPERTIES

The Association separately identifies the major components of its housing properties and charges depreciation so as to write-down the cost of each component to its estimated residual value, on a straight line basis over the following years:

Structure	60 years
Land	Nil
Assets under construction	Nil
Windows	35 years
Doors	25 years
Kitchens	20 years
Sanitaryware	30 years
Roof	60 years
Boilers	15 years
Central Heating System	25 years

1. ACCOUNTING POLICIES (continued)

IMPAIRMENT OF FIXED ASSETS

A cash generating unit is determined for impairment purposes by considering individual properties. An assessment is made at each reporting date of whether there are indications that a fixed asset (including housing properties) may be impaired or that an impairment loss previously recognised has fully or partially reversed. If such indications exist, the Association estimates the recoverable amount of the asset.

Shortfalls between the carrying value of fixed assets and their recoverable amounts, being the higher of fair value less costs to sell and value-in-use of the asset based on its service potential, are recognised as impairment losses in the statement of comprehensive income.

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Reversals of impairment losses are recognised in income and expenditure. On reversal of an impairment loss, the depreciation or amortisation is adjusted to allocate the asset's revised carrying amount (less any residual value) over its remaining useful life.

OTHER TANGIBLE FIXED ASSETS

Tangible fixed assets are initially measured at cost and net of depreciation. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost or valuation of each asset to its estimated residual value on a straight line basis over its expected useful life, as follows:

Computer equipment	33% on cost
Office property	2% on cost
Fixtures, fittings and equipment	25% on cost

A full year's depreciation is charged on those assets in the year of purchase but no charge is made in the year of disposal. Each asset is reviewed on its own merit and a decision is taken whether to capitalise or expend.

APPORTIONMENT OF MANAGEMENT EXPENSES

Direct employee administration and operating costs have been apportioned to the income and expenditure account on the basis of the costs of the staff to the extent that they are directly engaged in each of the operations dealt with in those accounts.

TAXATION

Paragon Housing Association Limited has charitable status and is registered with the Office of Scottish Charities Regulator and is therefore exempt from paying Corporation Tax on charitable activities.

VAT

The Association is not VAT registered. Expenditure is shown inclusive of VAT.

DEPOSITS AND LIQUID RESOURCES

Cash comprises cash in hand and deposits repayable on demand less overdrafts repayable on demand. Liquid resources are current asset investments that are disposable without curtailing or disrupting the business and are readily convertible into known amounts of cash at or close to their carrying value.

1. ACCOUNTING POLICIES (continued)

LEASES

Operating Leases

All other leases are operating leases and the annual rentals are charged to income and expenditure on a straight line basis over the lease term.

EMPLOYEE BENEFITS

The costs of short-term employee benefits are recognised as a liability and an expense.

Employees are entitled to carry forward up to 5 days of any unused holiday entitlement at the reporting date. The cost of any unused entitlement is recognised in the period in which the employee's services are received.

The best estimate of the expenditure required to settle an obligation for termination benefits is recognised immediately as an expense when the RSL is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

SCOTTISH HOUSING ASSOCIATION PENSION SCHEME (SHAPS)

The Association is able to identify its share of the scheme assets and scheme liabilities from 1 April 2018 and therefore has applied defined benefit accounting from this date onwards. The scheme assets are measured at fair value. Scheme liabilities are measured on an actuarial basis using the projected unit credit method and are discounted at appropriate high quality corporate bond rates.

The net defined benefit pension deficit liability has been included within the provisions for pensions liability in the financial statements. The current service cost and costs from settlements and curtailments are charged against operating surplus.

Past service costs are recognised in the current reporting period within the income and expenditure account. Interest is calculated on the net defined benefit liability and recognised under interest payable. Remeasurements are reported in other comprehensive income. Refer to Note 22 for more details

1. ACCOUNTING POLICIES (continued)

FINANCIAL INSTRUMENTS

The Association has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102, in full, to all of its financial instruments.

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

Basic financial assets, which include trade debtors, other debtors, and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the transaction constitutes a financing transaction, where the financial asset is measured at the present value of the future receipts discounted at a market rate of interest.

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 profit or loss for the 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 income and expenditure.

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.

Concessionary loans

The Association has entered into two concessionary loan agreements where the interest rates on the relevant loans are nil. The Association, in accordance with the fact that it is a Public Benefit Entity, has measured these loans at cost within the financial statements. Further information can be found in note 17.

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.

1. ACCOUNTING POLICIES (continued)

A financial liability (or part thereof) is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

CRITICAL ACCOUNTING ESTIMATES AND AREAS OF JUDGEMENT

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

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

Defined benefit obligation

Management's estimate of the defined benefit obligation is based on a number of critical underlying assumptions such as standard rates of inflation, mortality, discount rate and anticipation of future salary increases. Variation in these assumptions may significantly impact the liability and the annual defined benefit expenses (as analysed in Note 22). The net defined benefit pension liability at 31 March 2021 was £596,000.

Useful lives

Management reviews its estimate of the useful lives of depreciable assets at each reporting date based on the asset management projections and reactive repairs expenditure.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2021

2. PARTICULARS OF TURNOVER, OPERATING COSTS AND OPERATING SURPLUS OR DEFICIT

	Notes	Turnover £	Operating costs £	Gain or loss on disposals of fixed assets £	2021 Operating surplus/(deficit) £	2020 Operating surplus/(deficit) £
Affordable letting activities	3	6,265,221	(4,286,872)	-	1,978,349	1,763,093
Other activities	4	67,441	(67,441)	-	-	-
Loss on disposal of housing properties	8	-	-	(16,952)	(16,952)	(27,532)
Total		6,332,662	(4,354,313)	(16,952)	1,961,397	1,735,561
Total for previous reporting period		6,203,898	(4,440,805)	(27,532)	1,735,561	

Paragon Housing Association Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2021

	General Needs Social Housing £		Supported Social Housing Accommodation £		Total 2021 £		Total 2020 £	
3. PARTICULARS OF TURNOVER, OPERATING COSTS AND OPERATING SURPLUS OR DEFICIT FROM AFFORDABLE LETTING ACTIVITIES								
Rent receivable net of service charges	6,087,254		81,871		6,169,125		6,048,256	
Service charges	5,043		-		5,043		3,489	
Gross income from rents and service charges	6,092,297		81,871		6,174,168		6,051,745	
Less voids	(57,779)		(506)		(58,285)		(42,458)	
Net income from rents and service charges	6,034,518		81,365		6,115,883		6,009,287	
Grants released from deferred income	84,489		-		84,489		82,148	
Revenue grants from Scottish Ministers	64,849		-		64,849		64,697	
Other revenue grants	-		-		-		-	
Total turnover from affordable letting activities	6,183,856		81,365		6,265,221		6,156,132	
Management and maintenance administration costs	1,538,321		20,690		1,559,011		1,699,122	
Service costs	-		-		-		-	
Planned and cyclical maintenance including major repairs costs	895,850		2,613		898,463		841,116	
Reactive maintenance costs	802,027		35,615		837,642		1,052,023	
Bad debts - rents and service charges	128,873		-		128,873		(12,705)	
Depreciation of affordable let properties	849,833		13,050		862,883		813,483	
Operating Costs for affordable letting activities	4,214,904		71,968		4,286,872		4,393,039	
Operating surplus for affordable letting activities	1,968,952		9,397		1,978,349		1,763,093	
Operating surplus for affordable letting activities for previous reporting period	1,745,002		18,091		1,763,093			

Paragon Housing Association Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2021

4. PARTICULARS OF TURNOVER, OPERATING COSTS AND OPERATING SURPLUS OR DEFICIT FROM OTHER ACTIVITIES

	Grants From Scottish Ministers £	Other revenue grants £	Supporting people income £	Other income £	Total turnover £	Operating costs bad debts £	Other operating costs £	Operating surplus or deficit £	Operating surplus or deficit for previous reporting period £
Factoring	-	-	-	56,479	56,479	-	(56,479)	-	-
Other sundry activities	-	-	-	-	-	-	-	-	-
Other activities – insurance and tenant recharges	-	-	-	10,962	10,962	-	(10,962)	-	-
Total from other activities	-	-	-	67,441	67,441	-	(67,441)	-	-
Total from other activities for the previous reporting period	-	-	-	47,766	47,766	-	(47,766)	-	-

Paragon Housing Association Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2021

5.	ACCOMMODATION IN MANAGEMENT	2021	2020
		Units	Units
	General needs housing	1,412	1,407
	Supported housing	21	21
	TOTAL UNITS IN MANAGEMENT	<u>1,433</u>	<u>1,428</u>
6.	INTEREST RECEIVABLE AND SIMILAR INCOME	2021	2020
		£	£
	Interest on bank deposits	5,239	29,219
		<u>5,239</u>	<u>29,219</u>
7.	INTEREST PAYABLE AND SIMILAR CHARGES	2021	2020
		£	£
	Interest arising on:		
	Bank loans and overdrafts	611,941	654,295
	Adjustment to effective interest rate	(16,279)	(14,416)
	Defined benefit pension charge	2,000	15,000
		<u>597,662</u>	<u>654,879</u>
8.	OPERATING SURPLUS	2021	2020
		£	£
	Operating surplus is stated after charging:		
	Depreciation of housing properties (note 10)	862,883	813,482
	Depreciation of other tangible fixed assets (note 11)	37,199	28,186
	Amortisation of intangible assets (note 12)	7,158	7,108
	Deficit on disposal of tangible fixed assets	(16,952)	(27,532)
	Operating lease rentals	<u>32,378</u>	<u>31,460</u>
	Fees payable to RSM UK Audit LLP and its associates in respect of both audit and non-audit services are as follows:		
		2021	2020
		£	£
	Audit services - Statutory audit of the Association	17,400	16,464
	Non audit services – Finance support	23,100	22,560
	Non audit services – Taxation advisory support	<u>420</u>	<u>499</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2021

9. EMPLOYEES

	2021 No.	2020 No.
The average monthly number of full time equivalent persons (including key management personnel) employed by the Association during the year was:		
Administration	6	6
Housing management	14	14
Property and regeneration	3	3
	<u>23</u>	<u>23</u>
	2021	2020
	£	£
Staff costs for the above persons:		
Wages and salaries	871,636	851,018
Social security costs	87,204	86,615
Other pension costs and current service cost (note 22)	249,283	221,353
Agency costs	50,324	125,586
	<u>1,258,447</u>	<u>1,284,572</u>

Key management personnel are defined as the members of the Management Committee and the Director and the Executive Officers. The number of key management personnel who received emoluments (excluding employers' pension contributions) in excess of £60,000 during the reporting period fell within the following bands:

	No.	No.
£60,000 - £70,000	1	1
£70,000 - £80,000	1	1
	2021	2020
	£	£
Aggregate emoluments of key management personnel (excluding pension contributions)	<u>251,957</u>	<u>275,502</u>
The emoluments of the director (excluding pension contributions)	<u>75,375</u>	<u>74,188</u>
Aggregate pension contributions in relation to the director	<u>12,211</u>	<u>9,348</u>
Total emoluments payable to the director	<u>87,586</u>	<u>83,536</u>

No payment or fees or other remuneration was made to the Committee of Management members during the year (2020: £nil).

10. TANGIBLE FIXED ASSETS – HOUSING PROPERTIES

	Social housing properties held for letting
Cost	
1 April 2020	37,401,123
Additions	382,800
Works to existing properties	393,693
Disposals	(49,367)
31 March 2021	<u>38,128,249</u>
Depreciation and impairment	
1 April 2020	(8,354,664)
Depreciation charged in year	(862,883)
Released on disposal	32,415
31 March 2021	<u>(9,185,132)</u>
Net book value	
31 March 2021	<u>28,943,117</u>
31 March 2020	<u>29,046,459</u>

EXPENDITURE ON WORKS TO EXISTING PROPERTIES

	2021	2020
	£	£
Improvement work capitalised:		
Replacement component spend capitalised	393,693	1,030,928
Amounts charged to income and expenditure	774,934	720,444
Total major repairs spend	<u>1,168,627</u>	<u>1,751,372</u>
	2021	2020
	£	£
Value of Land included in costs	<u>6,556,812</u>	<u>6,503,220</u>

11. TANGIBLE FIXED ASSETS – OTHER

	Office Property £	Furniture, fixtures and fittings £	Total £
Cost			
1 April 2020	686,143	119,273	805,416
Additions	7,962	38,734	46,696
Disposals	-	-	-
31 March 2021	<u>694,105</u>	<u>158,007</u>	<u>852,112</u>
Depreciation and impairment			
1 April 2020	(207,195)	(102,560)	(309,755)
Depreciation charged in year	(13,882)	(23,317)	(37,199)
Released on disposal	-	-	-
31 March 2021	<u>(221,077)</u>	<u>(125,877)</u>	<u>(346,954)</u>
Net book value			
31 March 2021	<u>473,028</u>	<u>32,130</u>	<u>505,158</u>
31 March 2020	<u>478,948</u>	<u>16,713</u>	<u>495,661</u>

12. INTANGIBLE ASSETS

	Software £
Cost	
1 April 2020	235,047
Additions	7,200
Disposals	-
31 March 2021	<u>242,247</u>
Amortisation	
1 April 2020	(228,162)
Charge for the year	(7,158)
31 March 2021	<u>(235,320)</u>
Net book value	
31 March 2021	<u>6,927</u>
31 March 2020	<u>6,885</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2021

13. DEBTORS	2021 £	2020 £
Amounts falling due within one year:		
Rent and service charges receivable	334,631	399,332
Less: provision for bad and doubtful debts	(191,975)	(135,107)
	<u>142,656</u>	<u>264,225</u>
Other debtors	69,570	59,877
Prepayments and accrued income	336,285	234,218
	<u>548,511</u>	<u>558,320</u>
14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	2021 £	2020 £
Debt (note 17)	508,974	508,444
Rent and service charges received in advance	397,725	327,801
Deferred capital grants (note 16)	84,489	82,148
Trade creditors	256,475	555,241
Other taxation and social security costs	22,430	22,288
Other creditors	280,291	282,032
Holiday pay accrual	32,594	24,871
Accruals and deferred income	122,661	122,571
	<u>1,705,639</u>	<u>1,925,396</u>
15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	2021 £	2020 £
Debt (note 17)	15,246,906	15,787,308
Deferred capital grant (note 16)	4,157,883	4,069,713
	<u>19,404,789</u>	<u>19,857,021</u>
16. DEFERRED CAPITAL GRANT	2021 £	2020 £
As at 1 April 2020	4,151,861	4,084,009
Grant received in the year	175,000	150,000
Capital grant released	(84,489)	(82,148)
As at 31 March 2021	<u>4,242,372</u>	<u>4,151,861</u>
Amounts to be released within one year	84,489	82,148
Amounts to be released in more than one year	4,157,883	4,069,713
	<u>4,242,372</u>	<u>4,151,861</u>

17. DEBT ANALYSIS – BORROWINGS

	2021 £	2020 £
Creditors: amounts falling due within one year:		
Bank loans	508,974	508,444
	<u>508,974</u>	<u>508,444</u>
Creditors: amounts falling due after more than one year:		
Bank loans	15,246,906	15,787,308
Total	<u>15,755,880</u>	<u>16,295,752</u>

Bank borrowings of £14,447,671 (2020: £14,703,949) are secured against the Association's housing properties. The fixed rate for the bond is 5.193% and the RBS loan rate is LIBOR + 1.55% margin. The entity has entered into two concessionary loan arrangements whereby no interest is payable on the loans – one from the Energy Savings Trust is repayable in equal instalments over a 10 year period ending April 2027, and the other from the Scottish Government is repayable in equal instalments over 5 years ending March 2025. The total value of the concessionary loans entered into is £1,308,209 (2020: £1,591,803) with £283,594 payable in less than one year (2020: £283,592) and £1,024,615 payable in more than one year (2020: £1,308,211).

Based on the lender's earliest repayment date, borrowings are repayable as follows:

	2021 £	2020 £
Due within one year	508,974	508,444
Due in one year or more but less than two years	509,514	508,974
Due between two and five years	4,875,735	1,530,203
Due more than five years	9,861,657	13,748,131
	<u>15,755,880</u>	<u>16,295,752</u>

18. SHARE CAPITAL

Each of the Association's members agrees to contribute £1 in the event of the Association winding up.

	2021 £	2020 £
Number of members		
1 April 2020	162	180
Joined during the year	2	4
Left during year	(24)	(22)
31 March 2021	<u>140</u>	<u>162</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2021

19. RECONCILIATION OF SURPLUS TO NET CASH GENERATED FROM / (USED IN) OPERATIONS

	2021 £	2020 £
Surplus for the year	763,974	1,624,901
Adjustments for non-cash items:		
Depreciation of fixed assets / amortisation of intangible assets	907,240	848,776
Amortisation of deferred capital grant	(84,489)	(82,148)
Increase/(Decrease) in provisions	457,000	(591,000)
Loss/(Gain) on disposal of tangible fixed assets	16,952	27,532
Loss on disposal of intangible and other fixed assets	-	4,320
Interest receivable	(5,239)	(29,219)
Interest payable	597,662	654,879
Cancelled shares	(24)	(22)
Operating cash flows before movements in working capital	<u>2,653,076</u>	<u>2,458,019</u>
Decrease/(increase) in trade and other debtors	34,809	(101,994)
(Decrease)/increase in trade and other creditors	(222,627)	(780,088)
Cash generated from / (used in) operations	<u>2,465,258</u>	<u>1,575,937</u>

CASH AND CASH EQUIVALENTS

	2021 £	2020 £
Cash and cash equivalents represent:-		
Cash at bank and in hand	<u>8,261,097</u>	<u>7,606,522</u>

Net debt reconciliation

	At April 2020 £	Cash flow £	Non-cash movements £	At 31 March 2021 £
Cash at bank and in hand	7,606,522	654,575	-	8,261,097
Debt: due within one year	(508,444)	523,594	(524,124)	(508,974)
Debt: due after one year	(15,787,308)	-	540,402	(15,246,906)
	<u>(8,689,230)</u>	<u>1,178,169</u>	<u>16,278</u>	<u>(7,494,783)</u>

20. CAPITAL COMMITMENTS AND OTHER CONTRACTUAL OBLIGATIONS

	2021 £	2020 £
Expenditure authorised by the board which is contracted for	<u>1,379,315</u>	<u>536,990</u>

The capital commitments will be financed through existing cash reserves.

21. COMMITMENTS UNDER OPERATING LEASES

	2021	2020
	£	£
The total future minimum lease payments under non-cancellable operating leases are as follows:		
Amounts due:		
Within one year	32,866	19,374
Between one and five years	5,849	12,896
	<u>38,715</u>	<u>32,270</u>

22. RETIREMENT BENEFITS

Paragon Housing Association participates in the Scottish Housing Association Pension Scheme (SHAPS), a multi-employer scheme which provides benefits to over 150 non-associated employers. The scheme is a defined benefit scheme in the United Kingdom.

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 company 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.

A full actuarial valuation for the scheme was carried out at 30 September 2018. This actuarial valuation showed assets of £877m, liabilities of £998m and a deficit of £121m. To eliminate this funding shortfall, the Trustee has asked the participating employers to pay additional contributions to the scheme. Unless a concession has been agreed with the Trustee, this arrangement applies to 30 September 2022.

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

For the year ended 31 March 2021, sufficient information is available for the Association in respect of SHAPS to account for its obligation on a defined benefit basis. The most recent formal actuarial valuation was completed as at 30 September 2018 and rolled forward, allowing for the different financial assumptions required under FRS 102, to 31 March 2021 by a qualified independent actuary.

22. RETIREMENT BENEFITS (continued)

Present Values of Defined Benefit Obligation, Fair Value of Assets and Defined Benefit Asset /(Liability)

	31 March 2021 £'000	31 March 2020 £'000
Fair value of plan assets	5,609	5,070
Present value of defined benefit obligation	6,205	5,207
Surplus/(deficit) in plan	(596)	(137)
Unrecognised surplus	-	-
Defined benefit asset/(liability) to be recognised	<u>(596)</u>	<u>(137)</u>
Deferred tax	-	-
Net defined benefit asset/(liability) to be recognised	<u>(596)</u>	<u>(137)</u>

Reconciliation of Opening and Closing Balances of the Defined Benefit Obligation

	31 March 2021 £'000	31 March 2020 £'000
Defined benefit obligation at 1 April 2020	5,207	5,552
Current service cost	75	123
Expenses	5	4
Interest expense	125	128
Contributions by plan participants	77	59
Actuarial losses/(gains) due to scheme experience	(186)	43
Actuarial losses/(gains) due to changes in demographic assumptions	-	(34)
Actuarial losses/(gains) due to changes in financial assumptions	1,020	(567)
Benefits paid and expenses	(118)	(101)
Defined benefit obligation at 31 March 2021	<u>6,205</u>	<u>5,207</u>

22. RETIREMENT BENEFITS (continued)

Reconciliation of Opening and Closing Balances of the Fair Value of Plan Assets

	31 March 2021	31 March 2020
	£'000	£'000
Fair value of plan assets at 1 April 2020	5,070	4,839
Interest income	123	113
Experience on plan assets (excluding amounts included in interest income) - gain	229	(43)
Contributions by the employer	228	203
Contributions by plan participants	77	59
Benefits paid and expenses	(118)	(101)
	<u>5,609</u>	<u>5,070</u>
Fair value of plan assets at 31 March 2021	<u>5,609</u>	<u>5,070</u>

Defined Benefit Costs Recognised in Statement of Comprehensive Income (SoCI)

	Period from 1 April 2020 to 31 March 2021	Period from 1 April 2019 to 31 March 2020
	£'000	£'000
Current service cost	75	123
Expenses	5	4
Net interest expense	2	15
Defined benefit costs recognised in Statement of Comprehensive Income (SoCI)	<u>82</u>	<u>142</u>

Defined Benefit Costs Recognised in Other Comprehensive Income

	Period ended 31 March 2021	Period ended 31 March 2020
	£000	£000
Experience on plan assets (excluding amounts included in net interest cost) – gain/(loss)	229	(43)
Experience gains and losses arising on the plan liabilities – gain/(loss)	186	(43)
Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation - gain/(loss)	-	34
Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation - gain/(loss)	(1,020)	567
Total actuarial gains and losses (before restriction due to some of the surplus not being recognisable) – gain/(loss)	<u>(605)</u>	<u>515</u>
Total amount recognised in other comprehensive income – gain/(loss)	<u>(605)</u>	<u>515</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2021

22. RETIREMENT BENEFITS (continued)

Assets	31 March 2021	31 March 2020
	£'000	£'000
Global Equity	868	698
Absolute Return	276	311
Distressed Opportunities	192	93
Credit Relative Value	162	122
Alternative Risk Premia	225	406
Emerging Markets Debt	226	180
Risk Sharing	200	161
Insurance-Linked Securities	117	136
Property	101	94
Infrastructure	313	299
Private Debt	132	100
Opportunistic Illiquid Credit	144	123
High Yield	147	-
Opportunistic Credit	153	-
Cash	2	-
Corporate Bond Fund	423	371
Liquid Credit	97	133
Long Lease Property	130	124
Secured Income	308	281
Over 15 Year Gilts	3	64
Liability Driven Investment	1,348	1,336
Net Current Assets	42	38
Total assets	5,609	5,070

None of the fair values of the assets shown above include any direct investments in the employer's own financial instruments or any property occupied by or other assets used by the employer.

Key Assumptions	31 March 2021	31 March 2020
	% per annum	% per annum
Discount Rate	2.15	2.39
Inflation (RPI)	3.29	2.65
Inflation (CPI)	2.86	1.65
Salary Growth	3.86	2.65
Allowance for commutation of pension for cash at retirement	75% of maximum allowance	75% of maximum allowance

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

Life expectancy at age 65 (Years)	2021	Life expectancy at age 65 (Years)	2020
Male retiring in 2021	21.5	Male retiring in 2020	21.5
Female retiring in 2021	23.4	Female retiring in 2020	23.2
Male retiring in 2041	22.8	Male retiring in 2040	22.8
Female retiring in 2041	25.0	Female retiring in 2040	24.5

23. RELATED PARTY TRANSACTIONS

The following members of the Management Committee are also tenants of the Association:

Elizabeth McNie
Flora Wallace
Louisa Hesketh
Michael Hesketh
Malcolm Richards

Their tenancies are on normal commercial terms and they cannot use their positions to their advantage. During the year £17,529 (2020: £17,001) of rent was receivable from these tenant members and their close family members. At the year-end there were £269 (2020: £400) of rent arrears due from these tenant members and their close family members.

Flora Wallace is an Executive Committee Member and Treasurer of EVH. During the year the Association spent £4,743 (2020: £6,911) on training and services from EVH.

Michael Hesketh is a SHARE Executive Committee Member. During the year the Association spent £12,422 (2020: £11,545) on training from SHARE.

Malcolm Richards is a board member of TIS. During the year the Association spent £196 (2020: £1,575) on training and services from TIS.

24. CONTINGENT LIABILITIES

The Association has been notified by The Pensions Trust of the estimated employer debt on withdrawal from the Scottish Housing Associations' Pension Scheme based on the financial position of the Scheme as at 30 September 2020.

As of this date the estimated employer debt for Paragon Housing Association was £3,758,469.